

OUTLOOK 2018 / 2022

London / 21 February



IBERDROLA

Iberdrola, “utility of the future”:

Building the foundations for growth in the next decade

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Agenda

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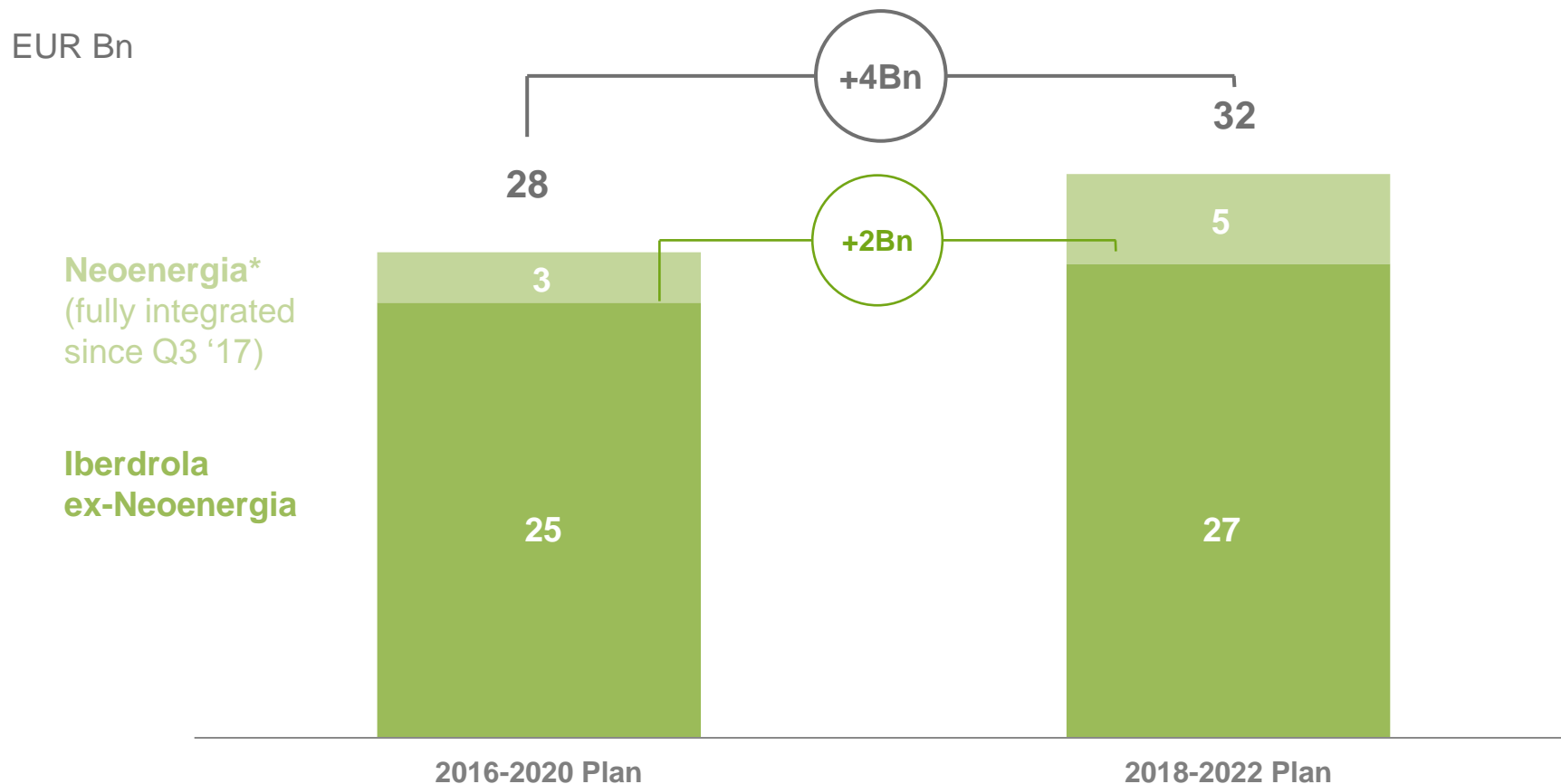
Iberdrola, “utility of the future”

Building the foundations for growth in the next decade

Ignacio Galán

Chairman & CEO

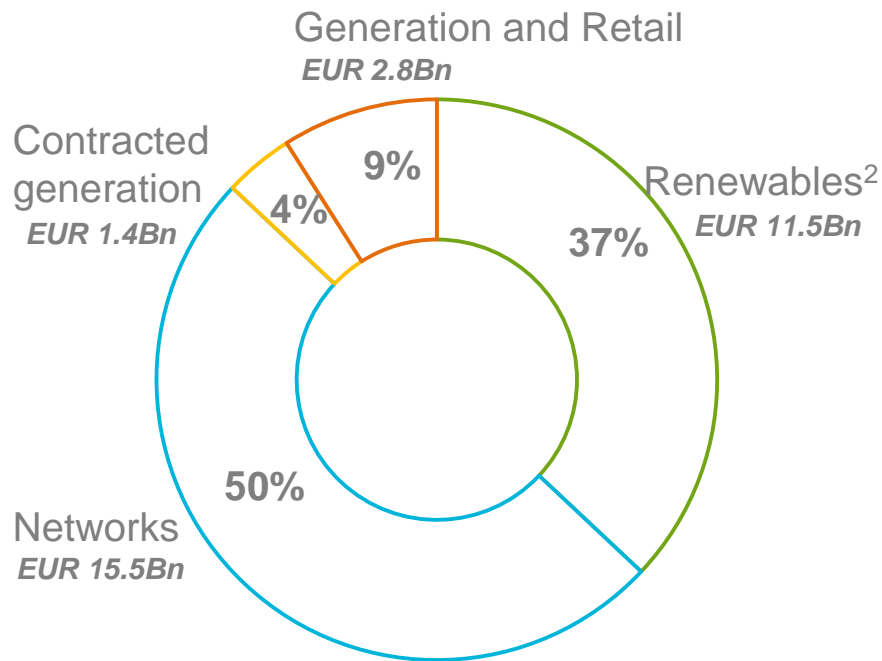
Net investments of EUR 32 Bn: building the foundations for growth in the next decade



* Excluding Elektro

Over 90% allocated to regulated or long-term contracted activities

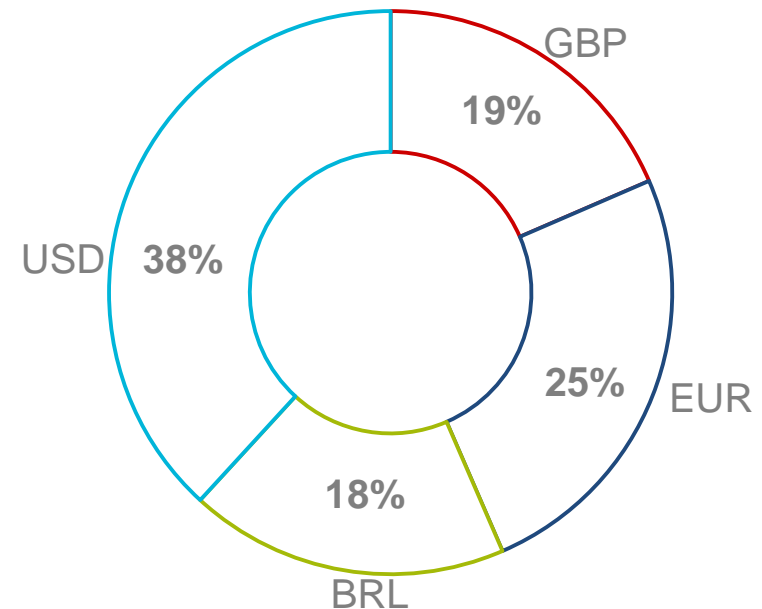
Business investments¹



¹Excluding Corporate investments

²Including hydro

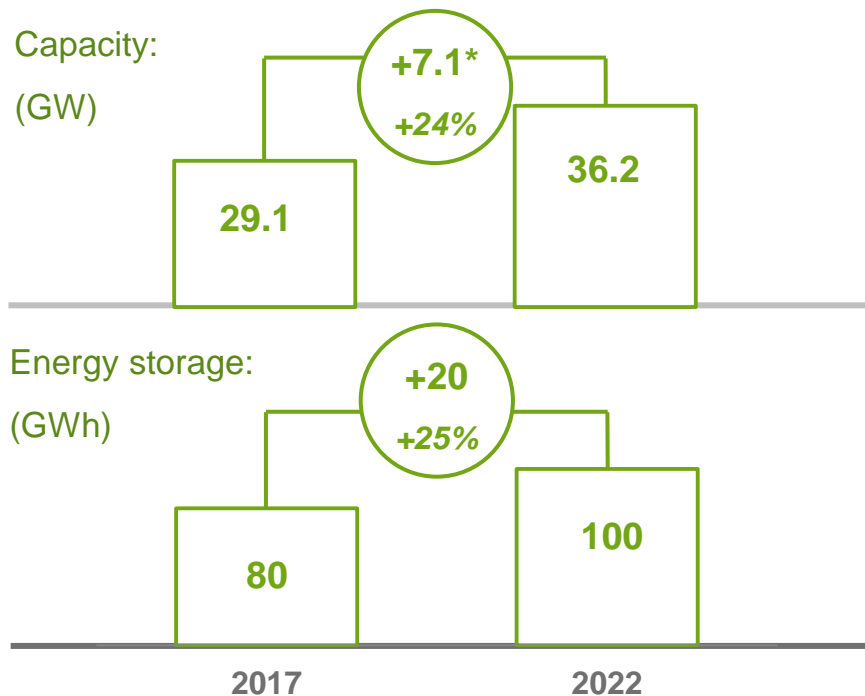
Investment by currency



38% of total investments in dollars

Investments 2018 – 2022

Renewable capacity and energy storage



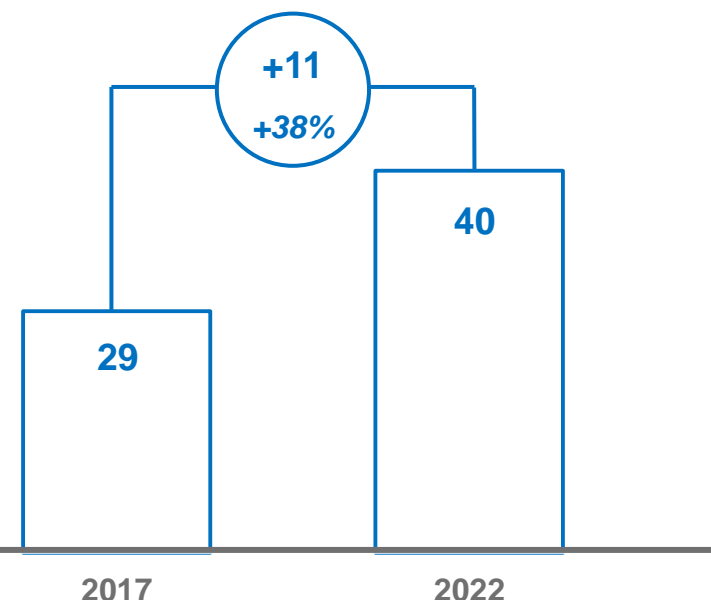
Capital 'in progress'
(EUR Bn)

4.3

4.1

Storage, onshore and offshore

RAV (EUR Bn)



2.1

4.7

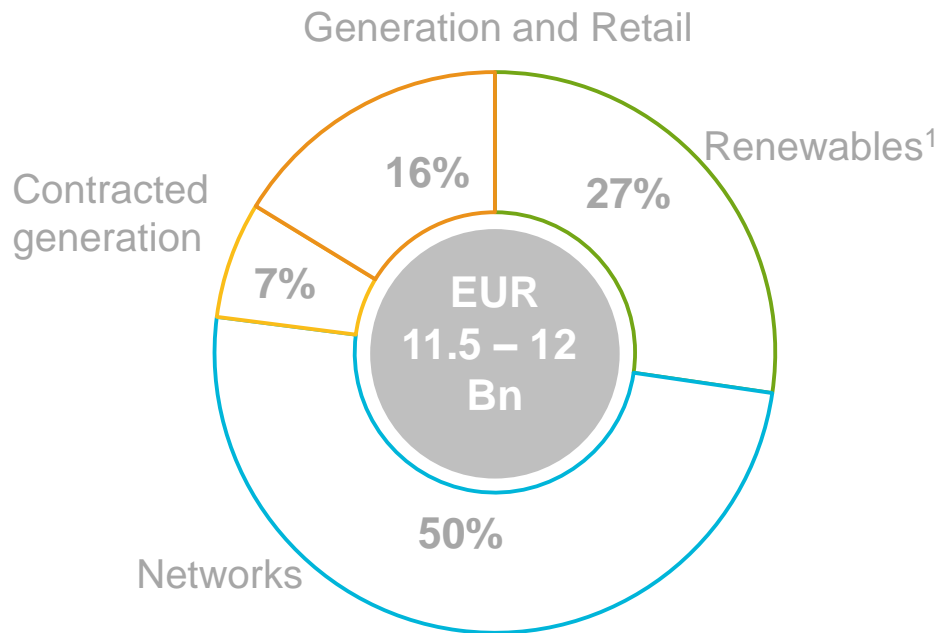
Mostly Brazil & US

*Including 670 MW of Belo Monte which consolidate through Equity

EBITDA between EUR 11.5 and 12 Bn by 2022

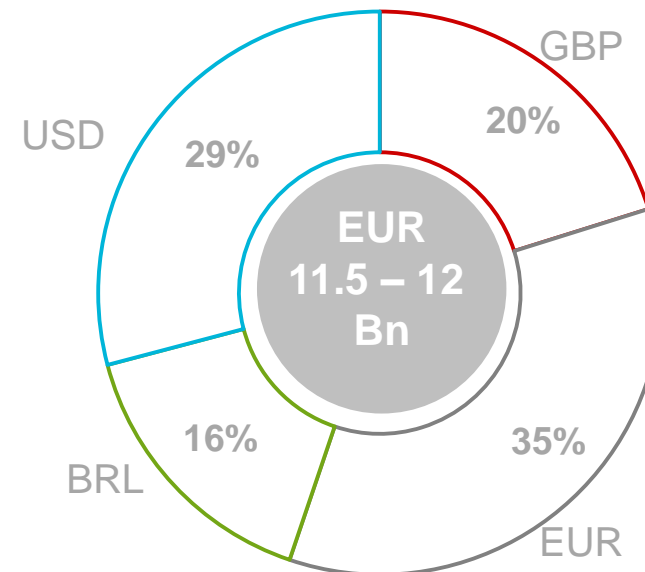
Over 80% coming from regulated or long-term contracted activities

EBITDA by business



¹Including hydro

EBITDA by currency



**2022 Net Profit will reach between EUR 3.5 and 3.7 Bn
under current Fx rate estimates**

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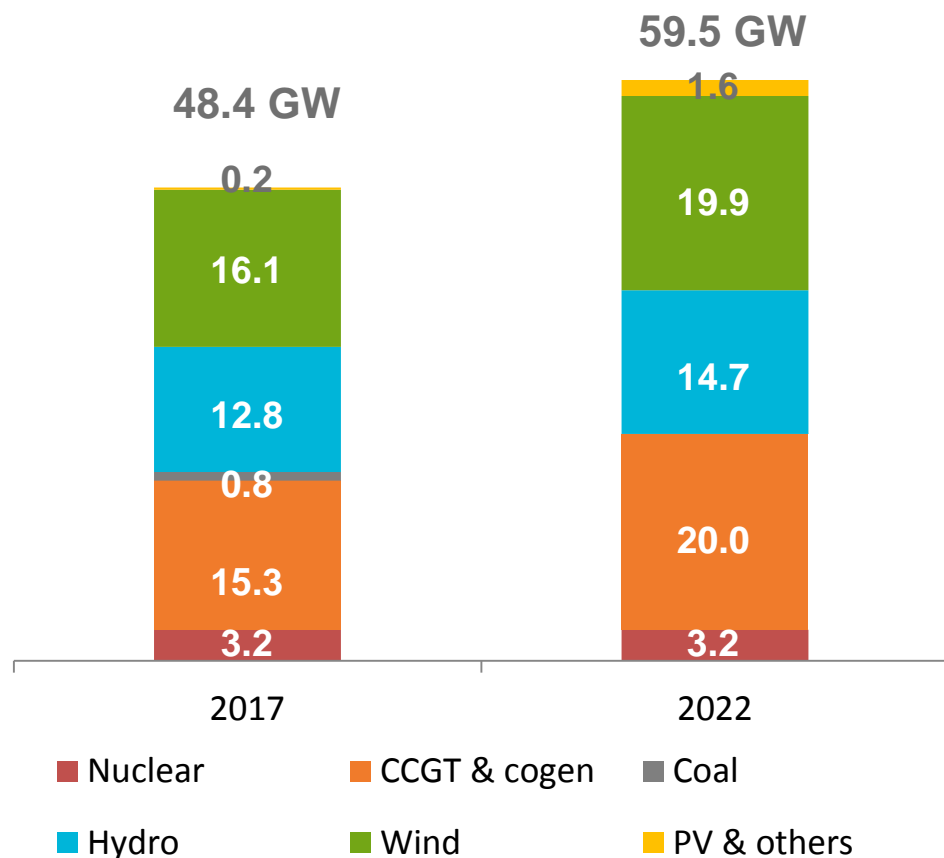
Francisco Martínez Córcoles

Business CEO

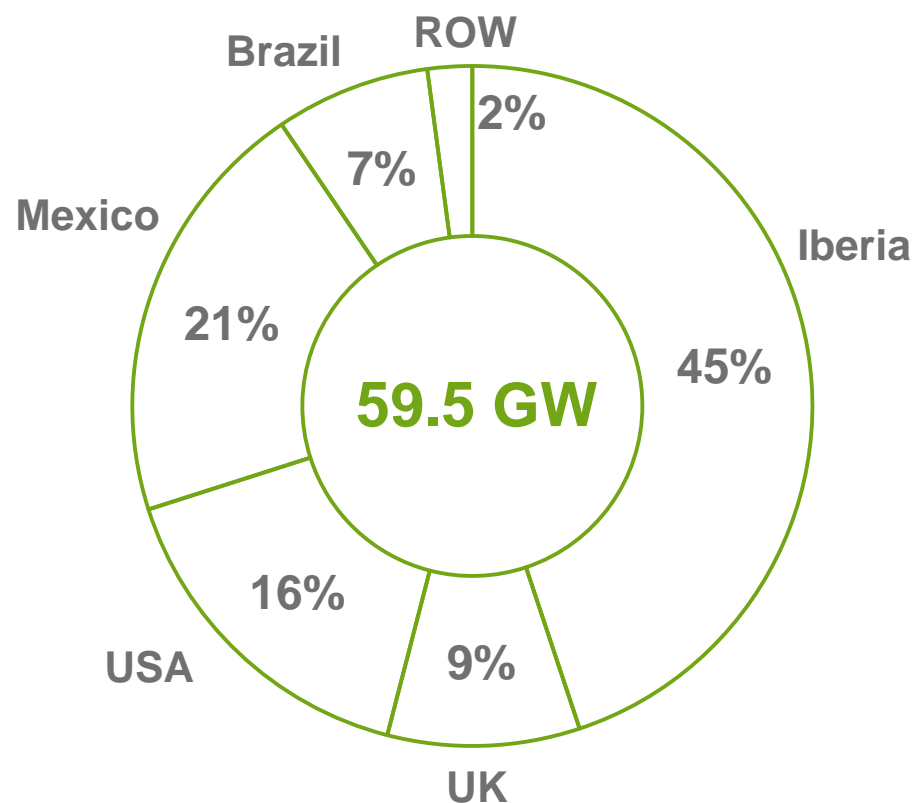
Profitable growth: Capacity Mix

59.5 GW installed by 2022, with a diversified mix by technology and country.

Capacity mix by technology (GW)

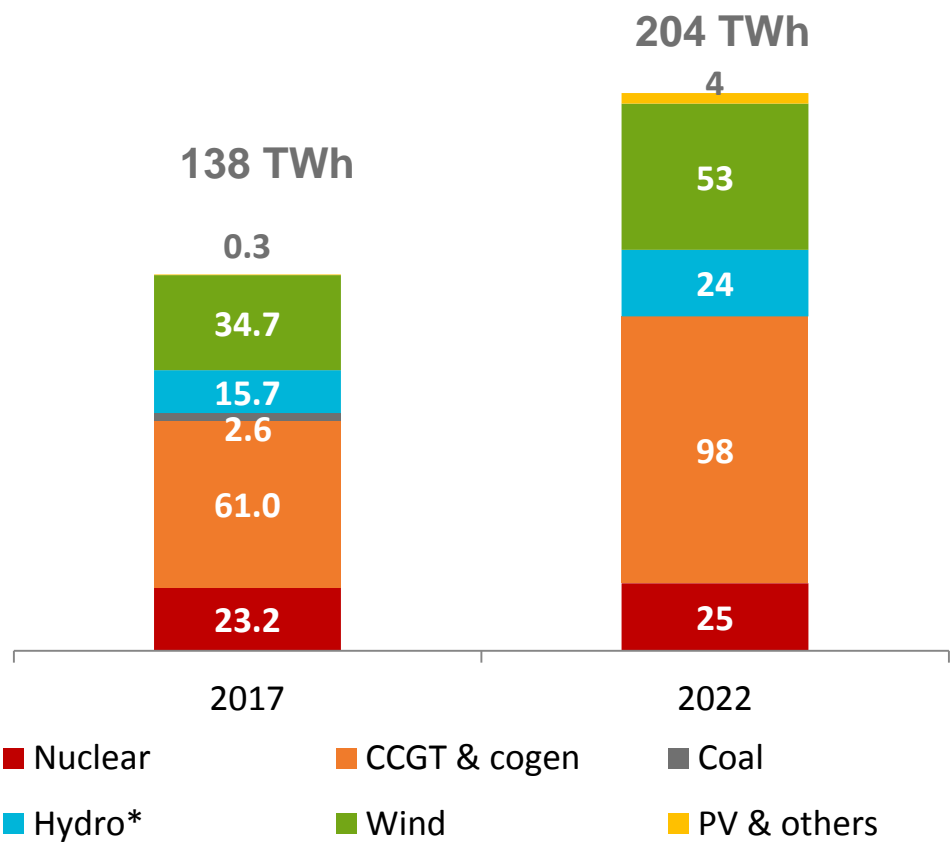


Capacity mix by country (GW)

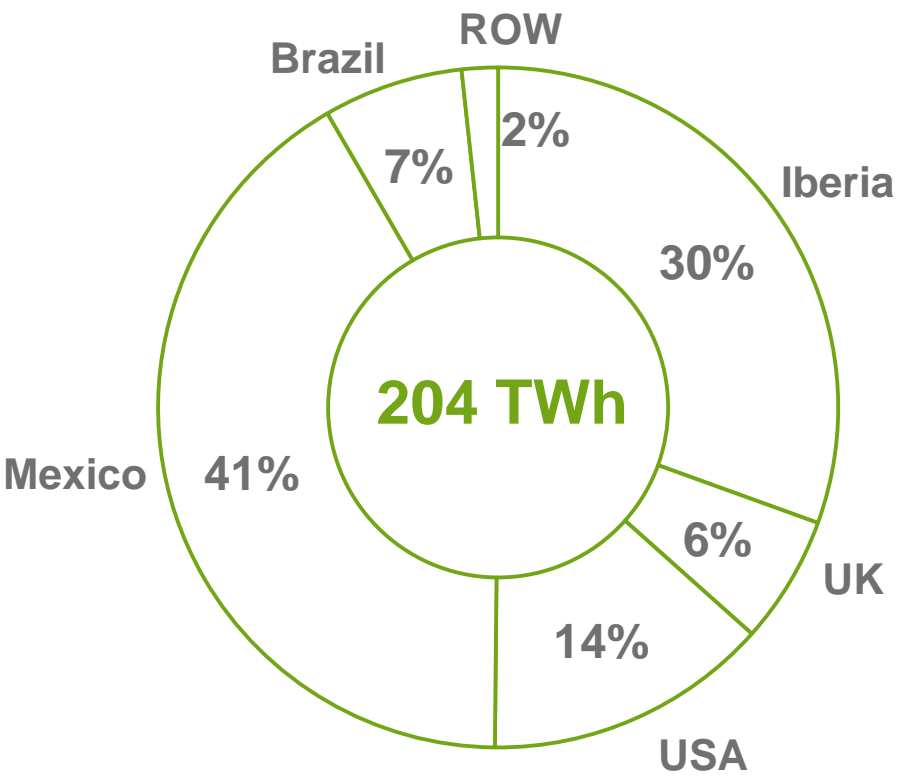


Production increases by 48%, exceeding 200 TWh in 2022

Production by technology (TWh)



2022 Production by country (TWh)



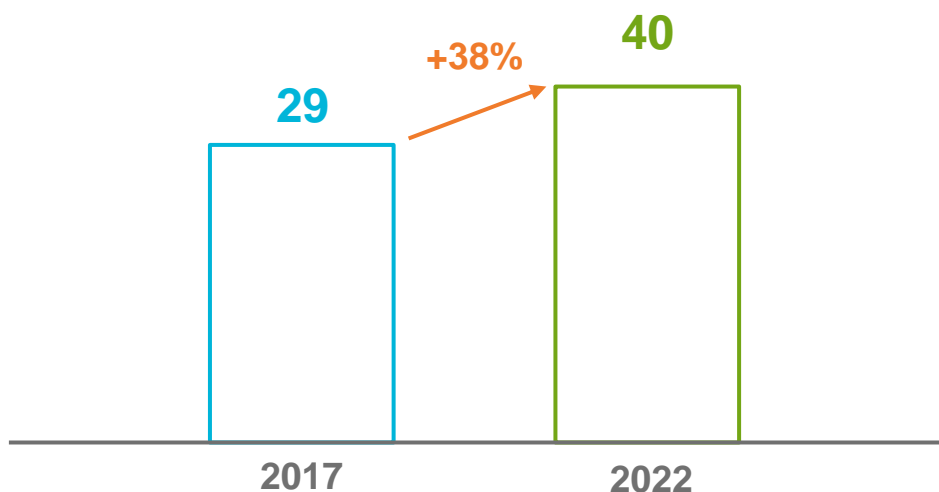
*Hydro average year for 2022

Profitable growth: Regulated Asset Value

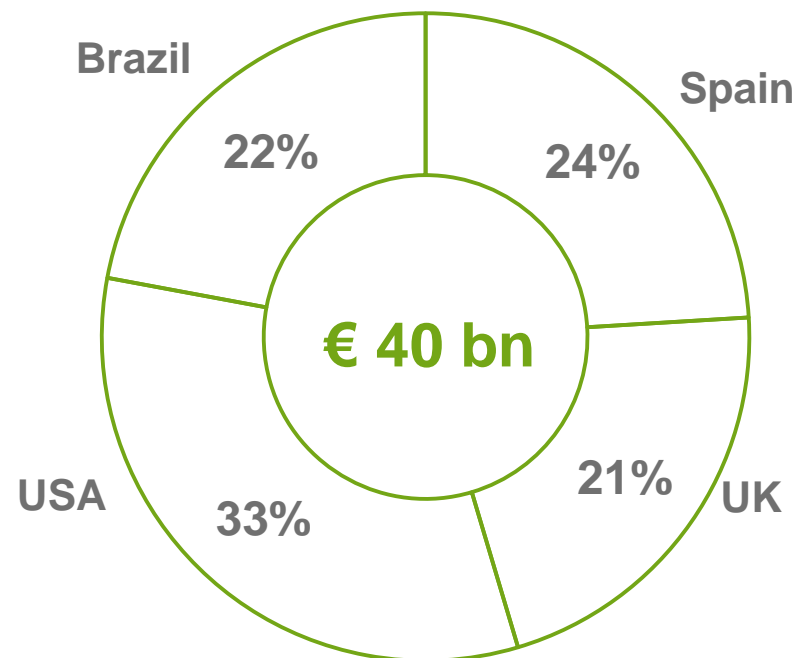
Net Investments of EUR 15.5 Bn.

38% increase of RAV, reaching EUR 40 Bn by 2022.

RAV* (EUR Bn)



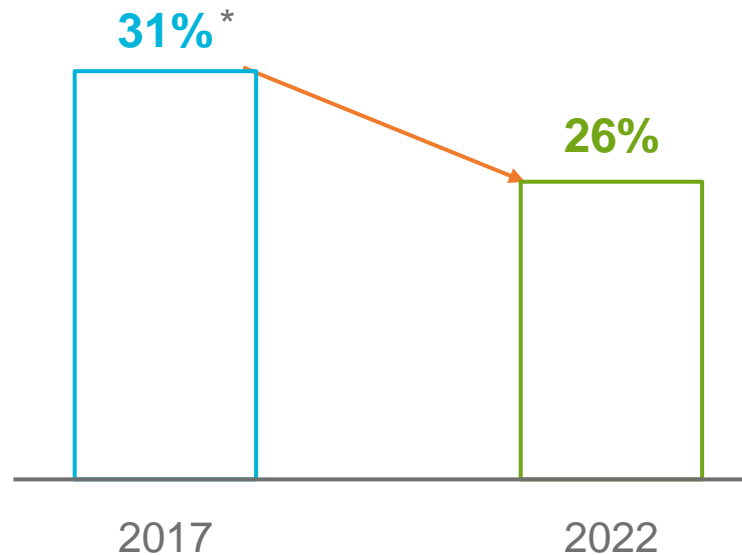
2022 RAV breakdown



* Includes new transmission assets with regulated remuneration

**Further efficiencies derived from data analytics and artificial intelligence.
Specific plans to transfer best practices into USA & Brazil networks processes.**

NOE / Gross Margin (%)



* 28% in a 2022 like for like basis

EUR 4.8 Bn investments in digitalisation

- ✓ Predictive O&M: data analytics and AI
- ✓ Improvement in generation availability
- ✓ 20 Million Smart Meters (100% Spain, UK and USA)
- ✓ 100% automated HV grid in USA
- ✓ 50% increase in MV automation
- ✓ Early detection of fraud, losses and grid faults
- ✓ DSO functions
- ✓ Digitalisation of customer front office

75 Innovation projects / year

... and pursuing further growth opportunities beyond 2022

Potential additional EBITDA >2022 (EUR M/yr)



Hydro capacity:

160 MW Tâmega commissioning in 2023



Transmission:

6 lots from Brazil 2017 auctions, commissioning in 2023



Onshore + PV:

6,000 MW highly likely / likely portfolio



Offshore:

2,500 MW highly likely / likely portfolio
(France St. Brieuc 490 MW, USA, UK)



Contracted Generation / PPA:

+2,600 MW portfolio

**Potential
Growth**

>2022

**+EUR 1,600
M/yr**

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José Sáinz Armada

Chief Financial & Resources Officer

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Armando Martínez

Networks Business Managing Director

Geographically diversified business with regulated revenues and strong cash flow performance in all countries



Electricity	38 TWh
Gas	60 TWh
Connections	3.2 mill



Electricity	64 TWh
Connections	13.6 mill



Electricity	35 TWh
Connections	3.5 mill



Electricity	93 TWh
Connections	11.0 mill

Electricity	230 TWh
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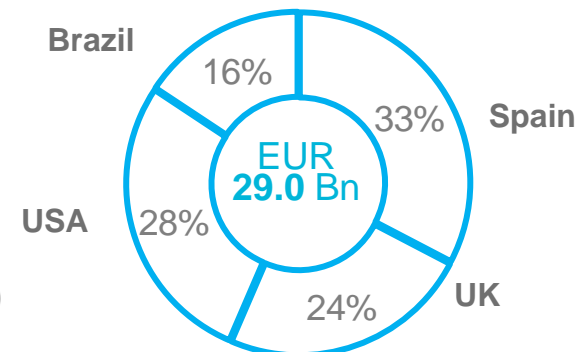
Gas	60 TWh
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Connections	31.3 mill
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Net Capex EUR 2.1 Bn

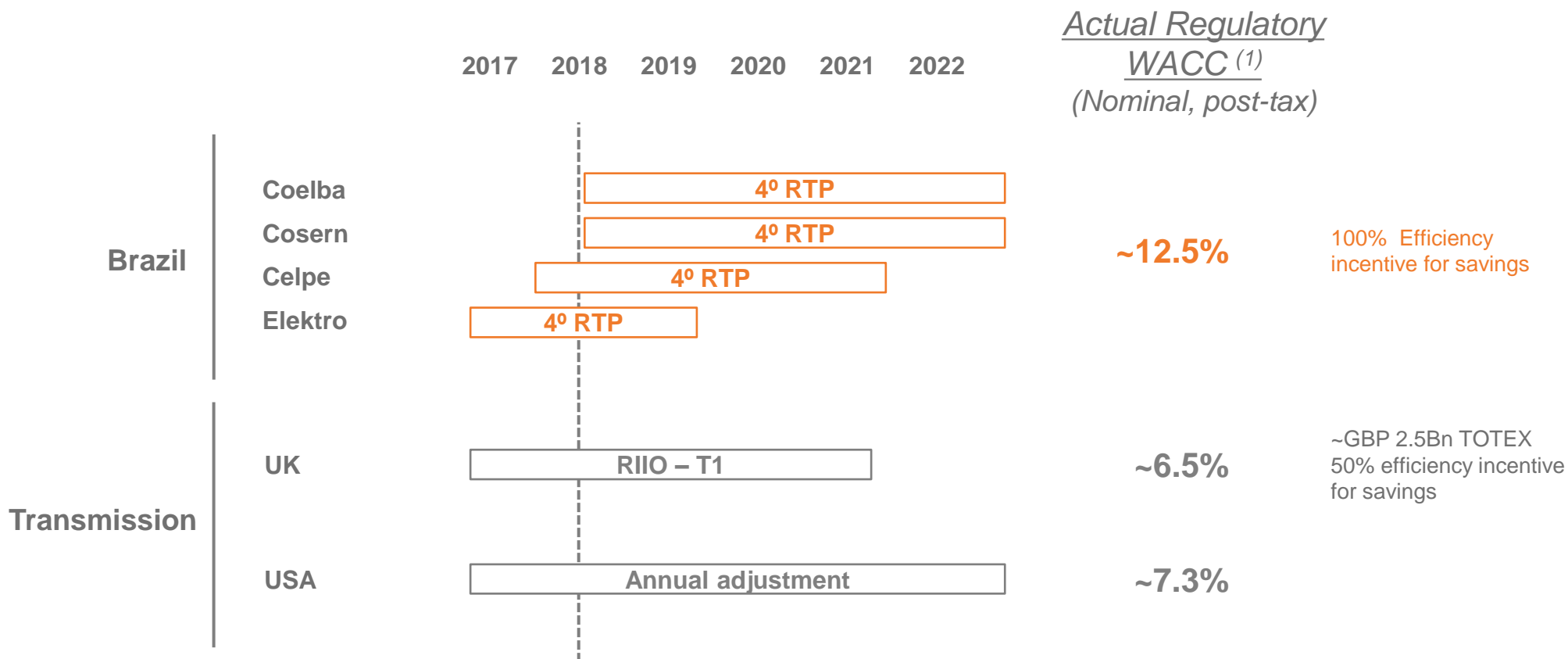
EBITDA EUR 4.2 Bn (EUR 4.6 Bn with 12m Neoenergia)

RAV



Visibility of Revenues (2/2)






Long term regulatory frameworks and reasonable rates of return in all jurisdictions are the foundations of a balanced investment mix in T&D across countries



(1) Nominal WACC post-tax has been calculated based on each country's specific remuneration framework. BRA: 8.09% Real WACC post-tax; Transmission UK: 7% Real COE post-tax; Transmission USA: 10.57% Nominal ROE post-tax

Smarter Networks: A history of continuous improvement (1/2)








EUR 3 Bn invested in networks digitalization to date, with projects delivered setting the blueprint for a global Smart Grid model...

Achievements			
Network Operation	Virtual operation. Patented self healing AI algorithm.	↑ Reliability ↑ Safety ↓ Costs	 Mobility: Digital field forces management 1.8X improvement on fault recovery 59% load recovery < 3min vs 33% in 2010
Advanced Analytics	70+Tb of data analyzed	Big data tools for decision making	 Demand Forecasting 85% new connections allowed automatically vs 50% in 2016 EUR 17M/y due to fraud reduction 60% efficiency on field activities BRL 8M/y OPEX savings in field activities
Smart Meters*	 10.4M Smart Meters in service in 2017  1.3M Smart Meters in CT/ME	↑ Prosumer LV monitoring	 240M of hourly customer load curves per day

* 0.8 Million of smart meters deployed by Retail in the UK

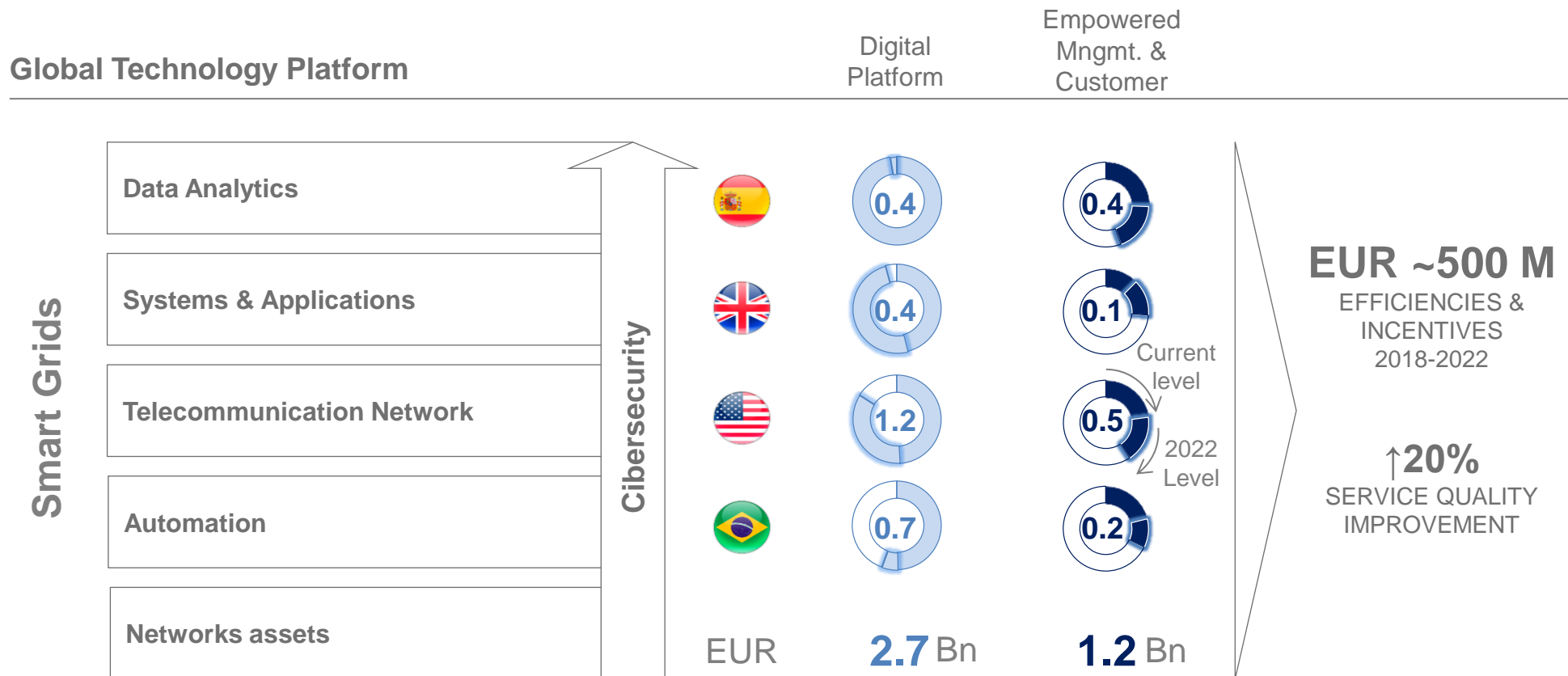
Smarter Networks: A history of continuous improvement (2/2)

EUR 3 Bn invested in networks digitalization to date, with projects delivered setting the blueprint for a global Smart Grid model...

		Achievements	
DER integration	Integrate & control intermittent renewable capacity within distribution Network	MW integrated ↑ Quality	 2.4GW in central region (1.6GW Peak) Interruptions ↓57%, 131 to 57 min 2007-17
			 150MW in Dunbar & Berwick (25MW Peak)
District Storage	Utility scale storage projects to provide network services	New Services: Balancing, Flexibility	 5 Projects in NY / CT on line in 2018
			 2 Projects on line in 2018
Microgrids	Solution to improve resiliency or electrify isolated areas	New Services	 Woodbridge →to harden local network
			 S. Agustín →to test DER control
			 21k customers electrified in State of Bahia (“Luz para todos”)

Moving forward: Global Technology Platform 2018-2022

+ EUR 3.9 Bn net investments for growing and expanding our global technology platform...



Global development adapted to local environments



Customer at the Center: Today and expected results

Improving best-in-class quality of supply

Minutes interruption vs peers average

Spain **-25%** vs peers avg

Source: Minetad

UK **-6%** vs peers avg

Source: Ofgem

USA **-39%** vs peers avg

Source: internal calculations for urban areas

Brazil **-21%** vs peers avg **ELEKTRO**

-12% COSERN

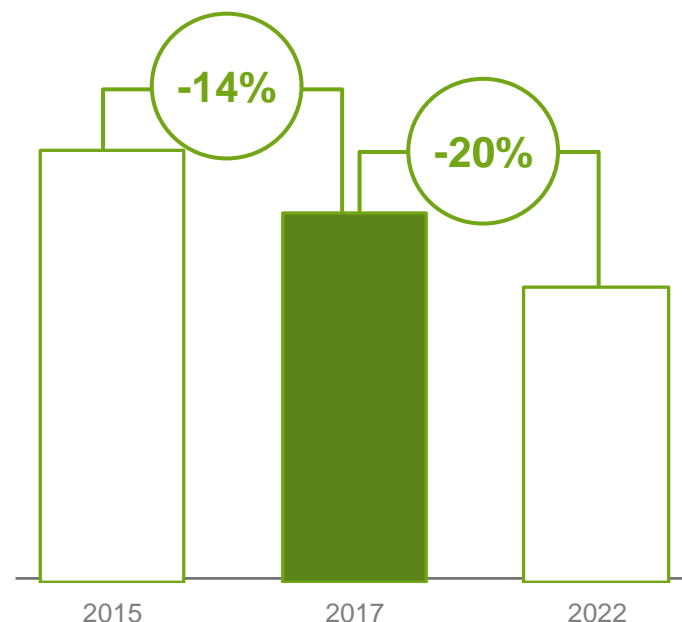
-11% COELBA

+17% CELPE

Source: Ranking ANEEL

Room to improve

Minutes interruption



Note: US comparison only with urban OpCos (RGE and UI)

Operational Efficiency: Today and expected results

Total cumulative efficiencies of EUR 700 M during the period, partially shared with customers

Cost to serve vs peers average

Spain **-32%** vs peers avg

Source: CNMC

UK **-20%** vs peers avg

Source: Ofgem

USA **-6%** vs peers avg

Source: based on S&P Global Market Intelligence

Brazil **↓ 28%** vs peers avg **ELEKTRO**

↓ 3% **COSERN**

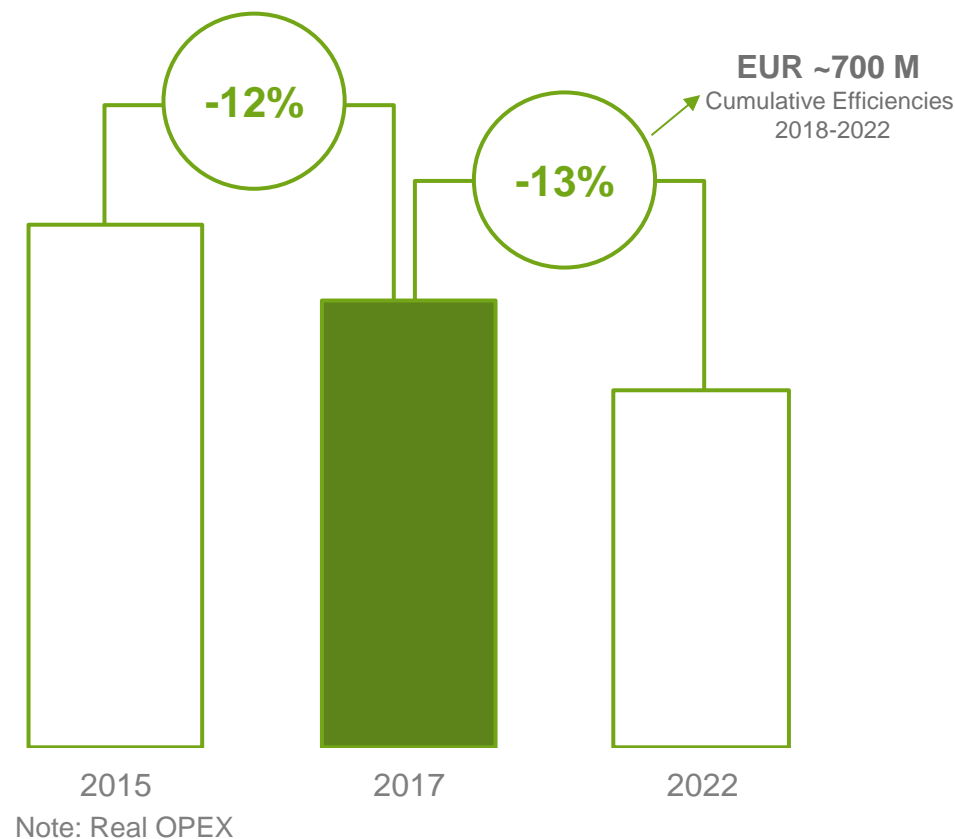
↓ 3% **COELBA**

↑ 11% **CELPE**

Room to improve

Source: Ranking ANEEL

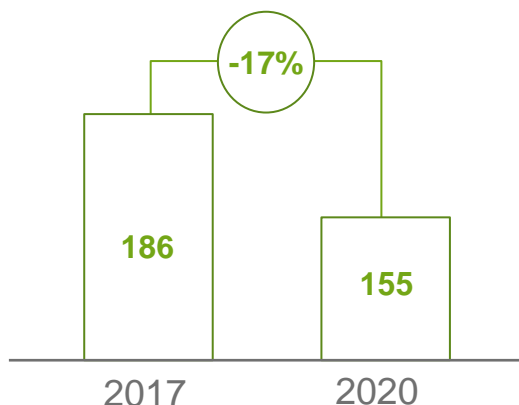
OPEX



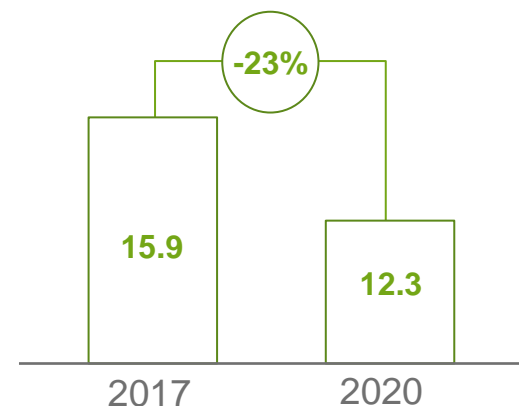
... and are key to foster business integration and best practice sharing

Ambitious plan for the integration of Neoenergia: improving efficiency, service quality and losses based on Iberdrola's global networks expertise

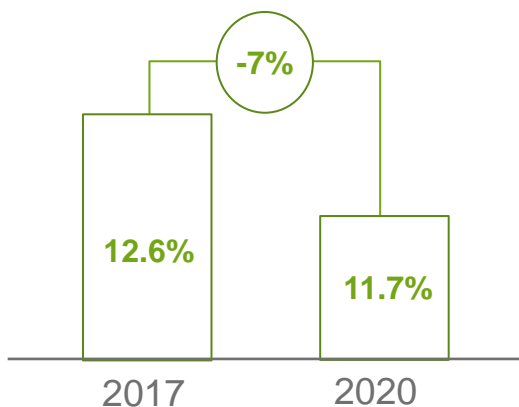
Cost to serve (BRL / customer)



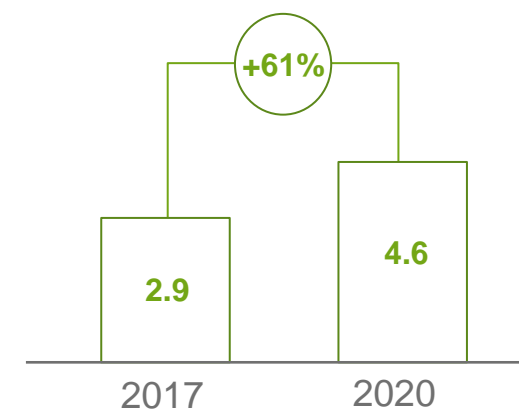
DEC (hours interruption)



Losses (%)



Net CAPEX (BRL Bn)



Profitable Growth 2017-2022: Transmission

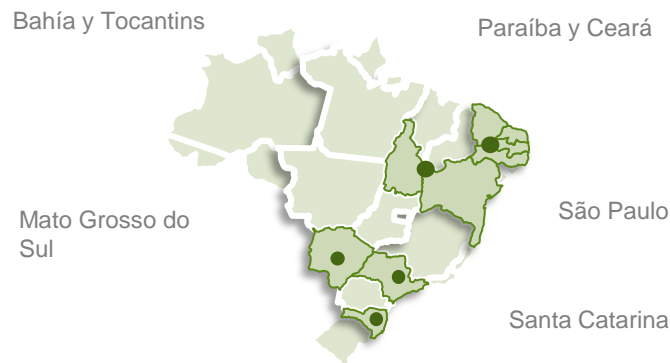
Solid background as transmission operator in UK and US subsidiaries...

... that allows growth opportunities in core areas with T&D synergies

2017 New Projects


NEOENERGIA **BRL 2.7 Bn**
Reg CAPEX AWARDED

4 lots awarded in Apr-17 + 2 lots in Dec-17



**Transmission Projects in or close to our
Service Areas**

Potential Transmission Projects up to 2030

USA **USD 10 Bn** **New England & New York**
USD 75 Bn **Other regions in USA** 
Source: Brattel Group

Brazil **BRL 90 Bn** **ANEEL auctions**
Source: ANEEL

Mexico **USD 7 Bn** **New HVDC transmission projects** 
Source: Prodesen

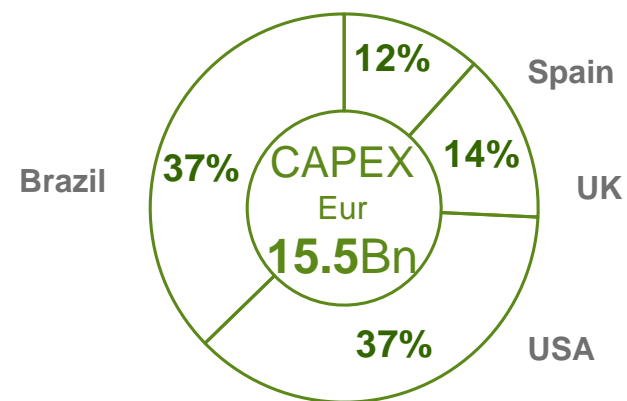
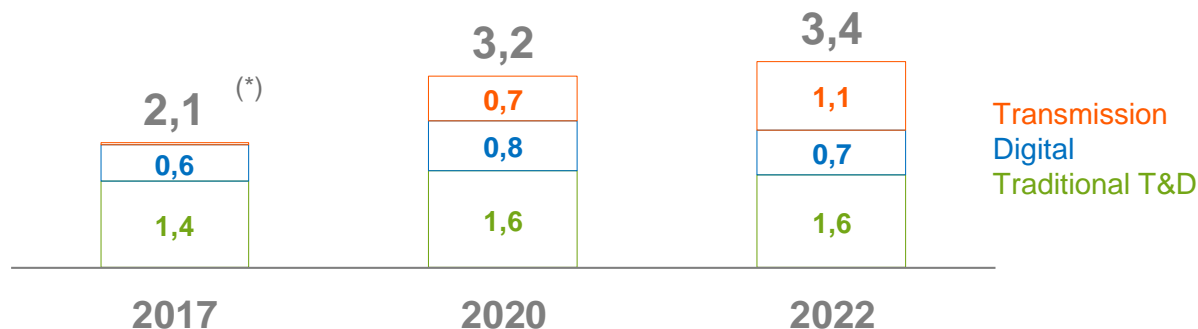
**> EUR 100 Bn
opportunities in Core Areas**

Profitable Growth: CAPEX and EBITDA

EUR 15.5 Bn of CAPEX during the period, providing EUR 11 Bn RAV growth and EUR 1,000 M additional EBITDA by 2022

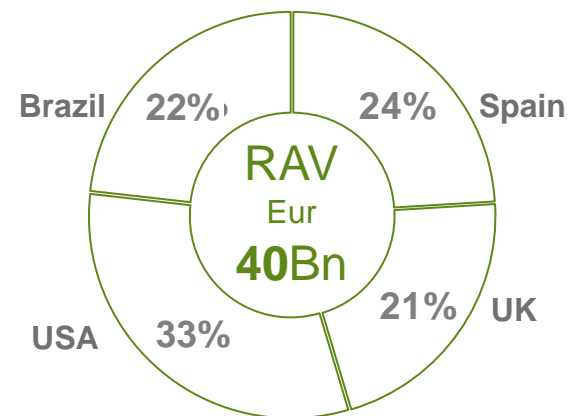
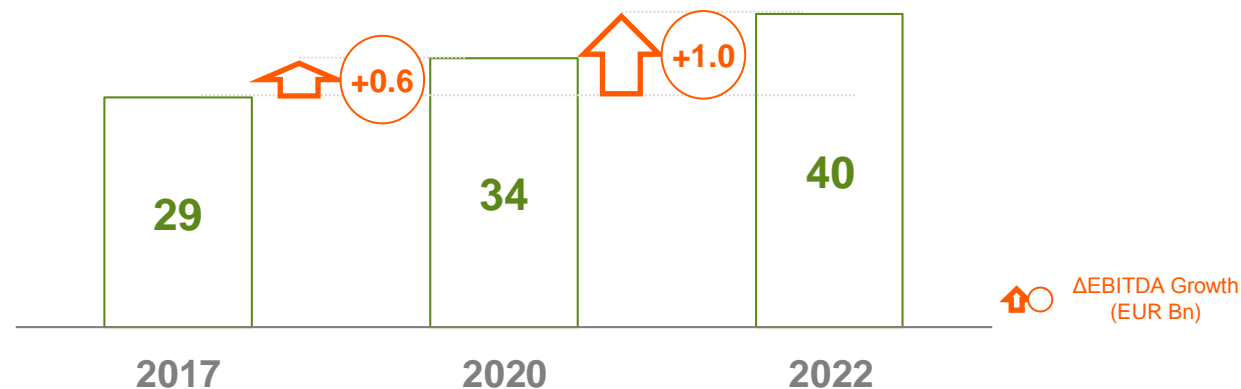
Net Capex (EUR Bn)

* Includes only 4m of Neo



2018-2022

RAV (EUR Bn)



Innovation



100+ Innovation Projects Launched

A fully functional in-house innovation model, solving real problems today

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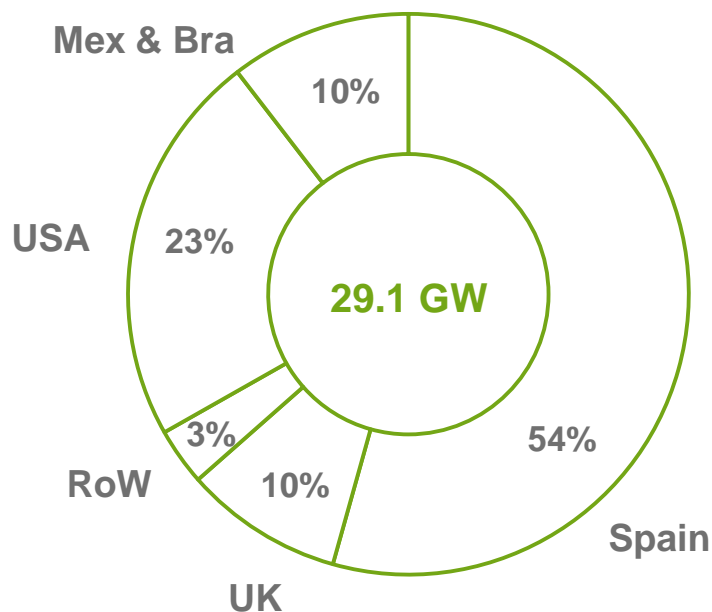
Xabier Viteri

Renewable Business Managing Director

Current Situation Overview

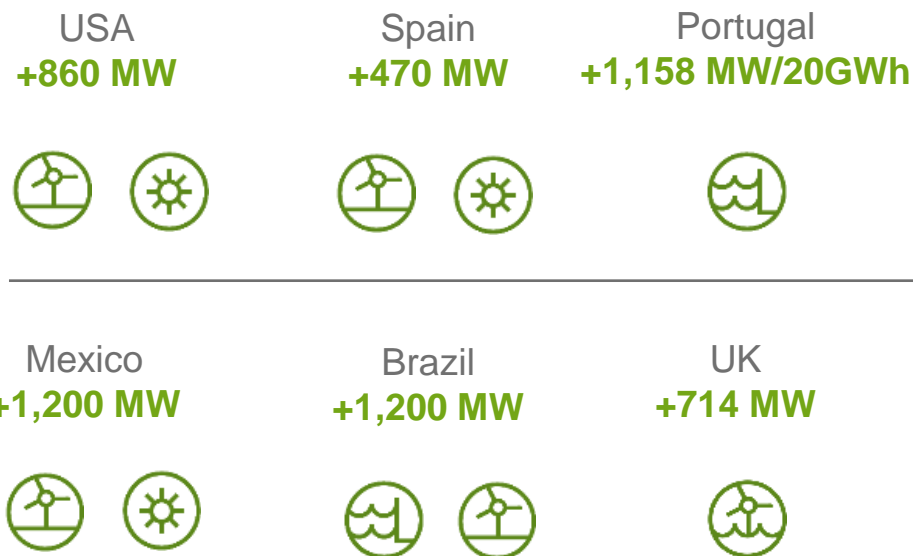
Iberdrola: consolidated leading position in the renewable sector...

Capacity installed*



*Hydro 44% of total capacity

Capacity & storage under construction



...with more than **29.1 GW** installed

and over **5.6 GW** under construction

As of today we are already 13% above the 2016-2020 growth Plan commitments

Mature renewable technologies: consolidating leadership in core areas with attractive returns

Strategy focus on **auction processes** with **acceptable levels of return...**

Brazil

295 MW awarded in December 2017 in Leilão A-6 at the **highest price**.

...and taking advantage of **Iberdrola's capabilities** to achieve attractive IRRs when auction prices do not provide **reasonable returns**

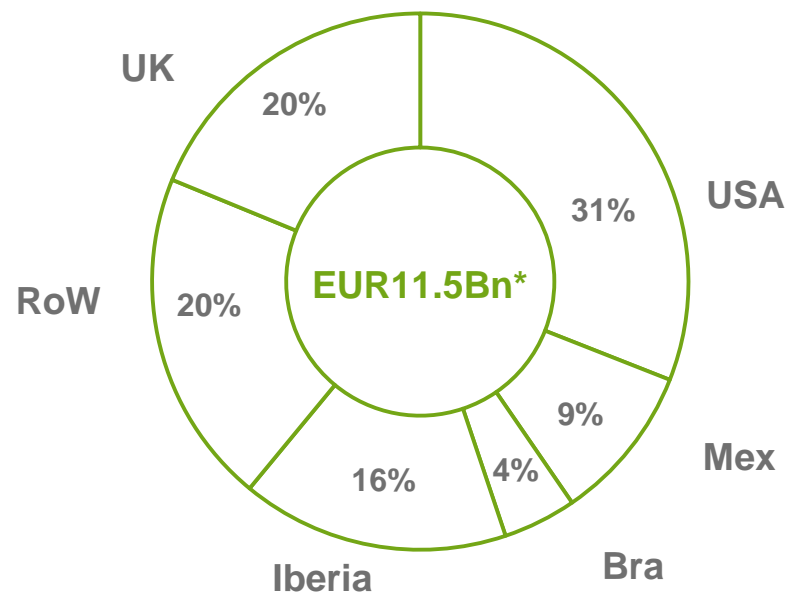
Spain Mexico Portugal

844 MW of wind and solar PV and **1,158 MW** of hydro & storage being constructed under **internal schemes**.

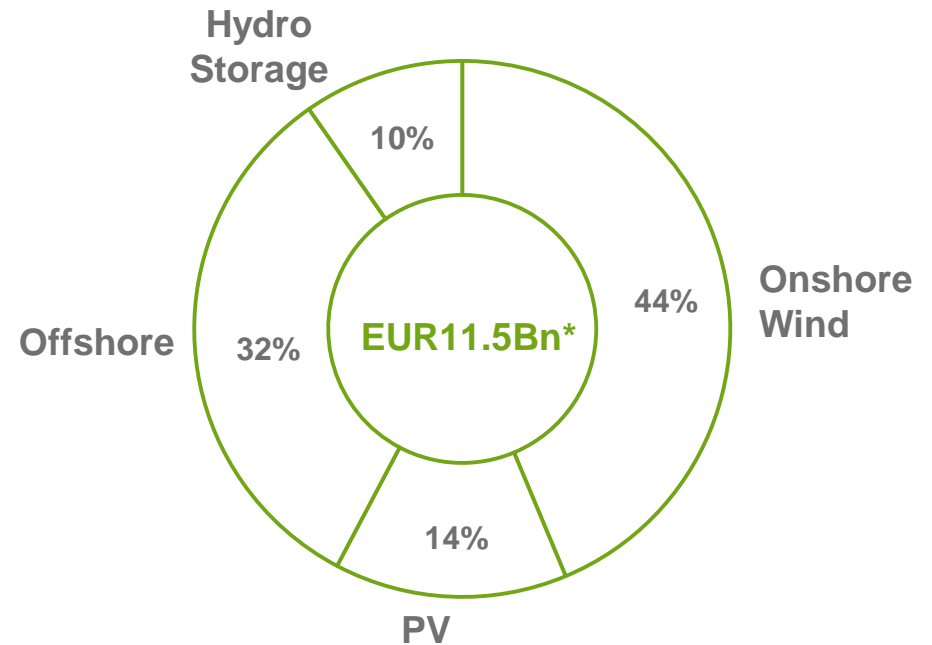
Profitable growth

... investing EUR 11.5 Bn during the period, 90% allocated to growth

2018-2022 Investments (EUR Bn) by geography



2018-2022 Investments (EUR Bn) by technology



* EUR 10.2 Bn growth investment

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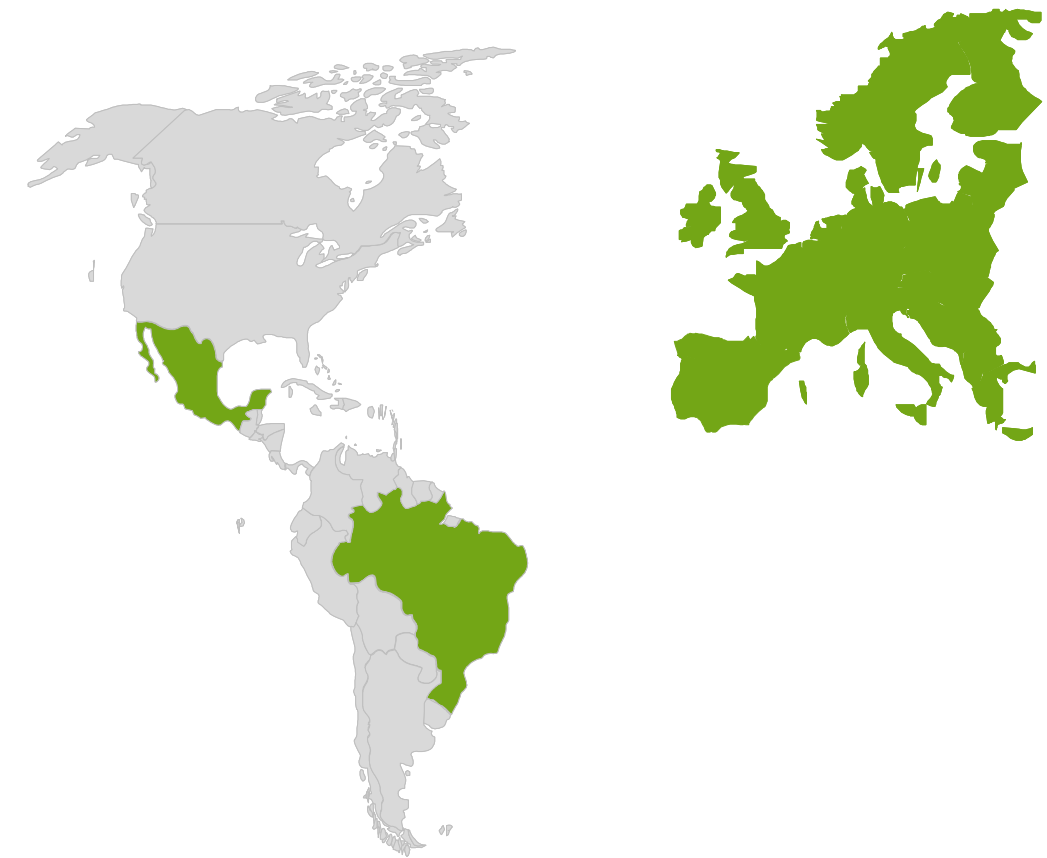
Iberdrola, “utility of the future”:

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Aitor Moso

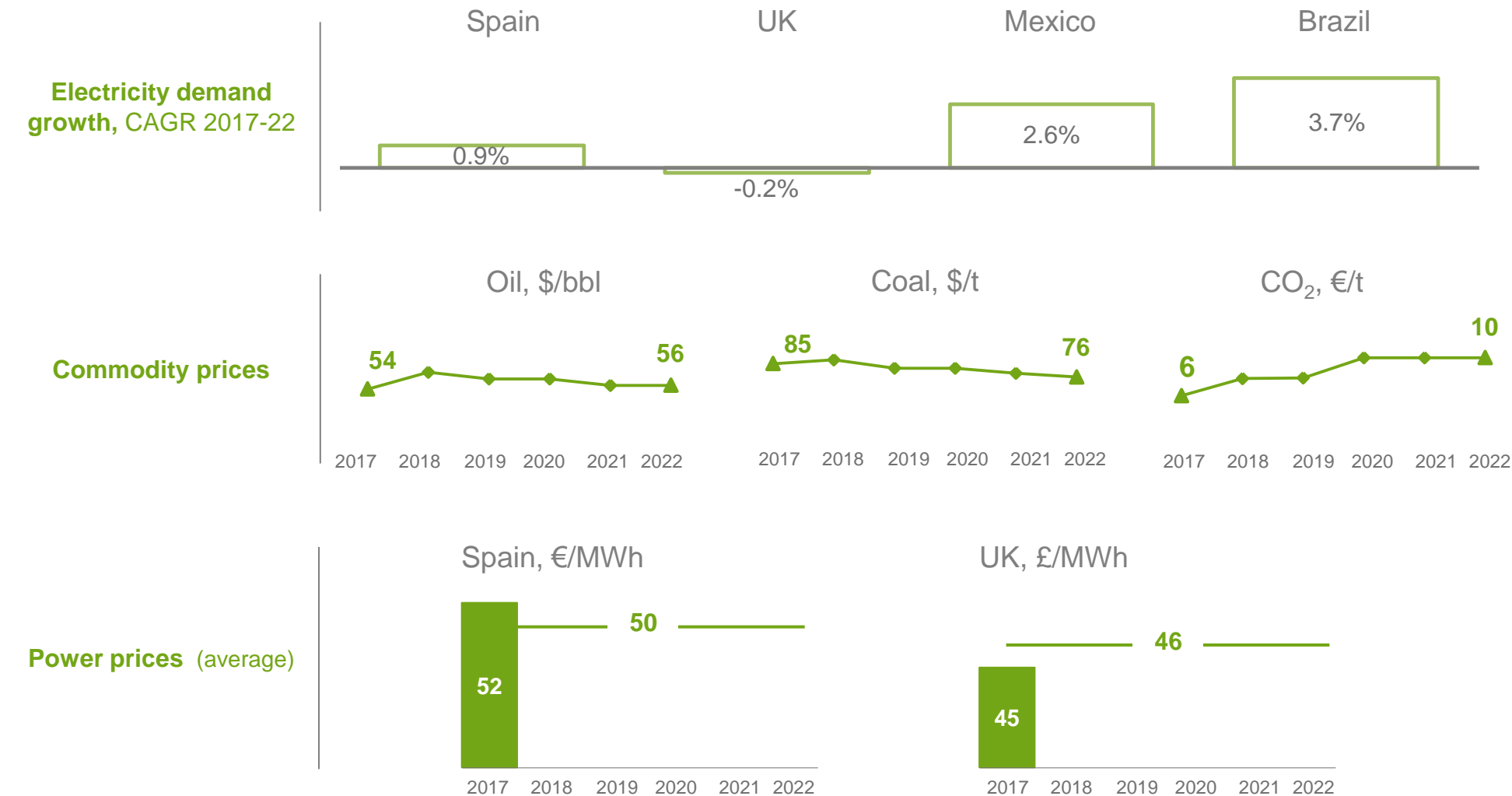
Liberalised Business Managing Director

Competitive portfolio and consolidated customer base in our core countries



Services to Customers (M)	23
Electricity	13
Gas	3
Smart Solutions	6
Energy supplied (TWh)	179
Electricity	139
Gas	40
Capacity (GW)	18
Production (TWh)	85

Energy markets: Outlook 2022



Prices derived from market quotations and estimates of commodities from analysts (PIRA, WoodMac, Aurora, CERA-IHS)

18,487 MW of installed capacity

MEXICO

5,840 MW Gas - Mostly regulated with CFE.
Significant growth with PPA

BRAZIL

533 MW Gas - Regulated PPA with Distribution companies

UK

2,001 MW Gas - Capacity payments secured up to 2022

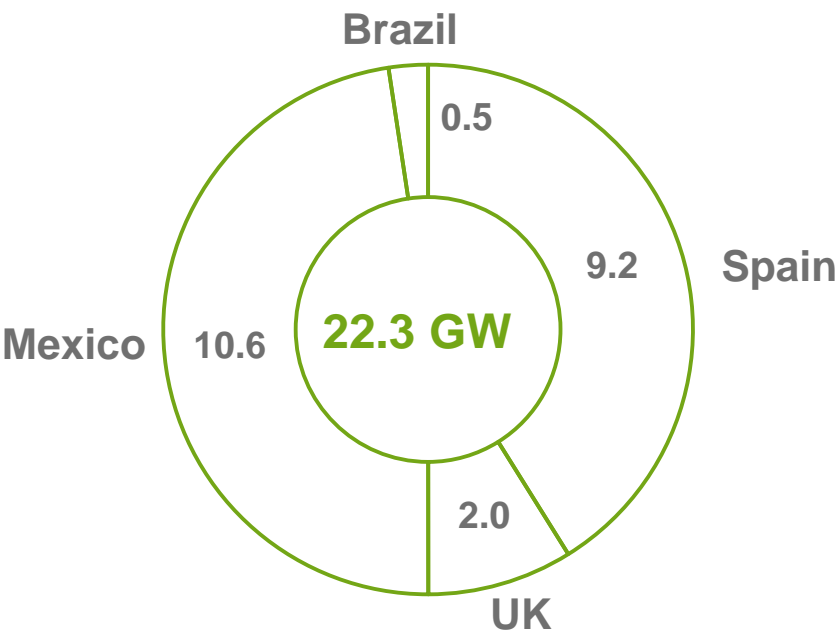
SPAIN

874 MW Coal
6,062 MW Gas - Capacity payments required
3,177 MW Nuclear

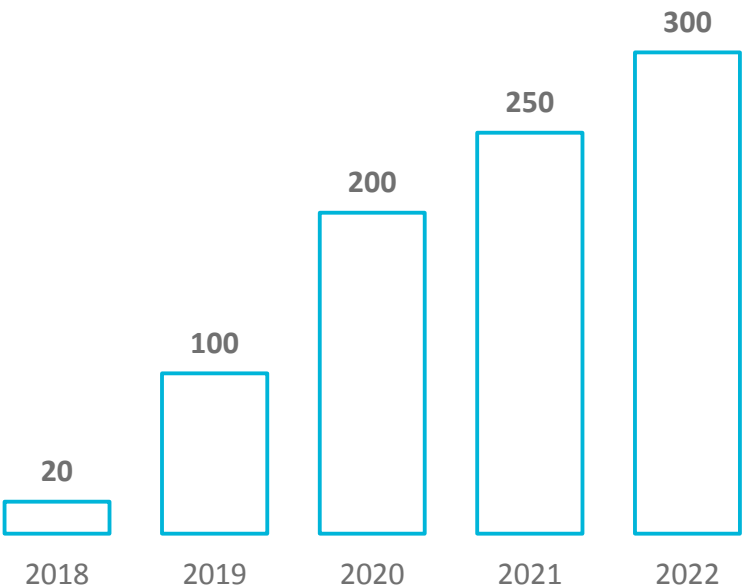
Generation: Profitable Growth

Net investment in growth of EUR 1.2 Bn in contracted generation to provide an incremental EBITDA of EUR 300 M by 2022

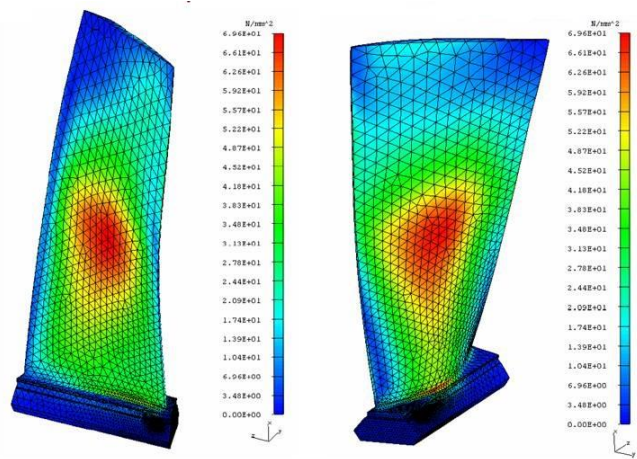
Installed Capacity 2022



Incremental EBITDA from growth investment (EUR M)



EUR 50 M cumulative efficiency gains 2018 – 2022 through further operational efficiencies and overall fleet performance enhancement



CCGT optimisation

- ✓ 2% efficiency increase
- ✓ 35% turndown reduction
- ✓ 60% start up time reduction

Asset life cycle management, predictive analysis and machine learning based on data analytics

- ✓ 14 GW of CCGT's and CHP in Spain, Mexico, UK and Brazil

100% digital & automated fleet (Nuclear, CCGT and CHP)

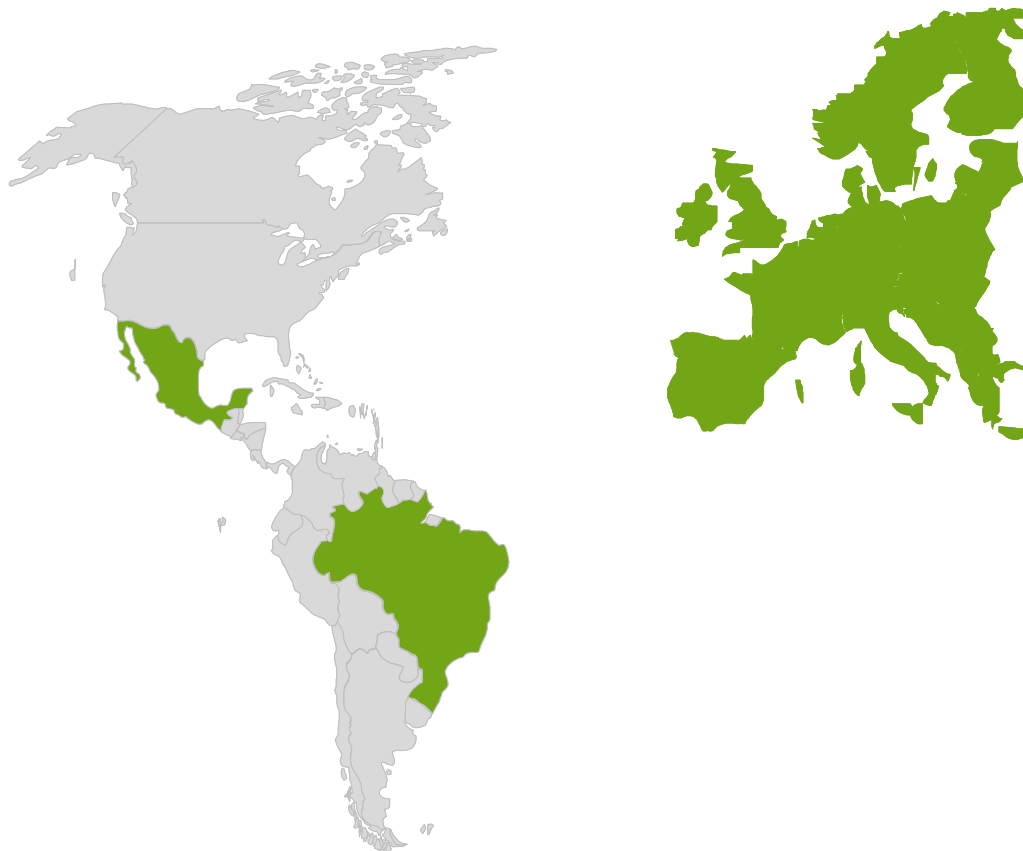
23 M services to customers

MEXICO

2k I&C services to customers
42.3 TWh energy sales

BRAZIL

1k I&C services to customers
12.7 TWh energy sales



UK

6 M services to customers
53 TWh energy sales

SPAIN & CE

16.6 M services to customers
71.4 TWh energy sales

Additional 9 M services to customers in Europe leveraging Iberdrola's retail platform for growth

Effective and efficient retail platform

- **Unique and effective retail model:**

- Lowest cost to serve in Spain and the UK
- High penetration of smart solutions (~60% in Spain)

- **Replicable in new countries and markets**

- Italy market entry example:



<EUR 1 M Capex

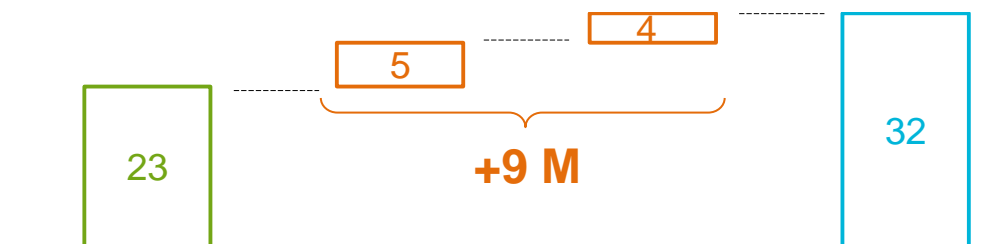


<6 months roll-out



Replicable to accelerate entry into new geographies

No. of services to customers (M)



Sustained growth
in core markets



European
expansion



Smart solutions in Mexico and Brazil



OUTLOOK 2018 / 2022

London / 21 February



IBERDROLA

Iberdrola, “utility of the future”:

Building the foundations for growth in the next decade





José Sainz Armada

Chief Financial & Resources Officer

Macro hypothesis for 2018-2022

Higher interest rates in Eurozone, USA and UK as solid growth and inflation drive monetary policies to normalize

Low rates in Brazil due to a recovery scenario and controlled inflation

Interest rates							New financing average spreads
Average 2018-22		2020 End of year		2022 End of year			
3M	10Y ¹	3M	10Y ¹	3M	10Y ¹		
	0.75%	1.56%	0.90%	1.78%	1.60%	2.00%	» 0.84%
	2.82%	3.26%	2.90%	3.35%	3.30%	3.50%	» 1.10%
	1.71%	2.26%	1.85%	2.30%	2.55%	2.90%	» 1.20%
	7.52%	-	7.50%	-	7.50%		» 1.40%

^{1/} Swap 7 years for Eur, Treasury 10 years for USD and GBP

Credit spreads stable in €, \$ and £. Decreasing in BRL.

Macro hypothesis for 2018-2022

New Plan assumes depreciation of all currencies vs. EUR compared to Old Plan

Average FX rates vs. Euro



2018 Net Profit mostly hedged

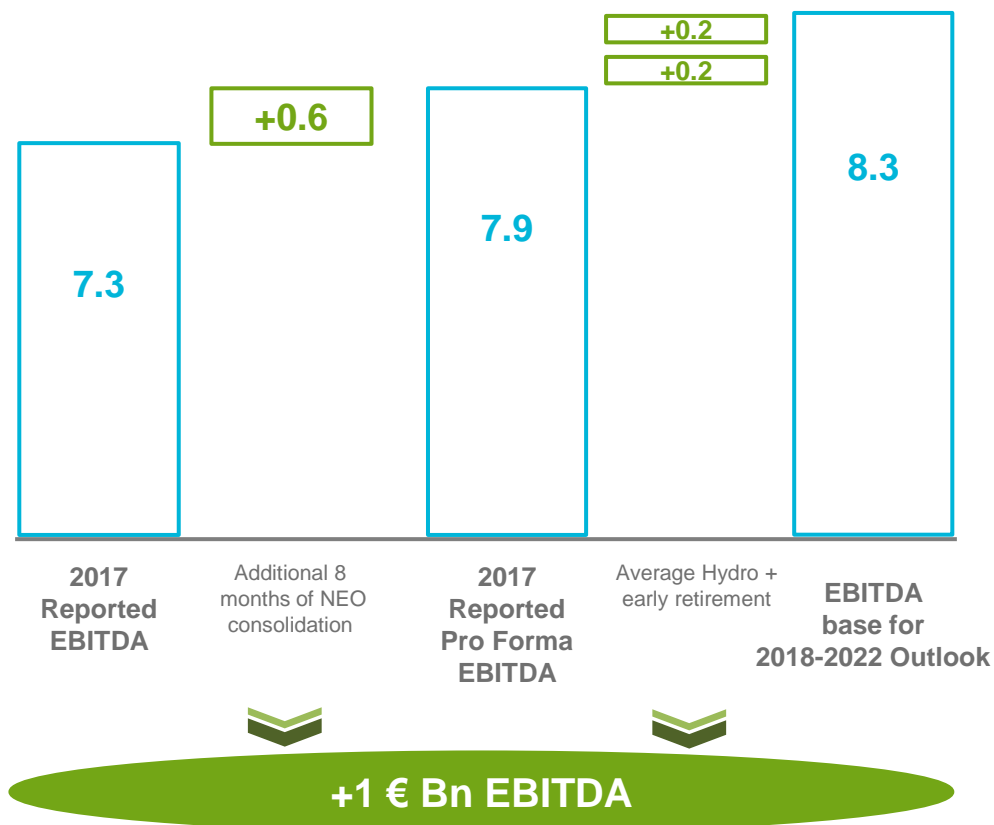
Old plan refers to the Revision of the Strategic Plan in February 2017 while New Plan refers to Long Term forecast January 2018 (5 years average)

* February 16th 2018

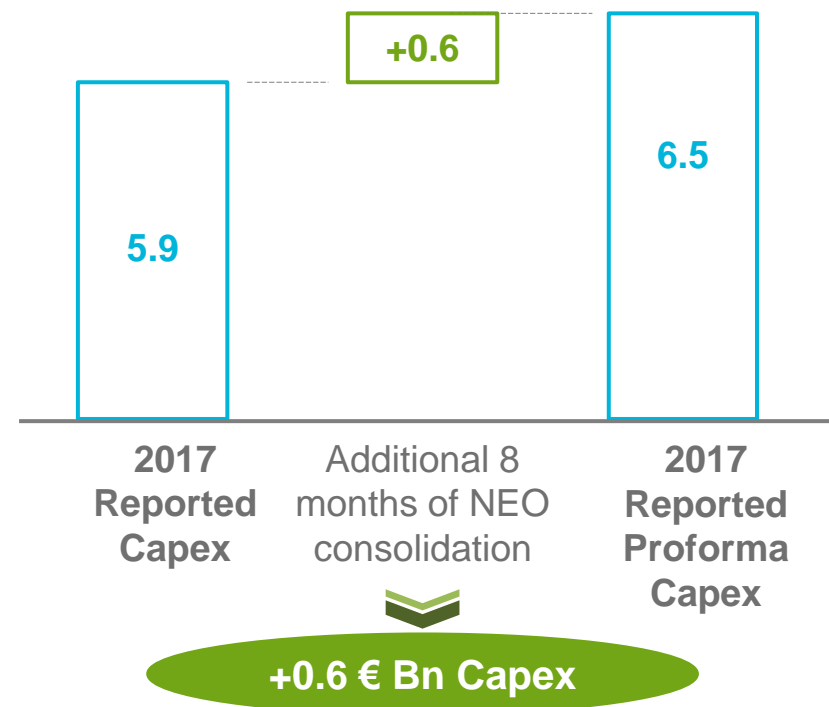
2017 / From Reported to Pro Forma

2017 Reported Pro Forma EBITDA and Capex include 1 year consolidation of Neoenergia

2017 EBITDA, Reported vs Pro Forma



2017 Capex, Reported vs Pro Forma



2017 base EBITDA for the 2018-22 Outlook will be Eur 8.3 Bn.

2017 base Net Profit for the 2018-22 Outlook will be Eur 2.8 Bn, as EBITDA effects are compensated by Non Recurring impacts*

*Gamesa capital gain and other

2017 Interest rate risk management

Increase in fixed-rate structure in 2017 to 80% excluding Neo (72% with Neo) to take advantage of low interest rates reducing volatility in the financial expenses

Debt Structure



2016

- **New debt at fixed rates:**
 - 2016: 3,150 m€ (81% of Total)
 - 2017: 3,400 m€ (60%, 70% ex-Neo of total)
- **IRS Fw start at present:**



2,850 Mn



1.950 Mn



1.280 Mn



Current

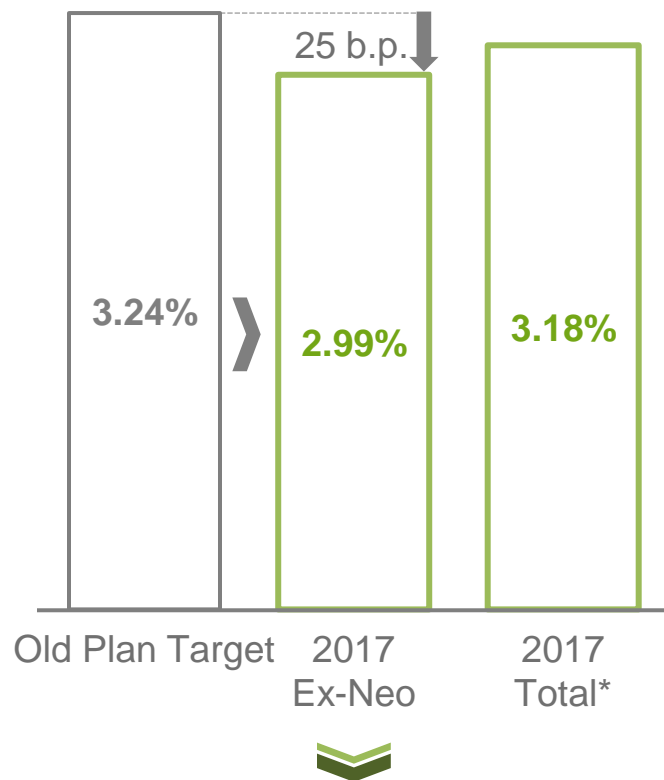
* Including the 3.2 Bn in forward swaps already fixed at 2016 year-end

** Including the 6.0 Bn in forward swaps already fixed at present

Managing interest rate risk advancing rising trend

2017 Financial activity

Financial cost



**Improving financial cost target:
2017 financial cost ex-NEO 25 b.p.
below plan**

* Including Neoenergia from August 24th

Liquidity (Ex Neo)



**Fulfilment of rating agency
requirements**

* Including early 2018 liquidity deals signed

FX Risk management



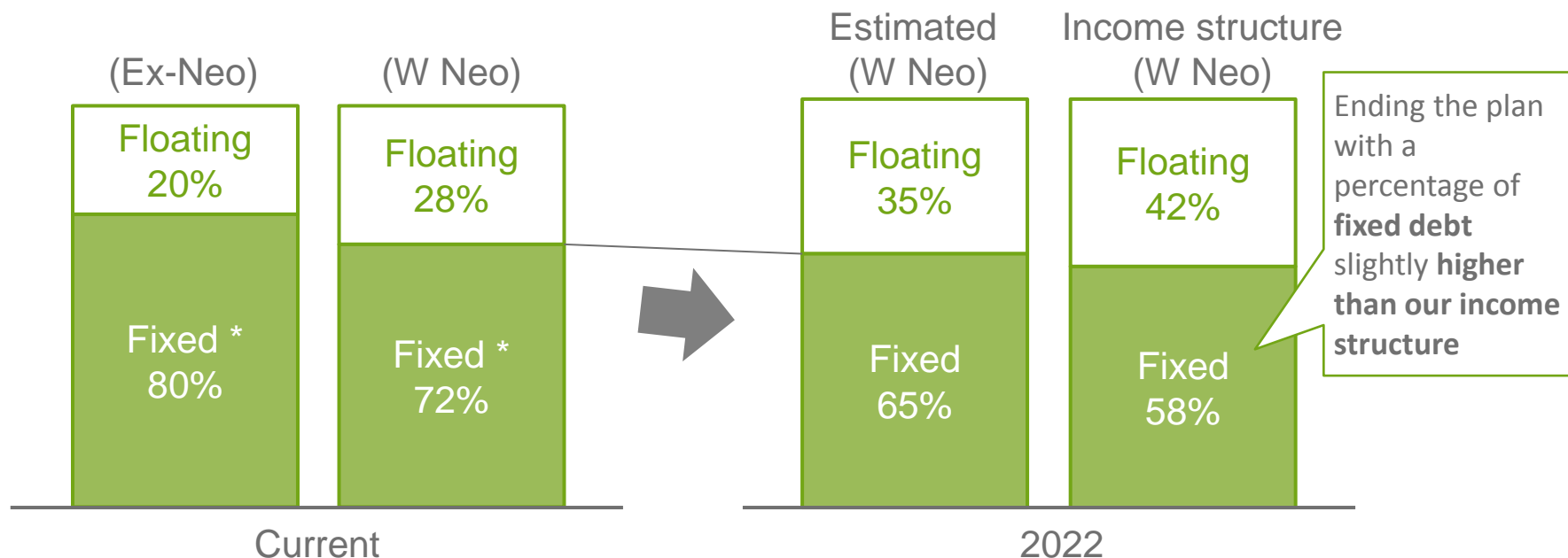
Positive hedge result

**Successfully managing
exchange rate risk
in a volatile environment**

B2 Interest rate risk management

Optimum cost of capital ensured by having increased our fixed-rate structure during the last two years, anticipating the forecasted rate hike

Debt structure



* Adding the 6.0 €Bn in forward swaps already fixed at present

Low refinancing risk in fixed debt as we have more than 6 € Bn in forwards

B2 Interest rate risk management

Debt structured to protect P&L in the short/medium term, maintaining a current high fixed percentage to protect from rising interest rates



Debt structure

- Duration of regulatory cycles: on average 4-5 years
- Average life of debt of 6 years guarantees re-pricing of debt post regulatory changes to adapt to new interest rate scenario

	Debt weighting*	% fixed current		% fixed estimated	% fixed income structure
€	45%	75%	↑	65-75%	60%
\$	26%	96%	↔	80-96%	85%
£	17%	76%	↔	55-76%	55%
BR \$	12%	6%	↔	5-15%	17%

• Over net debt 2018/2022 average

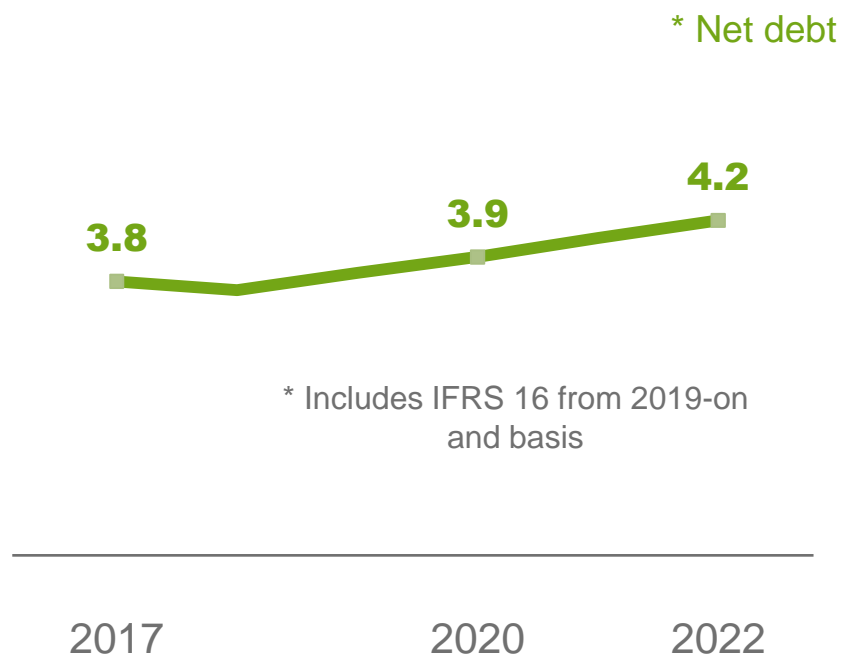
B3 Cost of Debt

Average cost of net debt will remain low during the Plan after including NEO, below 4% until 2020 ...

Gross debt financial cost by currencies

	2017	2022
€	1.7%	2.1%
\$	4.3%	4.2%
£	4.9%	3.7%
R\$	9.1%	8.9%

Net debt cost evolution

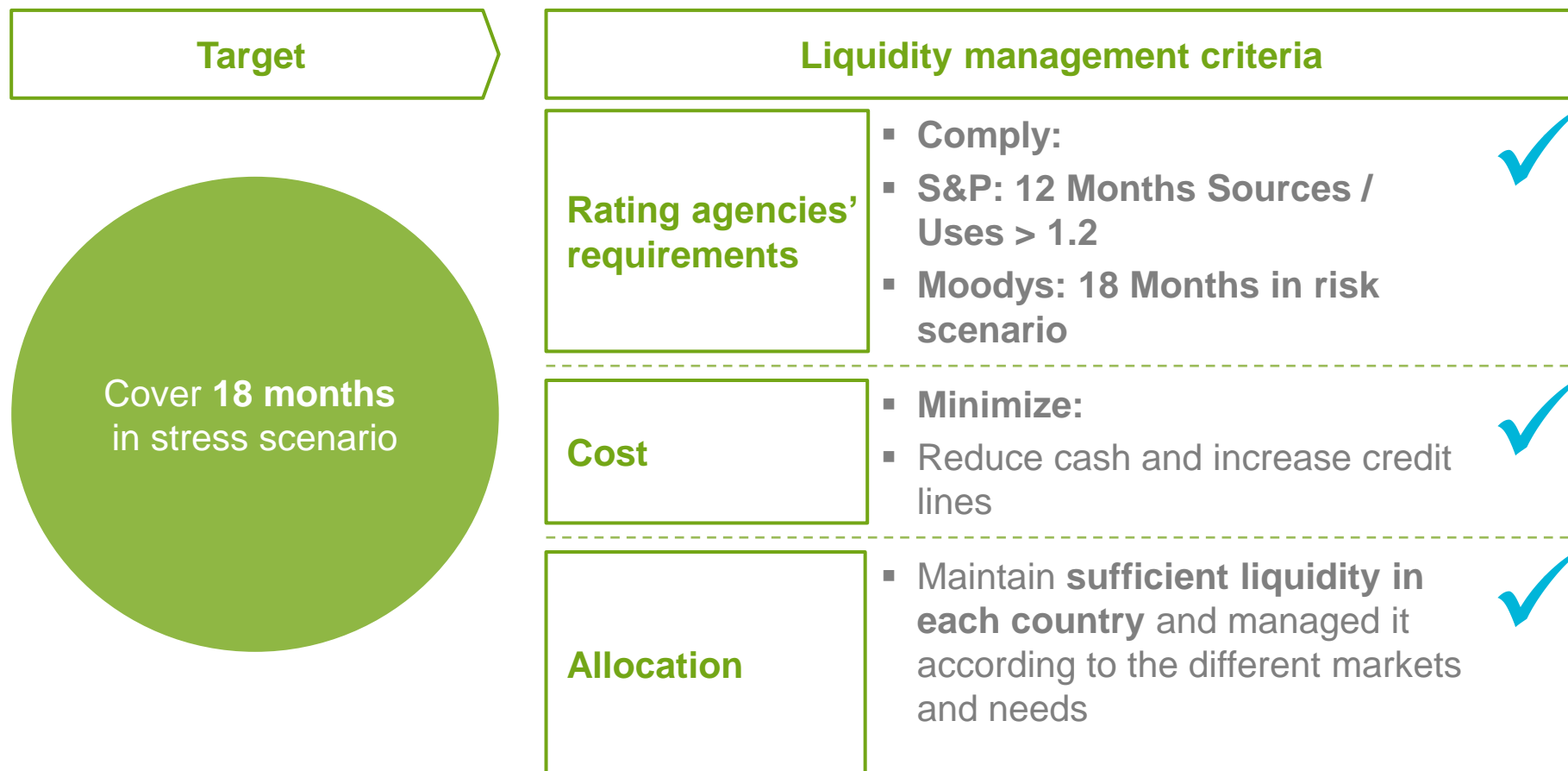


... larger investments in Brazil and The US during the Plan drive higher average cost of debt to 4.2% by the end of the Plan

* Includes IFRS 16 and basis

B4 Liquidity

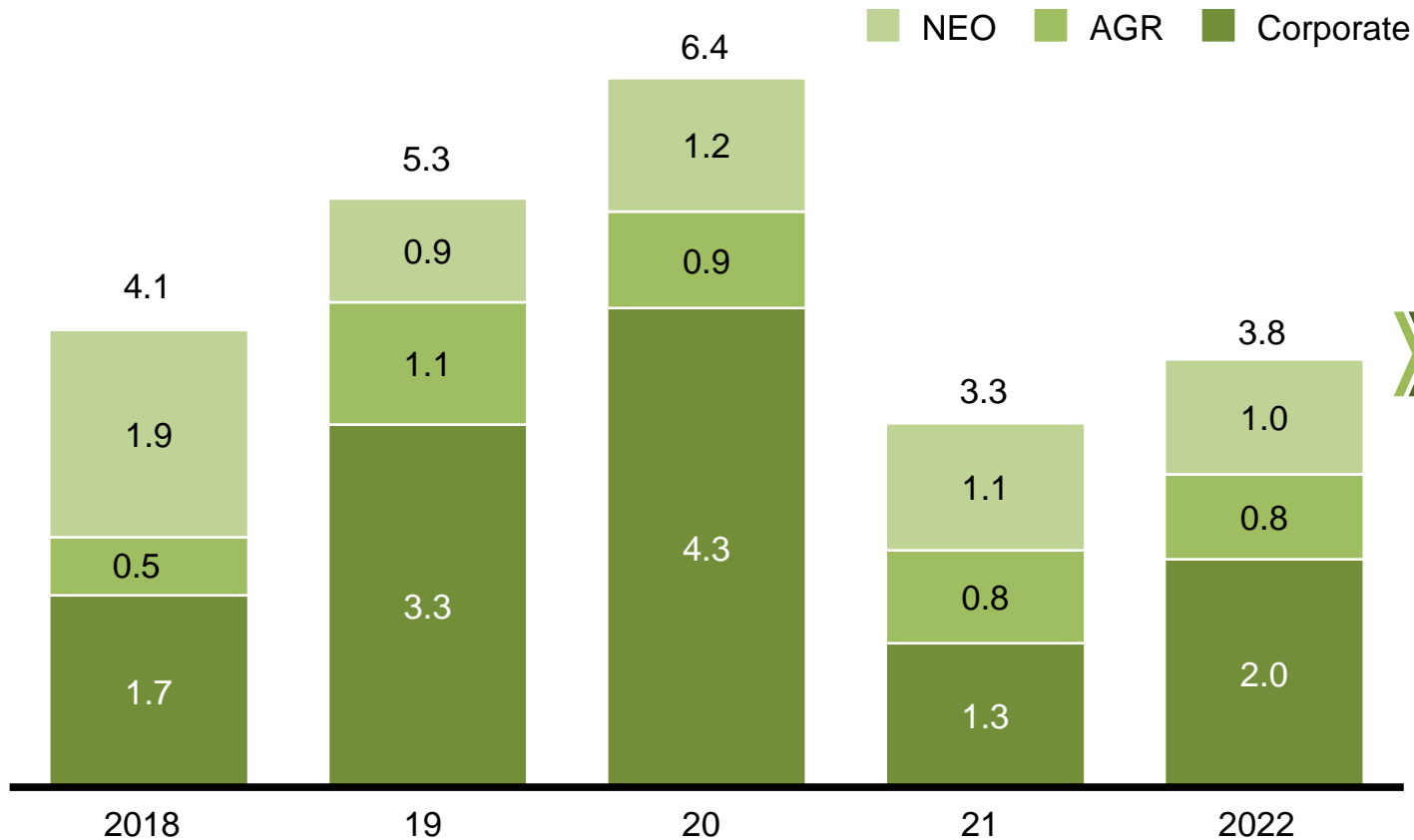
Active liquidity management, maintaining ~ 8-10 € Bn, with room to increase if required



Neoenergia has its own liquidity policy that covers 12 months of financing needs

Financial needs have a comfortable maturity profile over the period

Coverage allocation (€ Bn)



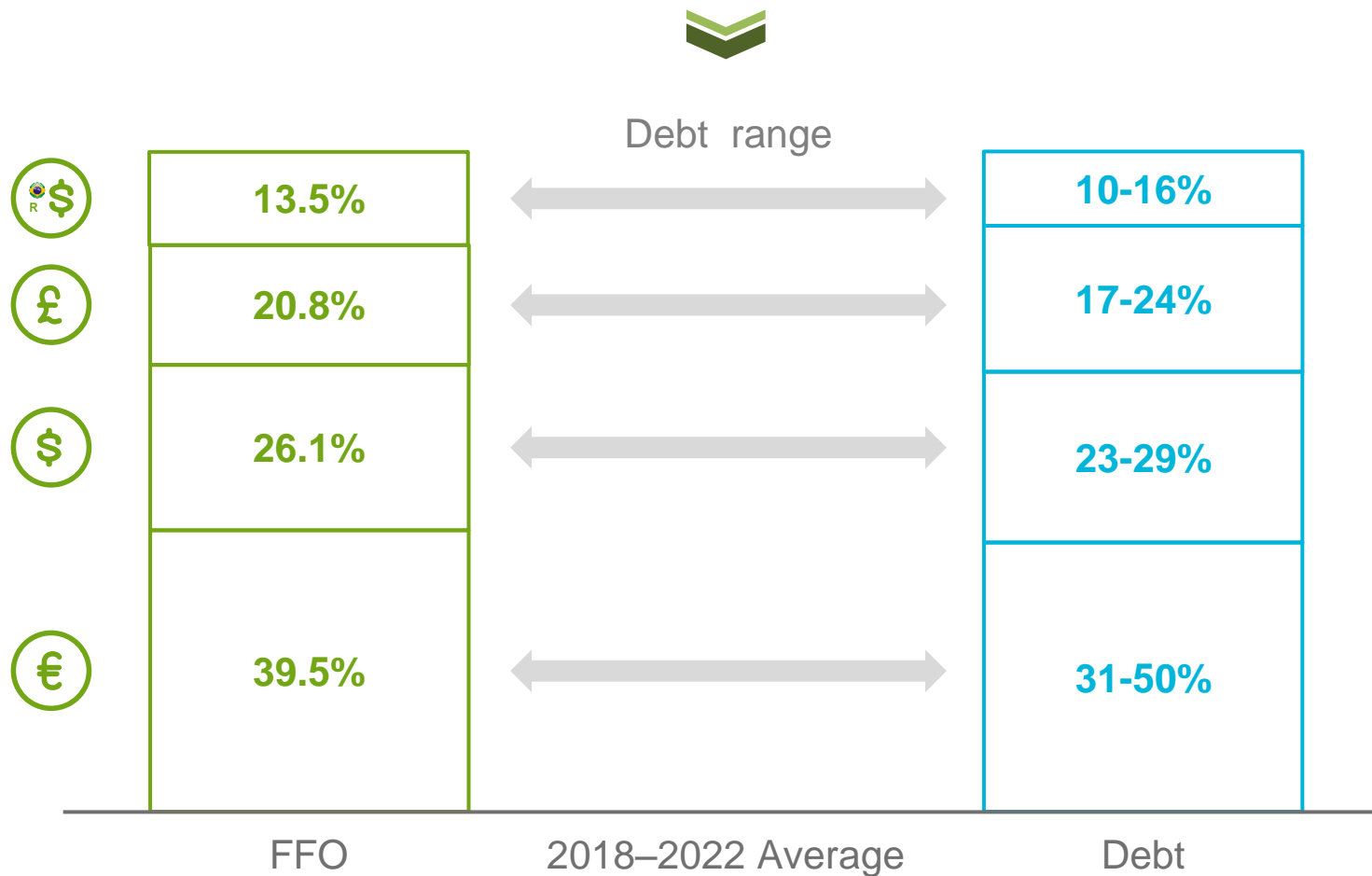
- Moderate financial needs thanks to a **comfortable debt** maturity profile and **strong funds generation**
- **Main source of financing** will be **Holding (55%)** but **USA and Brazil** will **access** financing markets too (17% and 28% respectively)
- Aim to maintain **average debt life of 6 years** (excluding Neo, which has an average life < 3 years)
- **Neoenergía has a higher turnaround** in needs as average debt life is shorter (<3 years)

Will be financed mainly from the Holding (55%)

B5 FX risk management: structural

Structural FX hedge is taken by having the debt in the same currency and similar % as the funds from operations

Minimize FFO / Net Debt ratio volatility



B5 FX risk management: yearly

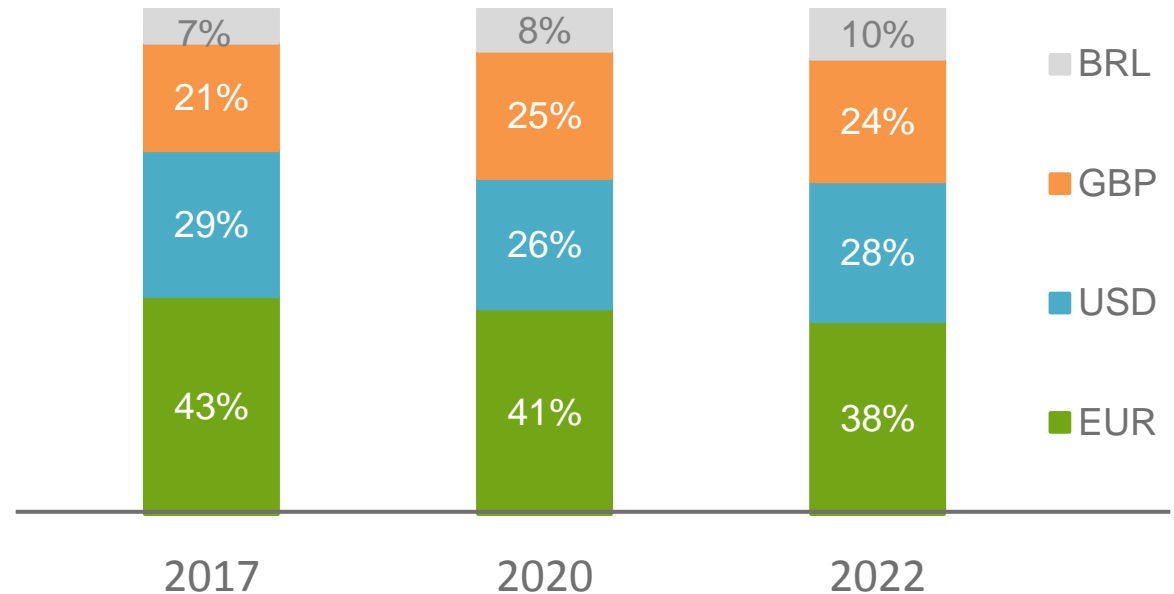
FX risk in the Profit & Loss account is minimized through derivatives

Target

Hedging Net Income FX exposure in currencies other than Euro

Maximum risk allowed:
150 €Mn per year
~5.0% of average
Net Income

Net Income by currency



Almost 100% of the 2018 risk position already hedged: USD, GPB and BRL