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Agenda

Environment

Financial strategy for 2017-2020 period

Risk analysis
Our central scenario for macro hypothesis assumes…

**Stable GDP growth** around 1.5% over the period, supported by stable commodity prices, and ECB accommodative monetary policy in a context of inflation below historical average …

…and low interest rates

**Average GDP around 2%**.
Uncertainty on fiscal and trade policies of US Administration. Good level of employment, inflation reaching 2.5%…

…and monetary policy normalization to continue in 2017; interest rate rises through the period

**GDP growth to recover** (towards 2%) at the latter part of the plan with inflation rising in the short term …

…with the BoE’s monetary policy normalization beginning in 2018

Higher uncertainty due to Brexit, possible measures under new US Administration and their impact on global trade
Improving economic outlook in Brazil

**GDP growth recovery expected to begin in 2017** with inflation rate moderating

**Interest rate cuts** by the Brazilian Central Bank to support the economy

**GDP growth could slow down** due to new trade policies of the US Administration, with **higher inflation** affected by a **weaker currency** that could lead to **higher interest rates**...

...with **limited impact** on the Group as revenues are dollarized
Interest rates will gradually increase with the exception of Brazil
Levels around 50 bp lower than previous forecast

Iberdrola Group financing spreads will remain stable during 2017 - 2020
January USD and GBP FX spot rates maintained unchanged during the Plan

Average FX rates vs Euro (compared to 16-20 Plan)

USD 1.07 Vs 1.08
January’17- end 1.08

GBP 0.87 Vs 0.76
January’17- end 0.86

BRL 3.64 Vs 4.30
January’17- end 3.40

We have hedged 2017 Net Profit
Financial strategy for the 2017-2020 period
2016 financial activity milestones:

- 37 b.p. financial cost reduction vs. Plan 2016 to 3.49%
- Issued 2,700 M € in EMTN at Iberdrola’s ever lowest coupons (average below 1%). 91% in green bonds.
- More than Eur 2 Bn of new bank financing (Usd 1.5 Bn Revolving Credit Facility) at very low margin with more than 30 banks involved
- Liability management transactions + fixing interest rates (Eur 3,813 M) + Pre-fixed interest rate up to Dec 2016 (Eur 3,150 M)
- Successfully managing exchange rate risk in a volatile environment due to political issues (Brazil, UK, USA) with positive hedge results of Eur 100 M
Main financial guidelines for 2017 – 2020 period:

<table>
<thead>
<tr>
<th>Financial structure</th>
<th>Protecting the company from interest rate increases: increasing fixed rate debt &gt;60%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liquidity</td>
<td>Optimizing liquidity management, covering 18 months in stressed scenario</td>
</tr>
<tr>
<td>FX risk management</td>
<td>Structural &amp; annual coverage</td>
</tr>
<tr>
<td>Solvency ratios</td>
<td>Maintaining solid levels to preserve credit quality. Asset rotation &amp; hybrids to be used if needed to maintain financial strength.</td>
</tr>
<tr>
<td>Financing</td>
<td>Strong diversification in sources of finance provides access to many markets, banks and supranational lenders</td>
</tr>
</tbody>
</table>
91% of the plan needs are funded by operating cash flow

<table>
<thead>
<tr>
<th>Sources</th>
<th>2017 – 2020</th>
<th>Uses</th>
</tr>
</thead>
<tbody>
<tr>
<td>FFO</td>
<td></td>
<td>65%</td>
</tr>
<tr>
<td>Divestments</td>
<td></td>
<td>25%</td>
</tr>
<tr>
<td>New Debt</td>
<td></td>
<td>10%</td>
</tr>
<tr>
<td>Capitalized costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividends</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Cash flow will accelerate growth during the plan as investments pay off.
Financial Management / Outlook

Cash flow generation exceeding annual investments by Eur 2 Bn

2017 – 2020 average FFO vs. Net Investment (Eur Bn)

<table>
<thead>
<tr>
<th>Year</th>
<th>FFO</th>
<th>Net Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017 – 2020</td>
<td>7.1</td>
<td>5.1</td>
</tr>
</tbody>
</table>

Net Debt evolution (Eur Bn)

<table>
<thead>
<tr>
<th>Year</th>
<th>Debt (Eur Bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>29.4</td>
</tr>
<tr>
<td>2020</td>
<td>32.2</td>
</tr>
</tbody>
</table>

with Net debt growing on average by Eur 1 Bn per annum, in line with cash flow generation, up to 2019. Debt in 2020 will be around Eur 32 Bn.
Growth in EBITDA and operating cash flow lead solvency ratios to maintain strong levels

With current investment plan, 2017 & 2018 will have solvency ratios in line with 2016 that will strengthen in 2019 & 2020
Increase in fixed rate percentage to ensure low cost of capital through the plan

**Debt Structure**

- **2015 – 2016**
  - Floating: 54%
  - Fixed*: 61%

- **2020 Target**
  - Floating: 38%-40%
  - Fixed: 60%-62%

- ~ Eur 4 Bn Forward Interest rate swaps already signed

**Cost of debt**

- 2015: 4.1
- 2016: 3.5
- 2020: 3.2

*Adding the Eur 3.1 bn forward swap already fixed at 2016 year-end (11.9%) to debt at fixed rate(49.0%)

**Average cost of net debt for the plan will be 25 b.p. below 2016 actual cost**
Structurally in the medium term, Iberdrola’s business is protected from inflation & interest rates rises

### Inflation & Financial Cost Recognition

**Regulated:**
- **Spain:** No immediate update >2020 onwards (but impact capped to 0.5% over RAB p.a.)
- **USA:** When rate cases are reviewed Dist: 2019 (NY), 2020 (CT)
  
  | Trans: 2017/18/19
- **U.K.:** Yearly RPI true-up 2023 (Dist), 2021 (Trans)
- **Brazil:** Revenues yearly updated 2017/18/19
- **Mexico regulated (80%):** Fixed annual income

**Liberalized:**
- **Spain & UK:** Mostly exposed to market. Hedging strategy for market risk.
- **Mexico liberalized (20%):** Income linked to CFE tariff. Prices should reflect inflation

**Renewables:**
- **Spain:** 35% market/ 65% investment incentive + partial market risk.
- **USA:** 30% merchant generation / 70% PPAs: of which 20% indexed to actual inflation. 30% with forecasted inflation-partial hedge; 50% fixed price
- **U.K.:** CFDs & ROCs prices directly linked to inflation

**Avg. NOE/Revenues:**
- **Regulated:** ~22%
- **Liberalized:** ~25%

### Periodical Regulatory Reviews

Periodical regulatory reviews of our Network Business on average cover:

- **Inflation cost** (either immediately or with a time lag)
- **Cost of capital variations** (either immediately or with a time lag)
Financial Management / Interest rate risk management

Debt financial structure to protect P&L in the short – medium term

Duration of regulatory cycles: on average 5-6 years

Average life of debt of over 6 years guarantees re-pricing of debt post regulatory changes to adapt to new interest rates scenario

<table>
<thead>
<tr>
<th>Currency</th>
<th>Weight % of Debt</th>
<th>% Fixed current*</th>
<th>% Fixed target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eur</td>
<td>40%</td>
<td>54%</td>
<td>50-65%</td>
</tr>
<tr>
<td>Usd</td>
<td>30%</td>
<td>78%</td>
<td>75-85%</td>
</tr>
<tr>
<td>Gbp</td>
<td>25%</td>
<td>60%</td>
<td>55-65%</td>
</tr>
<tr>
<td>Brl</td>
<td>5%</td>
<td>4%</td>
<td>5-15%</td>
</tr>
</tbody>
</table>

Increase in the Eur fixed percentage to adapt to the revenue structure

*2016 year-end situation
Financial model designed to follow current structural subordination guidance ...

... flexible management to optimize non-holding company level debt based on country situation and regulatory requirements
Financial Management / Debt structure by market

Strong diversification in sources of finance provides access to many markets ...

Current situation

<table>
<thead>
<tr>
<th>Strong diversification</th>
<th>Green Financing: 10.3%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project Finance</td>
<td>0.6%</td>
</tr>
<tr>
<td>Commercial Paper</td>
<td>4.7%</td>
</tr>
<tr>
<td>Bonds: Other</td>
<td>2.6%</td>
</tr>
<tr>
<td>Bonds: UK Market</td>
<td>10.4%</td>
</tr>
<tr>
<td>Bonds: USA Market</td>
<td>21.3%</td>
</tr>
<tr>
<td>Bank Loans</td>
<td>15.2%</td>
</tr>
<tr>
<td>TEI</td>
<td>0.4%</td>
</tr>
</tbody>
</table>

During the plan

Increasing importance of green financing
(#1 private issuer in 2016)

Green Financing

- In all financing sources (Capital and bank markets)
  - Eurobond will be our main source with a target of two benchmark references each year
  - More than 40 issues in 6 market other than Eurobond
  
Bond market

- Supranational lenders (EIB)

- Iberdrola considered strategic partner

... with very low bank risk in our debt with very competitive conditions

* At 2016 year-end

Iberdrola, “utility of the future”
Active liquidity management, maintaining around Eur 8 Bn – 9 Bn, with room to increase if required …

Comply with rating agencies’ liquidity requirements

Minimize liquidity cost

Maintain adequate liquidity in each country and managing it according to the different markets and needs

... aiming to cover 18 months in stress scenario
Comfortable debt maturity profile of around Eur 3.0 Bn / year…

Current average maturity:

2017 2.6
2018 2.8
2019* 4.0
2020 3.2
2021 2.2
2022+ 15.5

* Eur 975 M that maturing in 2019 has the option to extend 1+1 years the maturity

… with the aim of increasing our average life to around 7 years
Eur 2.8 bn of new needs in the period
Financial Management / FX risk management: structural

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

... minimize FFO / Net Debt ratio volatility

<table>
<thead>
<tr>
<th></th>
<th>Current FFO</th>
<th>Current Debt</th>
<th>2020e FFO</th>
<th>2020e Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brl</td>
<td>3.4%</td>
<td>1 - 9%</td>
<td>3.1%</td>
<td>1 - 5%</td>
</tr>
<tr>
<td>Gbp</td>
<td>21.3%</td>
<td>20 - 30%</td>
<td>25.4%</td>
<td>20 - 30%</td>
</tr>
<tr>
<td>Usd</td>
<td>27.9%</td>
<td>25 - 35%</td>
<td>33.6%</td>
<td>29 - 39%</td>
</tr>
<tr>
<td>Eur</td>
<td>47.5%</td>
<td>26 - 54%</td>
<td>37.9%</td>
<td>27 - 51%</td>
</tr>
</tbody>
</table>

2020 expected FFO breakdown: 38% EUR, 34% USD, 25% GBP
Financial Management / FX risk management: yearly

Minimizing annual FX risk in the 2017 Profit & Loss account through derivatives

Target

Hedging Net Income FX exposure in currencies other than Euro

Net Income by currency

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>BRL</td>
<td>5%</td>
<td>6%</td>
</tr>
<tr>
<td>GBP</td>
<td>21%</td>
<td>27%</td>
</tr>
<tr>
<td>USD</td>
<td>26%</td>
<td>30%</td>
</tr>
<tr>
<td>EUR</td>
<td>48%</td>
<td>36%</td>
</tr>
</tbody>
</table>

Maximum risk allowed:
~6.5% of yearly Net Income

> 90% 2017 risk position already hedged: USD, GBP and BRL
Financial Management / Dividends

Maintaining scrip dividend due to tax advantages and shareholder optionality while avoiding shareholders’ dilution through buy back and cancellation of shares (target share capital of 6,240 million shares)

1. Receiving shares
   - No withholding tax

2. Selling rights to Iberdrola
   - Subject to withholding tax (19%)

3. Selling rights in the market
   - from 1 January 2017 considered as a capital gain & subject to 19% withholding tax only for resident individual shareholders *

Increasing acceptance of the option to receive shares: an average of 72.2% of the capital opted for new shares in the last 4 scrips (vs. an average of 62.4% in the total 14 scrips executed)

(*) Non-resident shareholders (instl.&retail): in most cases no impact as investors resident in countries with a double-taxation treaty with Spain should not be affected.

Introducing a shareholder remuneration floor of 0.31 € / share
Risk analysis
Financial Management / Risk sources

The main sources of risk remain the same:

- Political / Economic
- Prices and Spreads
- FX
- Competition
- Regulation
- Demand variation
- Interest Rates
- Execution
- Weather

Political risk moving focus from Spain to UK and America
Possible increase of FX volatility due to uncertainty on economic policies.
Decrease of 2020 execution risk. 90% of investments already on track.
On average for 2017-2020 period, 80% of annual EBITDA originates from Regulated Business and Renewables...

Average annual EBITDA share 17-20

- Liberalized Business: 20%
- Renewables: 23%
- Regulated Business*: 57%

Risk as % of annual EBITDA 17-20

- Liberalized Business: 4.5 - 5.5%
- Renewables: 1 - 1.5%
- Regulated Business*: 1 - 1.5%

(*) Networks & Mexico

... which have inherent stable earnings profile with an EBITDA impact of 8% in an adverse scenario