OUTLOOK 2018 / 2022

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IBERDROLA

Iberdrola, "utility of the future":

Laying the foundations for growth for the next decade

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Financial Management

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Plan Hypothesis

2017 Financial performance

Financial strategy for 2018-2022 period

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Plan Hypothesis

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

	Average 2018-22		2020 End of year		2022 End of year		New financing average spreads
	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%**
R$	**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

2020 and 2022 targets / FX impact

New targets for 2020 in line with February 17 Outlook despite significant variation in FX rates vs. February 17 hypothesis

	2020 Old Plan target, € Bn	Main extraordinary factors: FX variation impact	Main extraordinary factors: Neo consolidation	Main extraordinary factors: New accounting*	2020 new targets, € Bn	2022 new targets, € Bn	2022 new targets € Bn Old Plan FX rates
EBITDA	10	- 0.6	>1	+ 0.1	>10	11.5 - 12	12.3 – 12.8
Net profit	3.5	- 0.25	-	-	~3.25	3.5 - 3.7	3.8 – 4.0

2022 new targets: EBITDA, 11.5-12 € Bn, equivalent to 12.3-12.8 € Bn at Old Plan FX rates

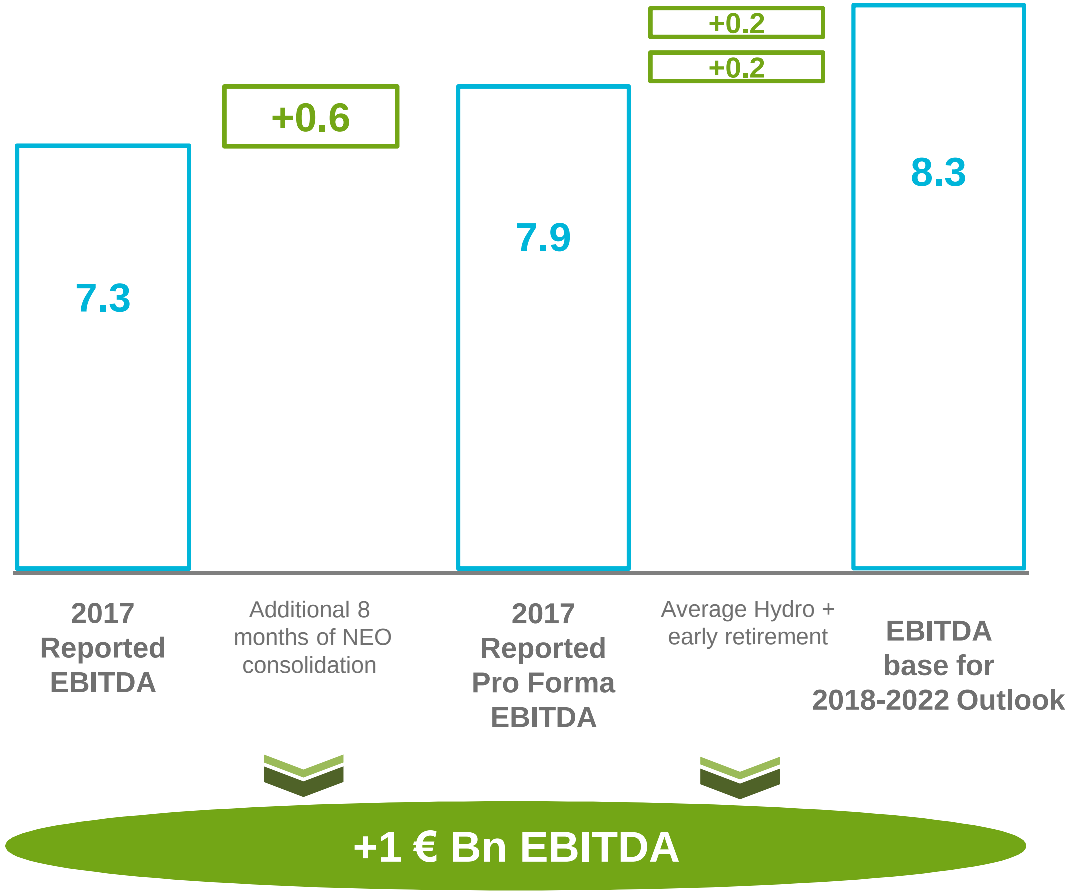
Net Profit 3.5 – 3.7 € Bn, equivalent to 3.8-4.0 € Bn at Old Plan FX rates

* IFRS 16 Leases,

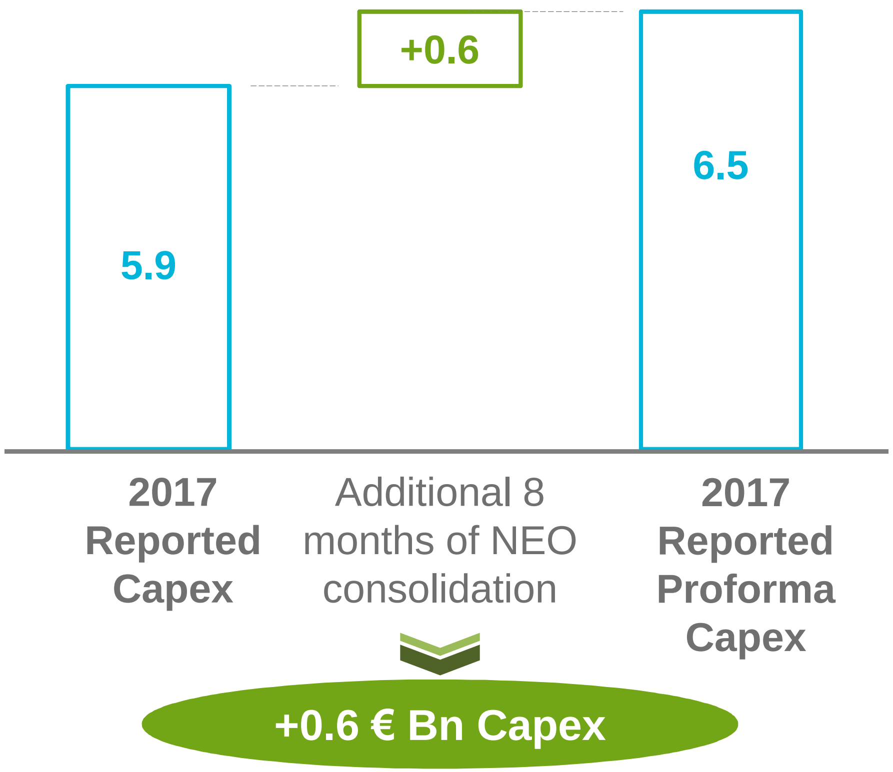
2017 / From Reported to Pro Forma

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

2017 EBITDA, Reported vs Pro Forma (€ Bn)



2017 Capex, Reported vs Pro Forma (€ Bn)



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

Main impact of new accounting standard for leases

Main impact of new accounting standards is an increase in Net Debt >1 €Bn that reduces FFO/Net Debt by ~0.5 p.p.*

New IFRS 16 standard

- From 2019 new IFRS 16 accounting standard will come into place
- Main differences with respect to previous standards are:
  - Leases considered as debt
  - Leases removed from External Services (EBITDA) to increase depreciation & financial costs

IFRS 16 impacts 2019 onwards

Balance Sheet

Net Debt: >1 € Bn

0.8 – 1.0 € Bn Rating Agencies include in debt calculation

P&L

EBITDA: >100 € Mn

Net Profit: ~ 0

Cash Flow

FFO: >100 € Mn

RCF: >100 € Mn

Net Debt / EBITDA

~ + 0.1

FFO / Net Debt

~ - 0.5 p.p.

RCF / Net Debt

~ - 0.5 p.p.

* Final impact to be determined during 2018

Agenda

2017 Financial performance

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

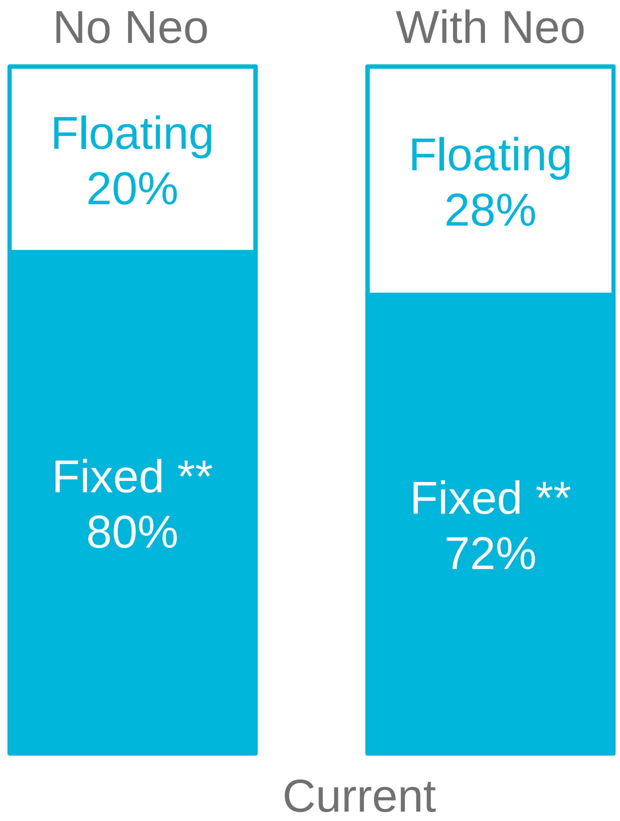
Debt Structure

- **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



* 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 Financing

6.8 € Bn of new financing in different markets at very competitive levels, continuing with green financing strategy

Total financing	Green financing: Amounts	Green financing: Details
Hybrid 1,000 € Mn	**1,000 € Mn**	**First issue ever in the Spanish Market** • Coupon: 1.875%
Bond market 2,570 € Mn 900 $ Mn 670 R$ Mn	**2,000 € Mn 600 $ Mn**	• **Public Euro market:** All public Bonds issued in Green Format • **Private Euro Market:** First Iberdrola private placement to Green investor • **USD public market:** First public Bond – 600 $M
Bank market 1,600 € Mn 1,850 R$ Mn	**500 € Mn**	• **First green loan to an energy corporation in Spain**

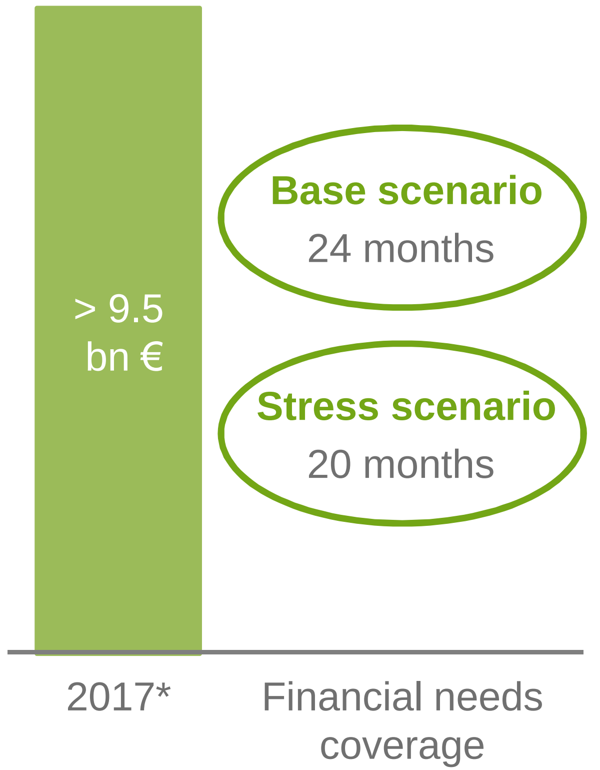
- **61%** (67% ex-Neo) of new funds **raised in green markets**
- Iberdrola was the **largest company green bond issuer** in 2016 and 2017, and the **largest in bonds outstanding** worldwide
- **7 € Bn of green financing** over our debt portfolio (including Hybrid)

2017 Financial activity

Financial cost

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

Liquidity (Ex Neo)



Fulfilment of rating agency requirements

* Including early 2018 liquidity deals signed

FX Risk management

Successfully managing exchange rate risk in a volatile environment

* Including Neoenergia from August 24th

Agenda

Financial strategy for the 2018-2022 period

Financial Management Strategy for 2018-2022

Main financial guidelines for 2018-2022 period

A — Financing growth Capex …

Strong cash flow generation
- ~ 42 €Bn cash flow generation to finance growth

Asset rotation: 3 €Bn
- Non-core assets
- Minority stakes
- Low EBITDA contribution assets

New debt
>3 €Bn
New financing structures
➢ **2 €Bn**
Including Hybrid and TEI

Partnering Green

B — … while strengthening the financial position …

Solvency B1
- Strong solvency ratios

Interest rate risk B2
- Appropriate debt structure (fixed rate >65%)

Financial cost B3
- Cost of debt below 4% until 2020
- Low bank risk

Liquidity B4
- Optimize liquidity management
- (18 months in stressed scenario)
- Stand alone sound liquidity policy for Neo

FX risk B5
- Structurally: debt currencies % to FFO´s
- Yearly: though derivatives

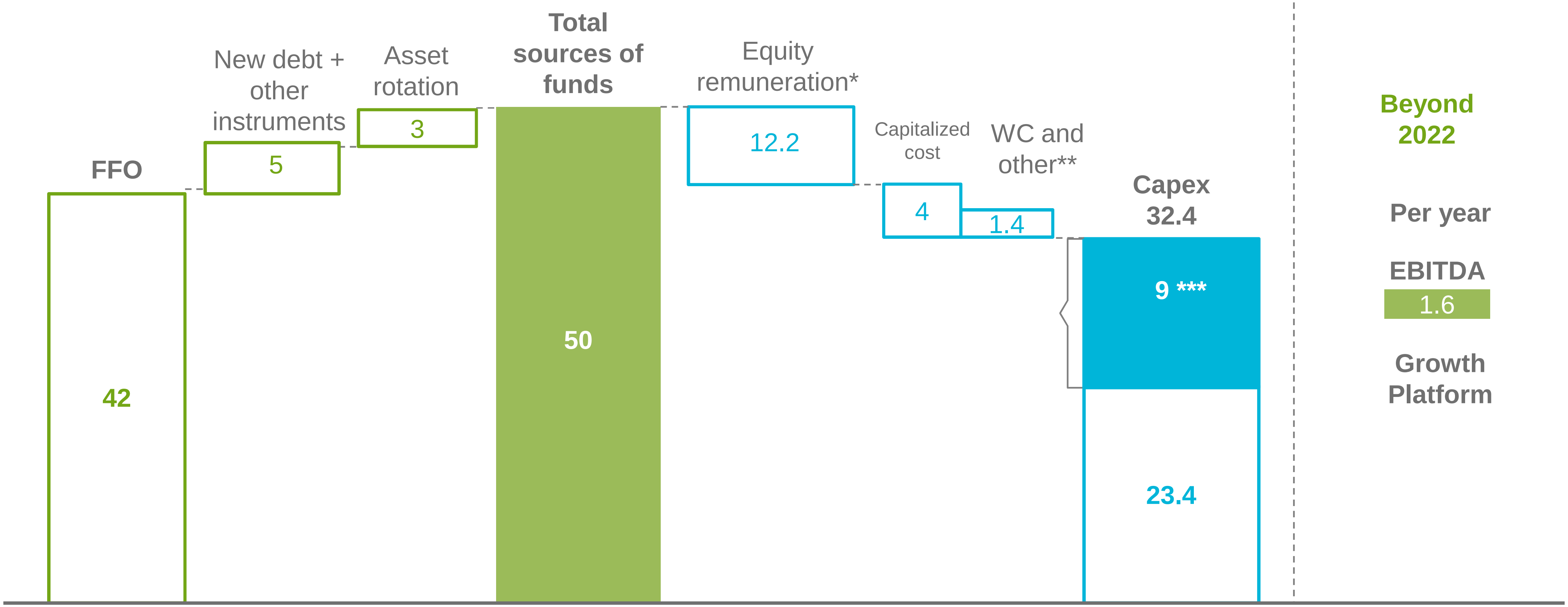
C — … allowing to sustain dividend policy

New Iberdrola “Retribución Flexible”
- Scrip dividend:
  – Receive new shares
  – Sell rights in stock market
- Cash dividend (new)
- Despite new cash option, in January’s 2018 scrip 88% elected to receive new shares
- Maintaining 6,240 million shares as we amortize shares from scrip.

A Sources and uses of funds

During the 18-22 period we will use 50 € Bn to fuel growth, and to maintain our dividend policy through 12 € Bn remuneration, investing 32 € Bn, 9 Bn asset under construction at the end of the period that will contribute future EBITDA growth

Sources and use of funds 2018-2022 (€ Bn)

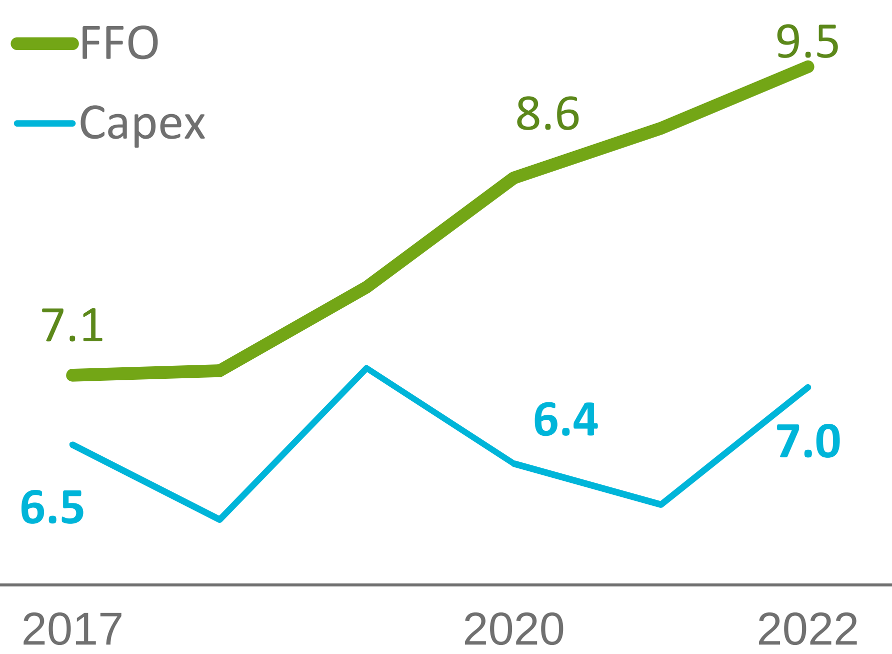


* Holding dividend: Eur 11.0 Bn, Dividend to minority stakeholders: Eur 1 Bn; Net Hybrid Debt cost: Eur 0.2 Bn
** Translation differences: 0,4 €Bn, Working Capital 0,7 €Bn, others 0.3 € Bn
*** Asset under construction at the end of 2022 (7 € Bn at beginning 2018).

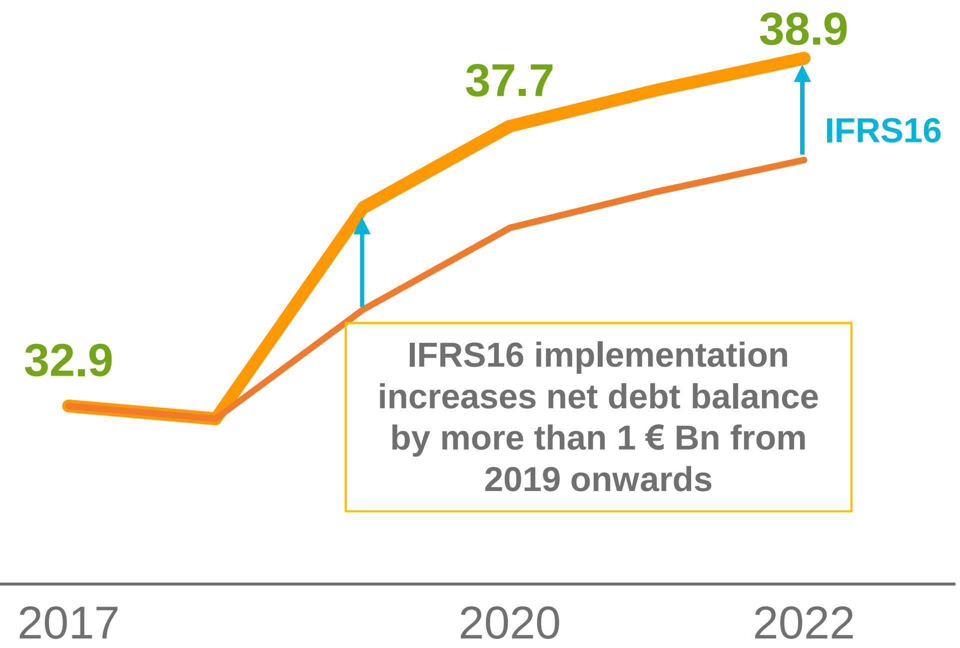
Ⓐ Outlook: FFO, Capex and Net Debt

Investments drive 34% higher FFO (+2.4 € Bn) while Net Debt grows 18%

Investments evolution vs. FFO (€ Bn)



Net Debt evolution (€ Bn)



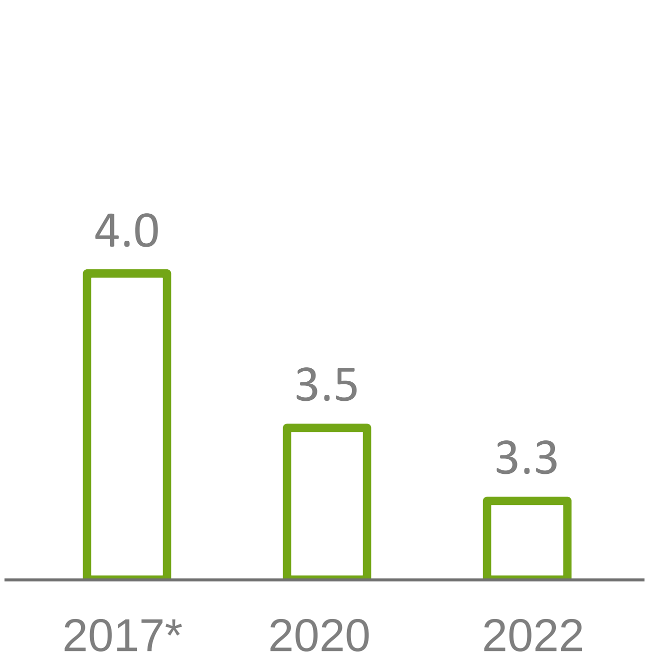
Investments on average (transmission, distribution periods, offshore) take 3 to 4 years to generate cash flow

* 2017 data is Proforma with Neoenergia from January, 1st

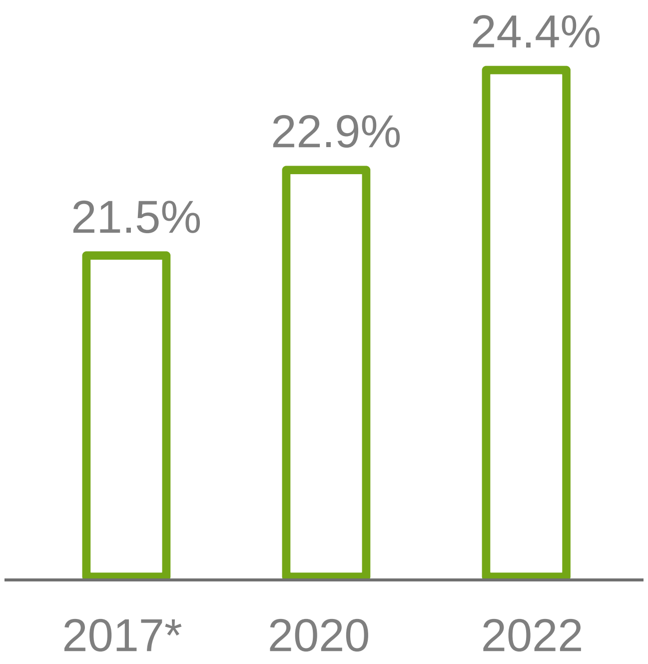
B1 Solvency ratios

New investment cycle will be funded maintaining financial discipline: growth in operating cash flow, new financing schemes and asset rotation …

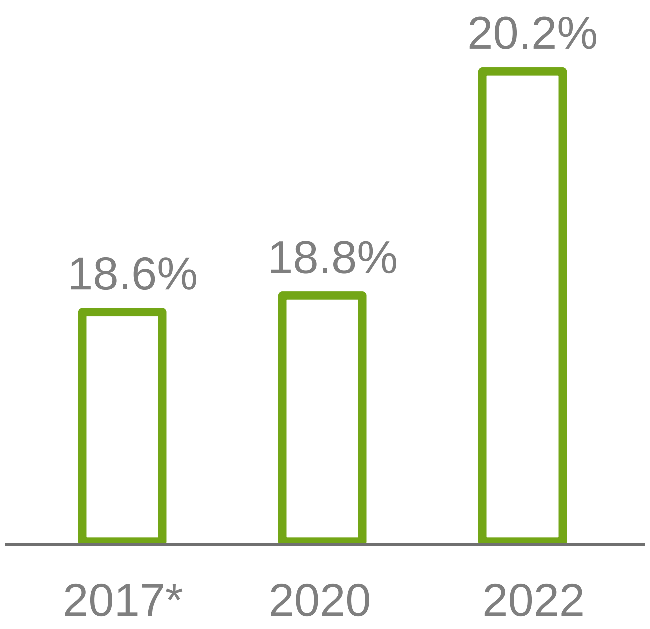
Net Debt / EBITDA



FFO / Net Debt



RCF / Net Debt



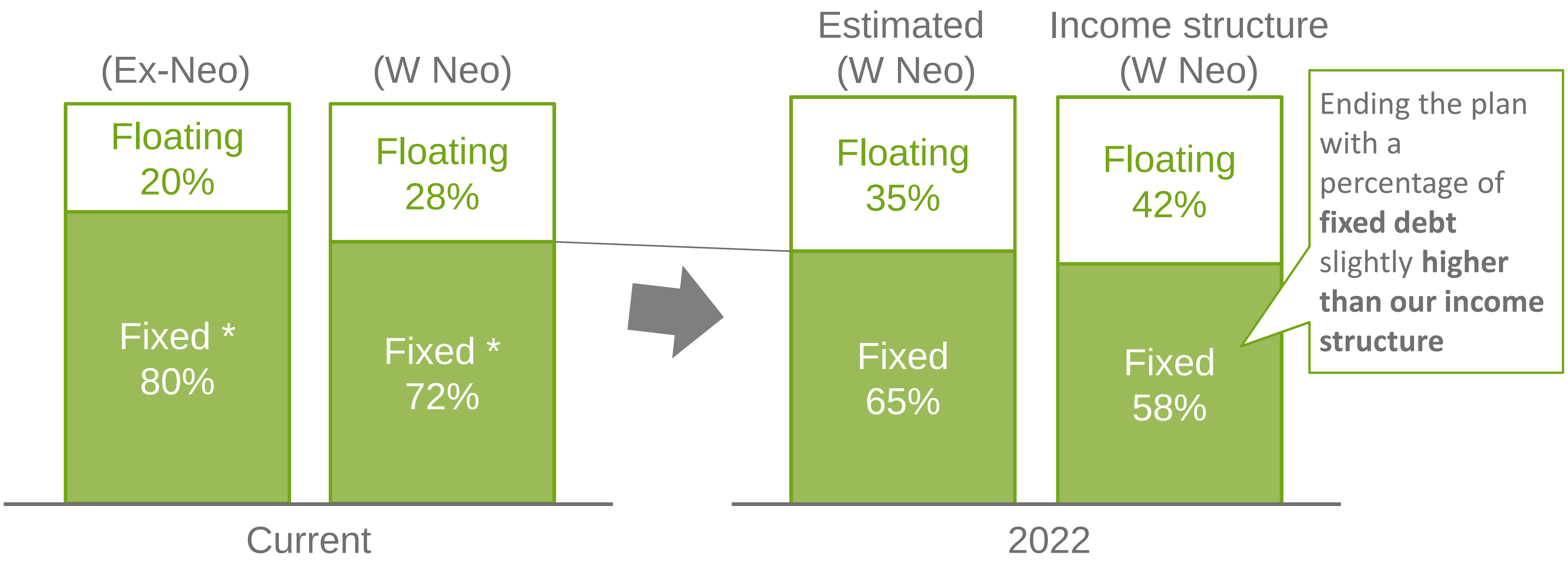
… that jointly will maintain solvency ratios at strong levels

* 2017 data is Proforma with Neoenergia from January, 1st and excluding "Plan Salidas" and considering average hydro impact

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

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

- 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 structure

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

- Over net debt 2018/2022 average

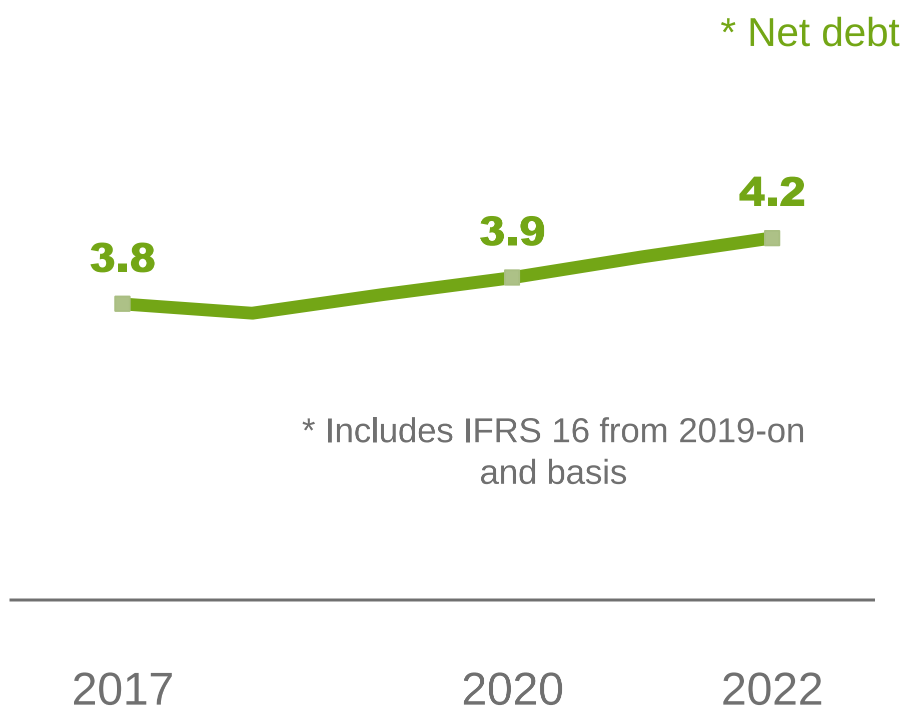
B3 Cost of Debt

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



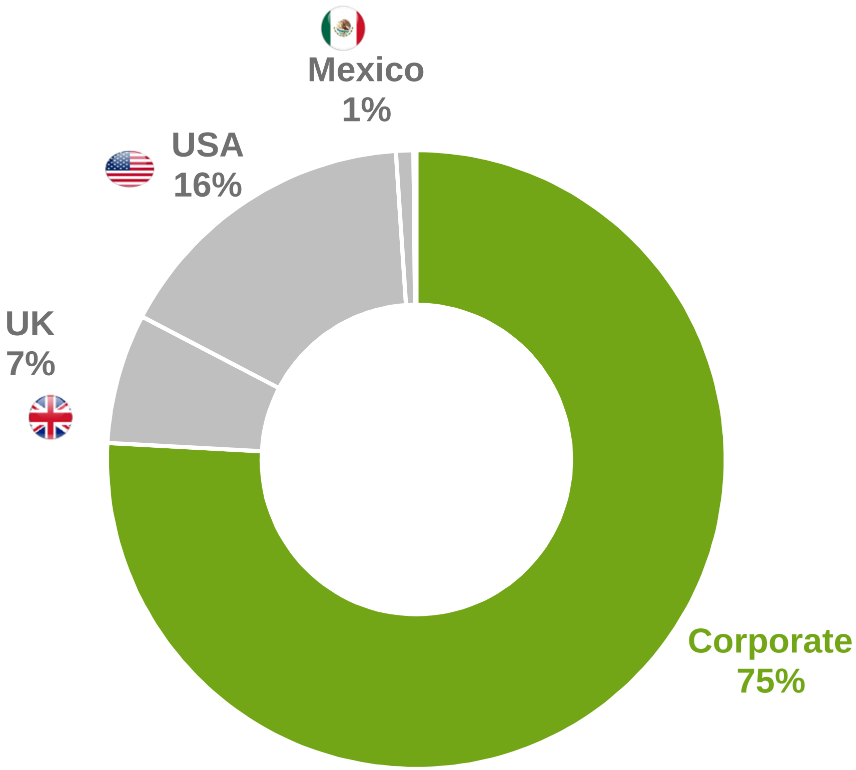
… larger investments in Brazil and The US during the Plan drive higher average cost of debt to 4.2% by the end of the Plan

* Includes IFRS 16 and basis

B3 Structural subordination

Financial model designed to follow current structural subordination guidance (ex Neo)

Current situation*



Subordination during the plan*

	Average	Target
	20%	To be kept below 30% threshold
	7%	
	1%	
Other	2%	

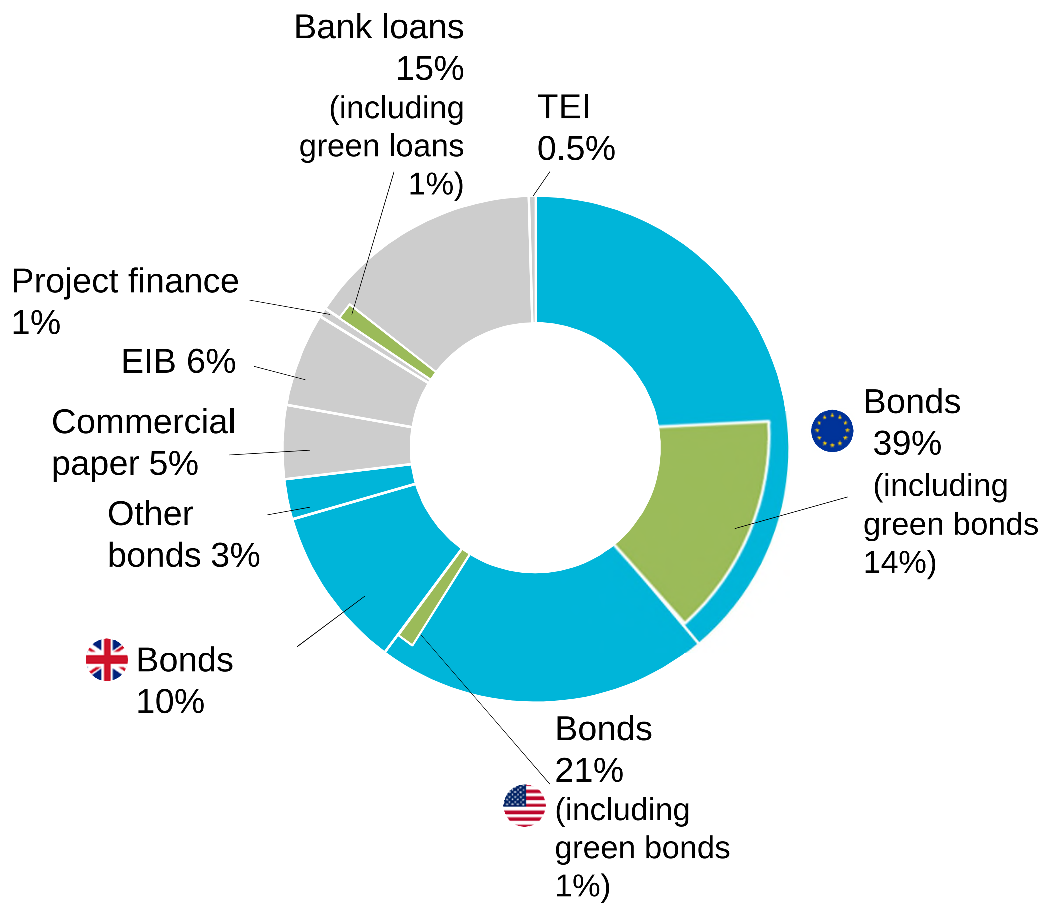
Our model gives us flexibility to optimize non-holding company level debt based on country situation and regulatory requirements

* Ex Neoenergia. Its debt increases structural subordination an average 10%

B3 Debt structure per markets

Strong diversification in sources of finance provides access to many markets with low bank risk and very competitive conditions

Current debt structure per markets



During the plan

Green financing

- Increasing importance of green financing (# 1 private issuer in 2016 and 2017)
- In bonds and bank markets

Bond market

- Eurobond will be our main source with a target of two benchmark references each year
- More that 40 issues in 6 market other than Eurobond

Supra-national lenders (EIB)

- Iberdrola considered strategic partner

B4 Liquidity

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

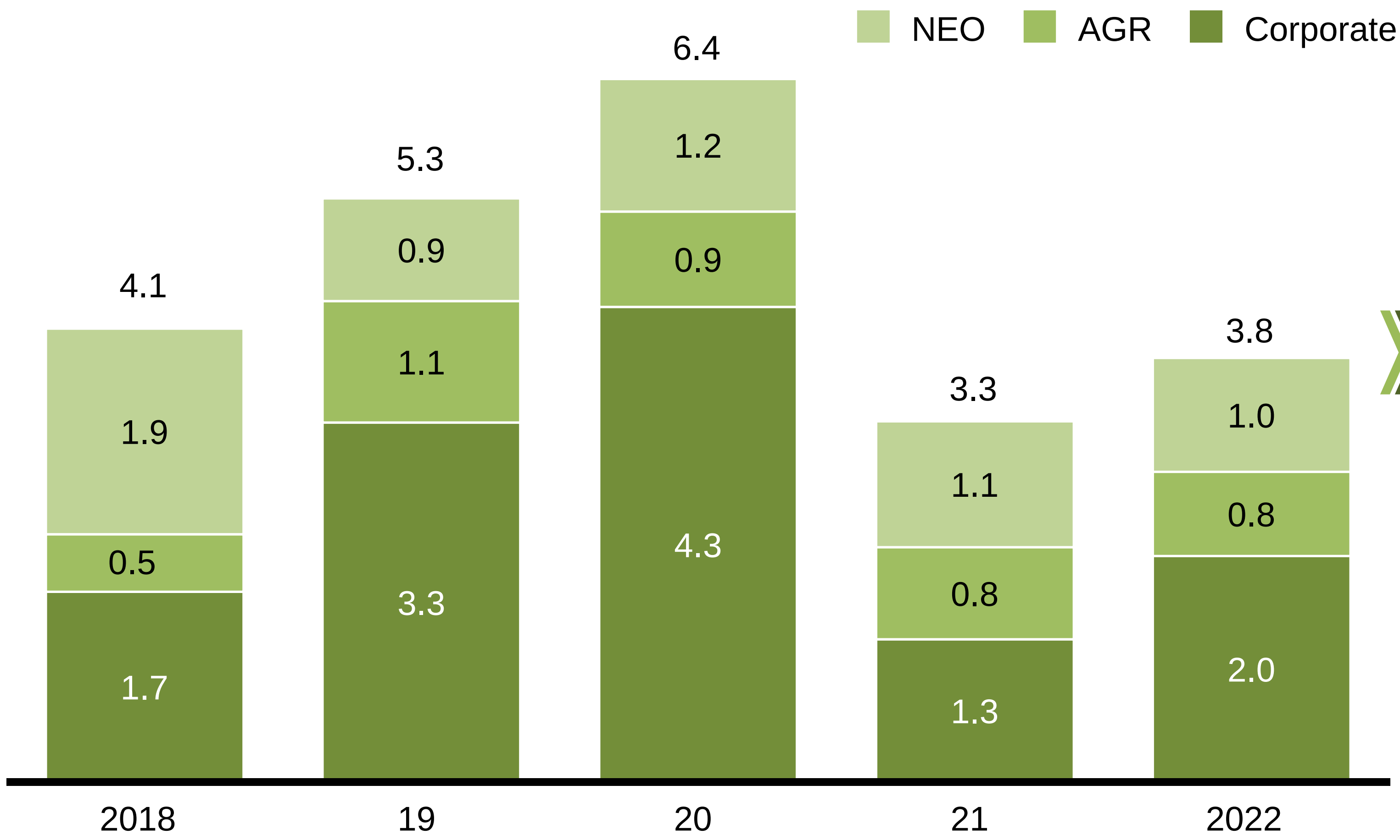
Target	Liquidity management criteria	
Cover **18 months** in stress scenario	**Rating agencies' requirements**	▪ **Comply:** ▪ **S&P: 12 Months Sources / Uses > 1.2** ▪ **Moodys: 18 Months in risk scenario**
	Cost	▪ **Minimize:** ▪ Reduce cash and increase credit lines
	Allocation	▪ Maintain **sufficient liquidity in each country** and managed it according to the different markets and needs

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

B4 Financing Policy

Financial needs have a comfortable maturity profile over the period

Coverage allocation (€ Bn)



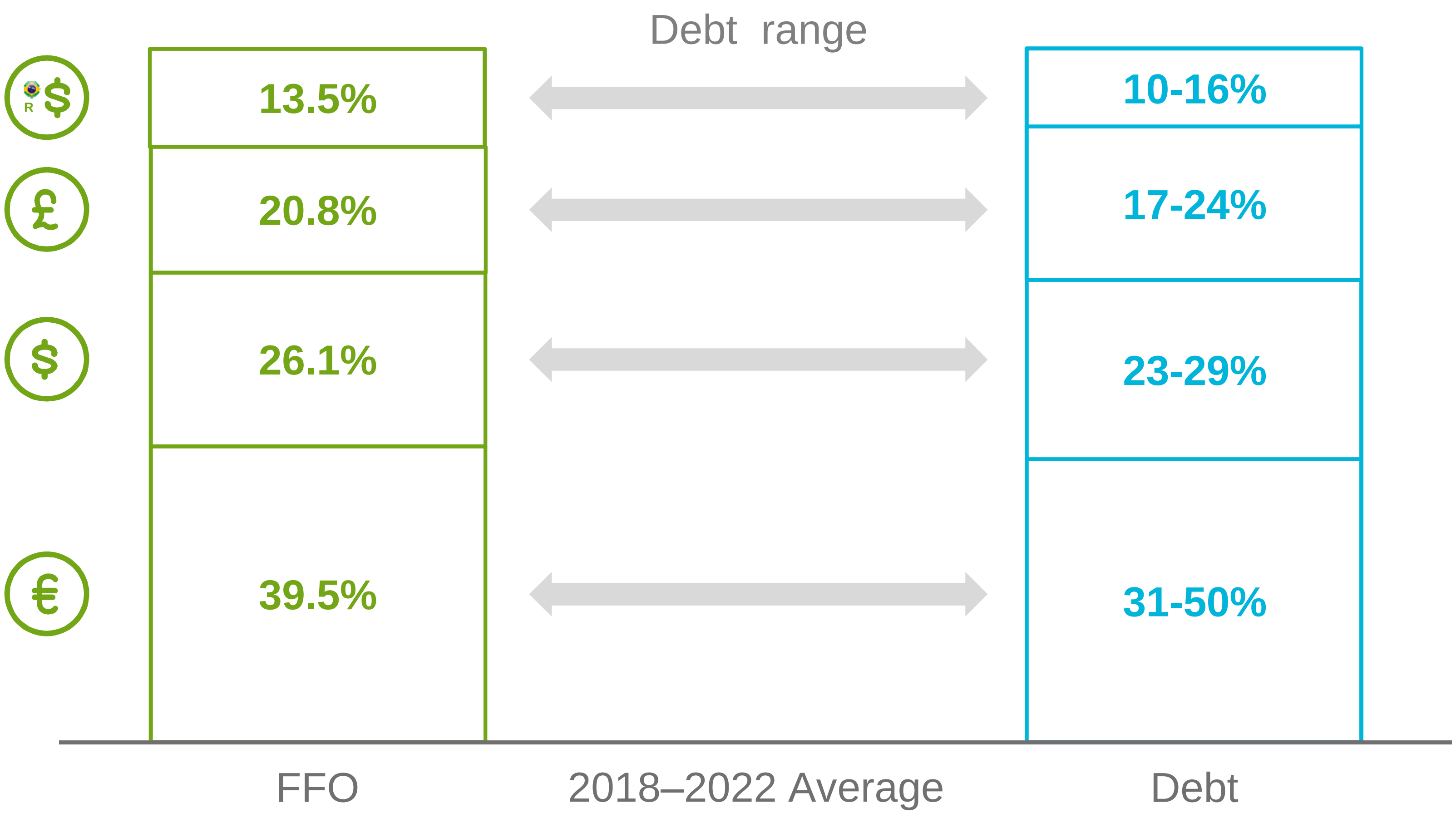
- Moderate financial needs thanks to a **comfortable debt** maturity profile and **strong funds generation**
- **Main source of financing** will be **Holding** (55%) but **USA and Brazil** will **access** financing markets too (17% and 28% respectively)
- Aim to maintain **average debt life of 6 years** (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

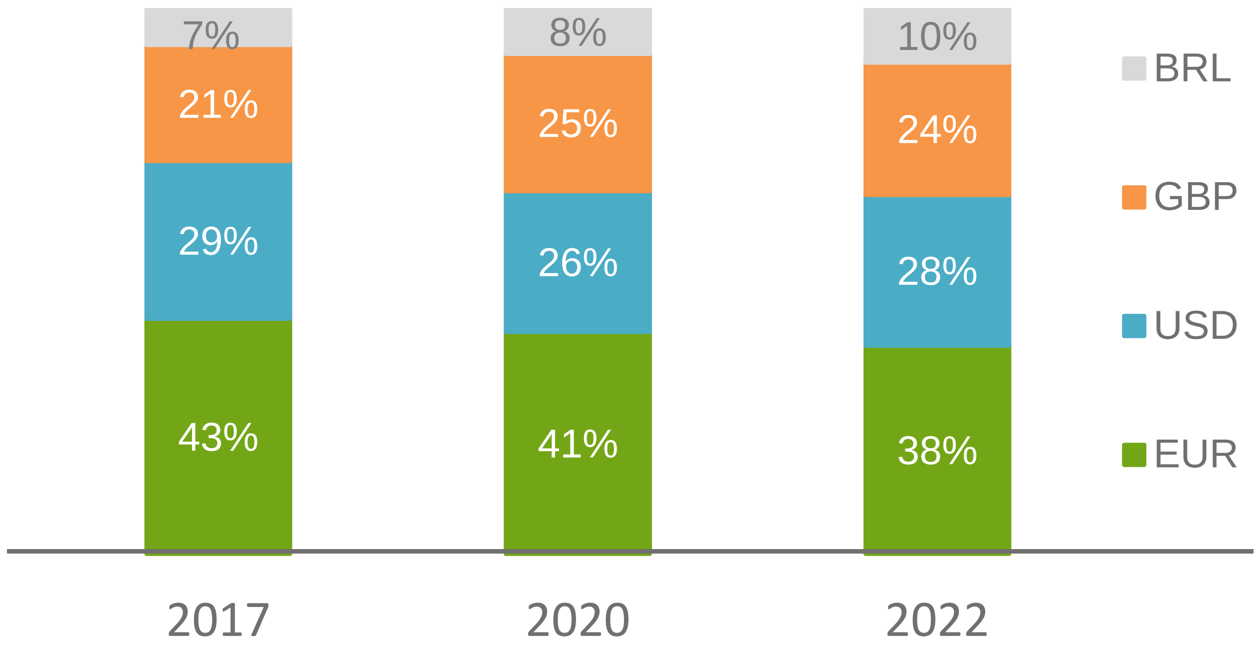
FX risk in the Profit & Loss account is minimized through derivatives

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

C Shareholder remuneration

Despite new cash option, in January's 2018 scrip 88% elected to receive new shares versus a 62% average in the previous 15 scrips

New "Iberdrola Retribución Flexible" (Scrip dividend)

Scrip dividend: historically high demand

A — **Receive new shares**

B — **Sell rights in stock market**

In response to some institutional investor needs…

C — **Cash dividend New**

…substituting the sale of rights to Iberdrola at guaranteed price

Maintaining…

✓ **… share buy-back program to avoid dilution**

✓ **… two payments: interim and supplementary shareholder remuneration**

* The traditional 0.03 € of cash dividend paid in July will disappear and all the remuneration will go through the new scrip dividend formula which already contemplates a 100% cash dividend alternative