

Shareholder newsletter first half of the year / 2017

**Iberdrola's Net Profit
increased 4.2% to
€1,518 million**

Chairman's key points



Ignacio Galán Iberdrola's chairman

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“In the first half of the year, the Company's Net Profit increased 4.2% to €1,518 million”

In the first half of the year, the Company's Net Profit increased 4.2% to €1,518 million.

Investment reached 2,512 billion euros, 35% more, of which more than 91% is destined for growth in networks projects, renewables and generation with long-term contracts

Iberdrola has completed a new edition of the 'Iberdrola Scrip Dividend' program (Iberdrola Dividendo Flexible) with a remuneration of 0.117 euros per share. Last 7 July 0.03 euros per share were paid in cash to which another 0.147 euros per share (18.5% more than in 2016) will be added before 28 July. With this dividend, the annual remuneration to the shareholder amounts to a total of 0.317

euros per share, almost 11% more than in the previous year.

Finally, the performance outlook for the businesses during the second half of the year lets us expect a growth in income for 2017 in line with the results achieved in this first half of the year, and enabling us to continue with our policy of increasing dividends in line with the results.

Ignacio Galán
Chairman

Shareholder returns

Iberdrola increases shareholder remuneration by over 11% to €0.317 gross per share

Iberdrola has increased its annual remuneration by over 11% on the strength of the group's good performance in 2016 (with a net profit of €2,705 million), up 11.7% on 2015.

The company's planned shareholder remuneration for 2016 will thus bring gross per-share dividends to 0.312 euros, compared to 0.28 euros in 2015. To which a premium of 0.005 euros per share (gross) for attendance of the annual general meeting must be added.

The first payment of this remuneration of 0.135 gross euros per share took place in January through the "Iberdrola Dividendo Flexible (Iberdrola Scrip Dividend)" scheme. In July the gross €0.03 gross per share paid in cash and a new payment of €0.147 gross per right through the "Iberdrola Dividendo Flexible (Iberdrola Scrip Dividend)" scheme have been paid.

Iberdrola has also raised its profit target for the year 2020. The new forecast has led the company to anticipate dividend growth for the coming years, which is expected to yield annual gross dividends per share of between 0.37 and 0.40 euros in 2020, with a minimum of no less than 0.31 euros per share. The payout will vary between 65% and 75%.

A total remuneration of Eur 0.317 per share in 2017 (+11%)

July 2017 Dividend: EUR 0.177 per share ...

Scrip dividend (to be paid before 28th July)

Eur 0.147/share

+18,5%

Cash dividend (paid on 7th July)

Eur 0.03/share

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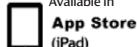
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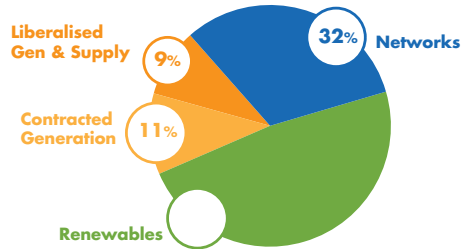
Highlights

Iberdrola invests €2,512 million in the period. (+35%)

The net investments in the first six months of 2017 rose to €2,512 million, exceeding the previous period's figure by 35.2%. 80.1% of the investments were made in the Networks and Renewable Energies Business areas.

Of the €25,000 million in investments expected in the Plan, 90% are already assigned to construction projects or committed.

Investment by business



Between January and June 2017, the Group hired 1,500 professionals

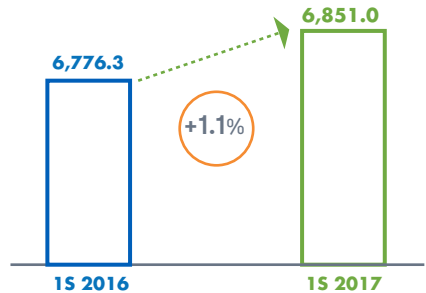
As a result of this investment activity, the Group hired 1,500 new professionals between January and June 2017, whereby raising its workforce to nearly 30,000 persons. Additionally, the company made purchases from 13,800 supplier that amounted to €3,187 million, 11.6% greater than the first six months of 2016.

The Gross Margin increased slightly to €6,851 million

The Gross Margin increased by 1.1%, affected by the weather conditions in Spain (low rainfall and wind power production), the closure of the Longannet thermal power plant in the United Kingdom (March 2016), which affects the comparative figures for the quarter, and the harsh competitive conditions in the country.

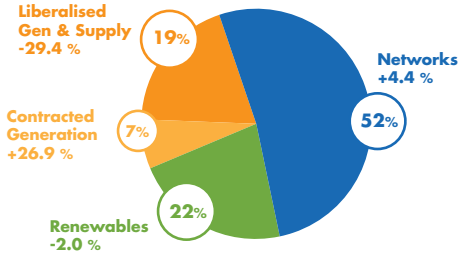
Gross Margin

Eur M



Period keys

EBITDA by business



Businesses in Spain and the UK were affected by weather conditions, lower hydropower production in Spain and a decreased demand in the United Kingdom.

EBITDA has rose to €3,752 million.

The Group's EBITDA reached €3,752 million, primarily driven by the contribution of our Networks business.

In the USA, our subsidiary Avangrid reported solid operating results at €629.5 million, which represents an increase of over 27.5%.

In Mexico, activity has increased by 26.9% to €267.6 million thanks to the contribution of 750 MW in additional power capacity and tariff increases by the Federal Electricity Commission (FERC).

In Brazil, the EBITDA increased by 36.2% to reach €126.4 million on the strength of greater distributed energy, a tariff increase and the revaluation of the Brazilian real.

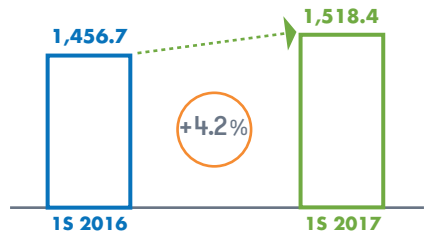
Net Profit increased 4.2% to €1,518.4 million

The Net Profit grew by 4.2% to reach €1,518.4 million despite the difficult operating conditions already explained. This was possible because of the extraordinary result from Gamesa's merger with Siemens Wind.

The expected performance for the businesses in the second half allows us to estimate a growth in the 2017 net profits similar to the first half figures and, thus, continue with the shareholder remuneration improvement policy in line with the results of the Group.

Net Profit

Eur M



Credit Metrics

Net Debt/EBITDA

3.8x

FFO/Net Debt

21.6%

RCF/Net Debt

19.4%

Maintaining financial strength

Iberdrola's credit ratios remain solid.

Net Debt grew rose to €29,474 million, only increasing by 0.8% since December 2016. Moreover, the average debt cost decreased 42 basic points, which translates to a savings of €27.9 million.

Financial leverage has reached 42.4%.

Operating cash flow is at €3,275.2 million.

Even with the major investments, Iberdrola remains in a strong position in terms of liquidity, with over €8,725 million, sufficient to cover 18 months of funding requirements.

Period keys

Neoenergia incorporates Elektro businesses in Brazil

The shareholders of Neoenergia (Iberdrola, Previ and Banco de Brasil) have reached an agreement in which the company will incorporate the activity and businesses of Elektro, creating a leading utility in Brazil and Latin America in the Networks and Renewables businesses. After the transaction, Iberdrola will hold 52.45% of the resulting company, which will have 13.4 million supply points, 585,000 km in distribution networks and over 3,500 MW in subscribed power capacity in operation and construction, primarily in renewable energies.

The transaction will be carried out maintaining the financial strength of the Group: fortifying our position in a well-known company with neither cash component nor increase in capital.

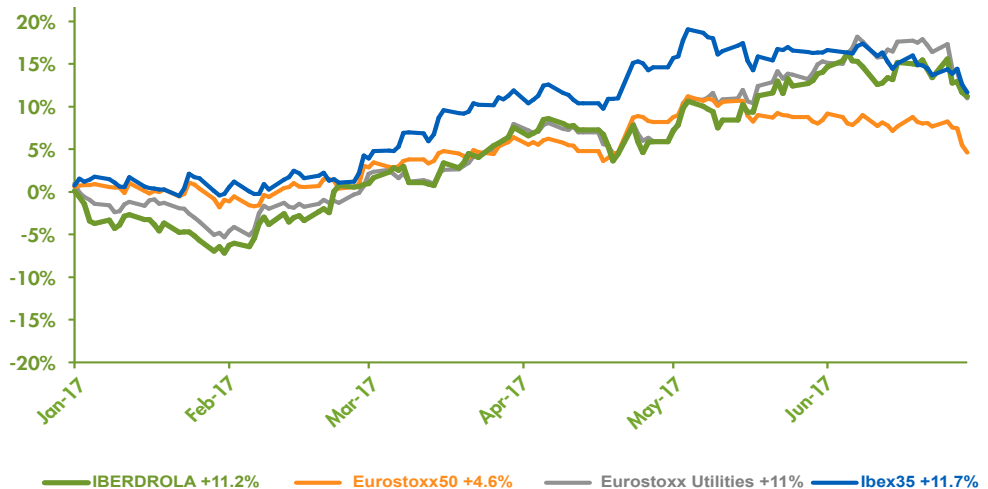
The transaction will occur after securing approvals from the Brazilian Electricity Regulatory Agency (ANEEL) and the Brazilian Development Bank (BNDES), both expected to occur in August. Approval has already been granted by the Brazilian Administrative Council for Economic Defence (CADE).

Follow-up to the Outlook for 2016-2020

The expected performance of the businesses for the rest of the year enables us to confirm the Group's growth outlook, since the investments envisaged beyond 2020 will guarantee future growth. Thus:

- **For the Networks Business** in Brazil, Elektro has been awarded six transmission lines, with a total length of 580 km and three substations. We expect to secure the approval in 2018 of the Advanced Metering Infrastructure project in New York for the implementation of 1.8 million smart meters, and investments are expected to be made in the DSI Plan, which is related to the Automation and Advanced Control System of the distribution networks.
- **In the field of renewables**, permits were secured for building the Saint Briec offshore wind farm (500 MW) in France, which is scheduled to be commissioned in 2022, in addition to a significant amount of opportunities that are in the contract awards process. Additionally, in the United Kingdom, the permits to develop East Anglia 3 with a power capacity of approximately 1,200 MW are expected to be secured by August. In Germany, Iberdrola is working on expanding the Wikingen project with an additional power capacity of up to 750 MW. In the first half of the year in the USA, AVANGRID secured two sites for developing projects (Vineyard Wind, which could attain a power capacity of approximately 2 GW and a potential power capacity of approximately 1.5 GW at the Kitty Hawk coast). In Generation, contracts in Mexico will add 129 MW to be commissioned during the year so that the Group can benefit from the CFE tariff hike in 2017, which we expect to remain in double digits.
- **Regarding storage**, three hydropower pumping plants are being built on the Tâmega river in Portugal and will have a power capacity of 1,158 MW.

IBERDROLA and the securities market



IBERDROLA's shares

	S1 2017	S1 2016
Number of shares in circulation	6,240,000,000	6,240,000,000
Share price at close of period	6.933	6.087
Average share price for the period	6.531	6.050
Average daily trading volume	25,070,750	29,790,036
Maximum volume (06-04-2017/04-01-2016)	122,920,322	86,439,332
Minimum volume (29-05-2017 / 16-05-2016)	5,568,159	4,444,650
Dividends paid (€)	0.317	0.286
Gross interim (23-01-2017/29-01-2016) ⁽¹⁾	0.135	0.127
AGM attendance premium	0.005	0.005
Gross final dividend I (21 July 2017 / 22 July 2016) ⁽¹⁾	0.147	0.124
Gross final dividend ⁽²⁾	0.03	0.03
Dividend yield ⁽³⁾	4.57%	4.69%

(1) Iberdrola-guaranteed rights purchase price.

(2) Cash dividend

(3) Dividends paid for 2016 and attendance premium/ listing as of 31 June 2017.

Securities Market Data

		H1 2017	H1 2016
Market Cap	€B	43,314.2	37,494.0
Profit per share (6,397,197,000 shares on 31/03/2016 and 6,459,990,000 shares on 31/03/2017)	€	0.13	0.14
Net operating cash flow per share	€	0.26	0.27
P/E	ratio	16.26	15.31



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