Shareholder newsletter first half of the year / 2017

Iberdrola’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.
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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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.

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.
Companies and financial results of Iberdrola

**EBITDA by business**

- **Liberalised Gen & Supply**: -29.4%
- **Contracted Generation**: +26.9%
- **Renewables**: -2.0%
- **Networks**: +4.4%

**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.

**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 Brieuc 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 Wikinger 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

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

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<thead>
<tr>
<th></th>
<th>H1 2017</th>
<th>H1 2016</th>
</tr>
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<tbody>
<tr>
<td>Market Cap</td>
<td>€B</td>
<td>43,314.2</td>
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<tr>
<td>Profit per share (6,397,197,000 shares on 31/03/2016 and 6,459,990,000 shares on 31/03/2017)</td>
<td>€</td>
<td>0.13</td>
</tr>
<tr>
<td>Net operating cash flow per share</td>
<td>€</td>
<td>0.26</td>
</tr>
<tr>
<td>P/E ratio</td>
<td>16.26</td>
<td>15.31</td>
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</table>
Iberdrola increases shareholder remuneration by over 11% to €0.317 gross per share

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

With this dividend, the annual remuneration to the shareholder amounts to a total of 0.317 euros per share (18.5% more than in 2016). Ignacio Galán, Iberdrola’s chairman, stated that one of the challenges the Group is facing is to continue with the line of increasing dividends set in the 2016 Investor’s Day. 

This 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 the “Iberdrola Dividendo Flexible” was corroborated by the payment of the second remuneration of 0.182 gross euros per share.

If we add together the three payments, the remuneration in the first half of the year to the shareholders amounts to a total of 0.317 euros per share, almost 11% more than in the same period of 2016 (€0.287).

With this remuneration, Iberdrola continues to be one of the companies with the highest remuneration for its shareholders. Iberdrola’s chairman noted that this decision is in line with the results achieved in this first half of 2017. 

The amount of the remuneration also reflects the Group’s ability to generate significant profits. Iberdrola’s Net Profit for the first half of 2017 was €2,833 million, an increase of 11.7% on the first half of 2016 (€2,547 million). These profits represent 4.2% of the Group’s consolidated revenue of €68,757 million, an increase of 4.3% on the first half of 2016 (€65,214 million).

The profit generated by the groups’ activities in every country from which Iberdrola operates reflects the Group’s capacity to generate revenue and profitability. The Group generated €2,373 million in profit in Spain, an increase of 14.8% on the first half of 2016 (€2,072 million). The Group also generated €1,160 million in profit in the United States, an increase of 13.9% on the first half of 2016 (€1,018 million). 

The Group’s profit generated in the countries in which it has a presence that are outside of Europe and the USA, totalling €600 million, increased 4.2% to €580 million in the first half of 2016. 

In terms of investments, the Group’s Investment reached 2,512 billion euros, 35% more than the first half of 2016. 

The Group’s net profit during the first half of the year is influenced by the transfer of Avangrid to the parent company. Iberdrola’s chairman noted that the Group’s profitability in the first half of the year includes €1,950 million from the demerger of Avangrid, of which €990 million are in the United States and €960 million are in Spain. 

Avangrid’s results were published with a delay due to the US financial reporting standards, which affects the comparability between the financial results of Iberdrola and Avangrid. Therefore, Avangrid’s financial results were not included in the Group’s consolidated financial results for the first half of 2017. 

A firm statement was made that Avangrid’s financial results for the first half of 2017 would be published after the data was released. 

The results of Avangrid have not been included in the Group’s financial statements due to the fact that the Spanish corporate governance regulator, the CNMV, has prohibited the publication of Avangrid’s financial results for the first half of the year.

In line with the results achieved in this first half of 2017, we can expect income growth for 2017. The Group’s chairman believes that the Group’s performance, its ability to continue investing and its strong balance sheet allow it to continue with this line of increasing dividends.

In accordance with their commitment to increase dividends in line with the results, the Group has set a dividend for the year of between 65% and 75% of its Net Profit, which represents a minimum of 0.31 euros per share, with an expected average of 0.37 euros in 2020. Iberdrola’s chairman noted that, in addition to the remuneration paid, the Group had also paid a dividend of 0.147 euros per share (18.5%) to the shareholders with the “Iberdrola Scrip Dividend” program.

Iberdrola has also raised its profit target for the year 2020. The new forecast has led the company to anticipate that its Net Profit for 2020 will reach €3,369 million, and the Group’s total revenue will reach €137,216 million, an increase of 11% on the Group’s total revenue in 2016 (€123,709 million). The new dividend forecast has been calculated on the basis of an expected average of 0.37 euros per share in 2020, which represents a growth of 13% on the average dividend of 0.33 euros per share in 2017.

The Group’s target for the year 2020 also includes decreasing the ratio of its net debt to capital by 3.5% compared to the year 2016. 

The Group’s chairman stated that the Group is focusing its industrial strategy on the development of its renewable energy generation capacity, a sector in which it is expected to achieve a growth of 15% in its net profit in 2017, to €550 million.

The Group’s chairman also noted that the Group’s industrial strategy includes growth in distribution in Spain, which is expected to achieve a net profit of €158 million in 2017, an increase of 4% on the same period in 2016.

In the United States, the Group’s chairman announced that the Group is focusing its industrial strategy on the growth of its capacity to generate electricity in renewables, where it is expected to achieve a growth of 36% in its net profit in 2017, to €180 million.

The Group’s chairman also noted that the Group’s industrial strategy includes growth in distribution in Spain, which is expected to achieve a net profit of €158 million in 2017, an increase of 4% on the same period in 2016.

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