

## 3.2 Networks

### Regulatory environment of the business

#### Spain

- 2017 was the first year in which facilities that commenced operation in 2015 were evaluated under the new remuneration methodology based on unit costs.
- The Order on tolls for 2017, ETU/1976/2016 of 23 December, keeps the figures published for 2016 on remuneration for distribution (5,175 million euros for the sector and 1,655.5 million euros for IBERDROLA) and transmission (1,709 million euros for the sector), in the absence of a calculation of the amount for 2017.

#### United States

- A new three-year tariff agreement entered into effect for the electricity distribution company UI (Connecticut) in January 2017, with an ROE of 9.1%, an equity percentage of 50% and planned investments of \$105 million annually.
- The new 3-year SCG gas distribution tariff agreement was also approved in Connecticut in November, which will become effective as from 2018. The recognised ROE is 9.2%, equity of 52.4% and planned investments of \$195 million from 2018 to 2020.
- The tariff conditions for the gas distributors of the State of New York (NYSEG and RG&E), with a recognised ROE of 9.0%, are kept the same until April 2019. Forecasted investments are approximately \$700 million annually.

#### United Kingdom

- Ofgem has commenced a public consultation regarding the new RIIO-T2 regulatory framework to enter into force in 2021. Until then, ScottishPower Transmission Ltd. continues to comply with all investment and quality goals agreed to in 2013 with Ofgem within the current RIIO-T1 scheme.
- Distributors ScottishPower Distribution Ltd. and ScottishPower Manweb Plc continue to carry out their activities during the first regulatory period RIIO-ED1, which will extend through March 2023.

#### Brazil

- The new tariff agreement for Celpe came into force in April 2017 and will be in effect for five years. The recognised RAB is 20% thanks to the broad investment programme from the last tariff cycle.
- The tariff agreements for Coelba and Cosern will remain in effect until April 2018, and that for Elektro until 2019.
- The remuneration for the distribution activities of Elektro, Coelba and Cosern has been adjusted based on inflation in Brazil.
- The Brazilian regulator, ANEEL, held two auctions of transmission projects in 2017 in which Iberdrola participated and in which it was awarded six projects. ANEEL auctioned a total of more than 23,000 million reais in transmission projects in the two auctions, in which more than 45 companies from around the world participated.

# Objectives, risks and principal activities

## Objectives

- Zero accidents.
- Offer our customers excellent service based on the quality of supply and information regarding the network.
- Maximise efficiency in system operations through operational excellence and the digitisation of our assets.
- Lead the transformation towards more efficient integration of distributed energy and the penetration of electric vehicles.

## Significant risks

- Risk of occupational and third-party injuries at owned facilities.
- Impacts on supply from meteorological events.
- Technological and cybersecurity risks affecting the security of the facilities and service to our customers.

## Principal activities 2017

- Spain: the Star network digitisation and automation project, with the installation of more than 10.3 million meters (97.6%) and the digitisation of more than 73,800

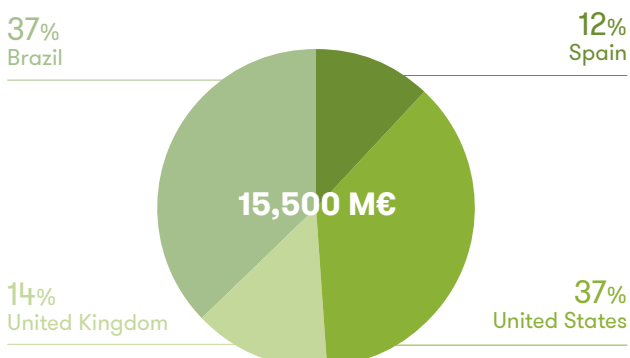
transformer centres (88%), is nearing completion.

- United Kingdom: there is continued compliance with the investment targets contained in RIIO-T1 and RIIO-ED1. The *Western Link HDVC* project entered into operation in monopole configuration in December. The double circuit will be available in 2018.
- United States: November saw the start-up in Woodbridge (Connecticut) of a micro-grid, which will guarantee the supply of critical facilities using a 2.8 MW fuel cell. A project to install approximately 1.8 million smart meters in the State of New York is expected to be approved in 2018.
- Brazil: operational strengthening of Neoenergia' distributors, improving all parameters: quality of supply, late payments and losses. ANEEL's Quality Plan was finalised. Award of 6 transmission projects in ANEEL's auctions in the total amount of 2,800 millions reais.

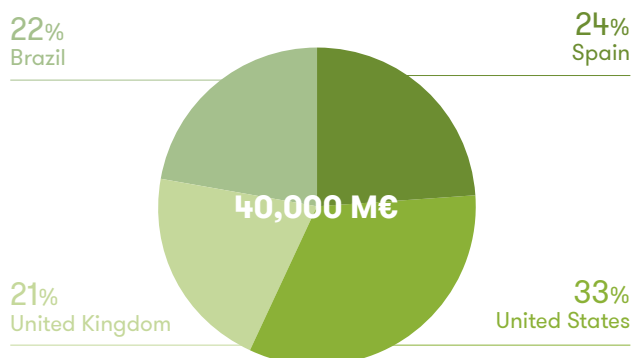
# Outlook 2018-2022

- Increased regulatory visibility in all countries, with investments of €15,500 million during the period, in order to obtain growth in EBITDA of €1,000 million and RAB of €11,000 million by 2022.
- Improvement in operating efficiency, achieving cumulative savings through 2022 of €700 million, to be shared with the customer.
- €3,900 million investment in digitisation for the growth and expansion of our technological platform, increasing service quality by 20% and reducing the "cost-to-serve" by 18% during the 2017-2022 period.
- Opportunities for growth in transmission in Brazil and the United States, taking advantage of synergies with our traditional transmission and distribution business.

Net investment of €15,500 million between 2018 and 2022, mainly in the United States and Brazil



€11,000 million growth in RAB, reaching a value of €40,000 million by 2022



# Key figures of the Networks Business

Item	Unit	Spain		United Kingdom		United States		Brazil <sup>(1)</sup>		Total	
		2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
Gross margin	€M	2,029	2,003	1,267	1,174	2,537	2,754	328	856	6,160	6,787
EBITDA	€M	1,603	1,520	976	886	1,270	1,334	233	488	4,082	4,228
Electric power distributed	GWh	92,307	93,284	35,734	34,967	39,120	38,349	62,759	63,522	229,920	230,122
Users (Electricity)	Millions	10.9	11.0	3.5	3.5	2.2	2.2	13.4	13.6	30.0	30.3
Gas supply	GWh	-	-	-	-	59,585	59,880	-	-	59,585	59,880
Users (Gas)	Millions	-	-	-	-	1.0	1.0	-	-	1.0	1.0
Investments	€M	389	352	628	561	752	861	76	313	1,845	2,086
Workforce	No. of people	3,887	4,038	2,819	2,969	5,734	5,410	9,111	9,708	21,551	22,125

International Financial Reporting Standard (IFRS) 11 has been applied to the financial information.  
 (1) 2016 operational information is deemed to be 100% from Neoenergía.

© Quarterly Results Report

Customer service, operational efficiency and digitisation of networks are the strategic pillars of the Networks Business.

## Customer service

- More than 50,000 people, including employees and subcontractors, committed to the restoration of service lost due to extreme weather events in Spain (heavy rains in January, storms Ana and Bruno in December), the United Kingdom (storms Doris in February, Aileen in September and Ophelia in October) and the United States (summer storms in New York).
- In Brazil, ANEEL recognised the efforts and progress made by Celpe and Coelba on Quality of Supply in 2017. Elektro was awarded for its excellence in supply by the Brazilian Distributors Association (ABRADEE).
- More than 600,000 homes have already benefited from the *Light for Everyone* programme.

## Efficiency

- Controlled increase in operating expenses despite strong increase in activity.
- Reduction in energy losses thanks to the fight against electricity fraud in Brazil and Spain.
- Improvement in debt indicators with customers in Brazil thanks to the plan to decrease late payments.

## Digitisation

- The 2018-2022 Digital Plan launched in 2017 with a planned investment of more than 3,900 million euros in digital solutions for customers. The Plan includes projects to increase the automation of the medium-voltage network as well as the digitisation of the low-voltage network in Spain.
- Iberdrola is the top distributor in remote meter reading quality in Spain (according to CNMC report of 23 February 2017).
- Measures to protect against cybersecurity risks associated with new grid management technologies have been strengthened.
- Promotion of the deployment of electric vehicles through active management of the network and improvements ensuring greater efficiency for the system.