

3.3 Wholesale and Retail

Regulatory environment of the business

Spain

- In October 2017 there was approval of Royal Decree 897/2017 and Order ETU/943/2017, which regulate: vulnerable consumers, subsidised rates and other measures to protect domestic electricity consumers. They establish various discounts off the price, based on family unit size and income level. The discount increases for special groups. All suppliers are required to fund it based on their number of customers.
- In November 2017 Order ETU/1133/2017 was approved to extend the availability incentive for thermal generation plants during half the year (from January to June 2018), and hydroelectric plants are excluded from this incentive beginning on 1 January 2018. The concept of interruptibility was also modified, establishing an auction award period for the first 5 months of 2018.
- Order ETU/754/2017 denying renewal of the authorisation for operation of the Santa María de Garoña nuclear power plant was published in August 2017.

United Kingdom

- The T-1 capacity auction for 2017/2018 was held in February 2017, resulting in the award of a total of 2,255 MW to Iberdrola at a price of 6.95 £/kW. The T-4 capacity auction for 2021/2022 was also held in February 2018, resulting in the award of a total of 2,300 MW to Iberdrola at a price of 8.40 £/kW. Existing plants as well as demand management assets participated in both auctions.
- Following the plan for implementing the measures recommended by the CMA in June 2016, Ofgem announced the application of a price limit on pre-paid contracts as from April 2017, which has been extended to vulnerable customers since February 2018.

Mexico

- In March 2017 Iberdrola was awarded the Topolobampo III plant in the last auction under the PIE model, which involves a long-term contract with the Federal Energy Commission (regulated generation). It is a 779 MW combined cycle plant located in the state of Sinaloa.

Objectives, risks and principal activities

Objectives

- Competitive supply and excellence in service to customers.
- Occupational safety.
- Environmental management and protection of biodiversity.
- Operational excellence and continuous improvement in efficiency.
- Risk identification and minimisation.
- Development of growth opportunities and new energy solutions.

Significant risks

- Regulatory risk: Changes in regulations in the countries in which it operates.
- Operational risks: Availability rate of facilities and potential incidents with environmental impact.
- Market risk: Fuel prices and competition levels in liberalised markets.
- Credit, exchange-rate and interest-rate risks.

- Technological and cybersecurity risks affecting the security of the facilities or the information of our customers.

Principal activities 2017

- Spain: On-going development of products and services adapted to the needs of customers (Customised Plans, Iberdrola Smart Home, Smart solar, etc.).
- United Kingdom: The increase in dual tariffs for domestic customers (7.8%) became effective in March 2017. At year-end 2017 a cumulative total of 738,184 smart meters had been installed, meeting the goal set by Ofgem.
- Mexico: Installation of 403 MW (Baja California III 324 MW CC, Altamira 57 MW cogeneration, 22 MW repowerings). Approximately 3,600 MW thermal under construction.
- Italy: Commencement of commercial activities. Almost 6,000 contracts in portfolio reached during 2017.

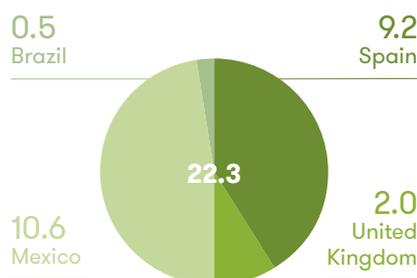
Outlook 2018-2022

- Net investments of €4,200 million during the period, with 75% (€3,100 million) allocated to growth in order to increase installed capacity in Mexico, continue with the deployment of meters in the United Kingdom, maintain retail growth in the core markets, and expand retail activities.
- 4.8 GW will enter into service during the period, reaching a total capacity of 22.3 GW by 2022. In Retail, Smart Solutions and cost efficiencies will allow for 32 million contracts with customers to be reached by 2022.
- Efficiencies deriving from digitisation, the deployment of smart meters and preventative maintenance based on artificial intelligence and data analytics.

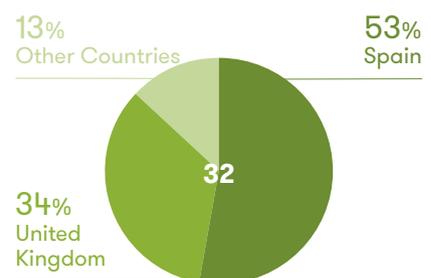
**Net investment growth
2018-2022 (€M)**



**Installed Capacity
in 2022 (GW)**



**Contracts with customers
in 2022 (M contracted)**



Key figures of the Wholesale and Retail Business

Item	Unit	Spain		United Kingdom		United States and Canada		Brazil		Mexico		Total	
		2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
Gross margin	€M	3,072	2,690	1,000	796	48	17	6	89	509	646	4,634	4,238
EBITDA	€M	1,521	902	294	139	6	-26	-3	60	436	525	2,253	1,601
Electricity contracts	Millions	10.3	10.2	3.2	3.1	-	-	-	-	-	-	13.5	13.3
Gas contracts	Millions	0.9	1.0	2.1	2.0	-	-	-	-	-	-	3.0	3.0
Products and services contracts	Millions	5.0	5.3	0.1	0.9	-	-	-	-	-	-	5.1	6.2
Total retail contracts	Millions	16.3	16.5	5.4	6.0	-	-	-	-	-	-	21.7	22.6
Investments	€M	240	351	134	225	5	5	0	48	341	694	720	1,323
Workforce	No. of people	3,164	3,592	2,254	2,023	110	103	55	298	491	711	6,074	6,727

International Financial Reporting Standard (IFRS) 11 has been applied to the financial information.

© Quarterly Results Report

The Wholesale and Retail Business concentrates its efforts on the safety of operations, environmental management, operational efficiency, customer loyalty, development of new products and services, and growth in Mexico, which will provide stability in results and the generation of funds for the group.

Efficiency

- Optimisation of thermal production.
- Facilitating operations in complementary markets.
- Operating improvements and increase in availability and energetic yield of the thermal facilities in Mexico and Spain.

Prices

- Management of risks through appropriate hedging of all generation, including renewable generation.

Growth

- Mexico: Approximately 3,600 MW under construction, with the most significant projects including:
 - Escobedo I CCGT (878 MW).
 - Noroeste CCGT (911 MW).
 - El Carmen CCGT (866 MW).
 - Topolobampo III CCGT (779 MW)
- United Kingdom: Continued widespread deployment of smart meters that began in 2016.

Customers

- Loyalty-building and development of new products and personalised services adapted to the needs of customers.
- Retail development in Mexico pursuant to changes in legal provisions on energy reform.
- Leaders in industrial customers in Portugal.
- Commencement of sales of electricity, gas and products and services in Italy in the residential segment.