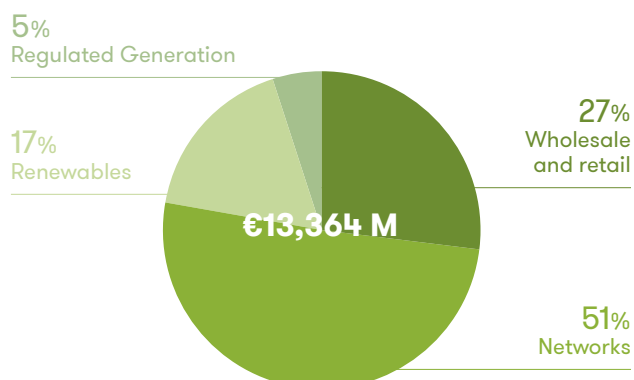


4.1 Financial Capital

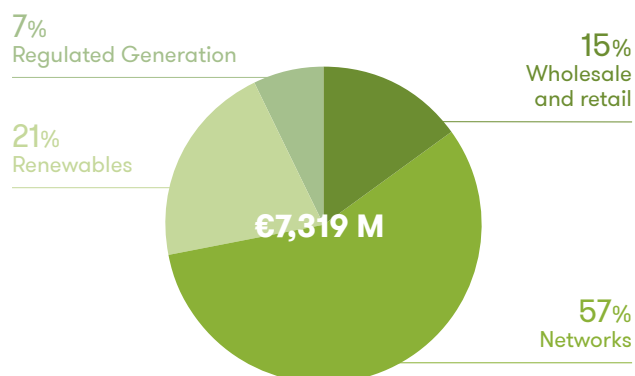
| | Management approach | Results | 2017 Outlook |
|--|--|---|---|
| Balanced growth | <p>The company has an investment policy consistent with its strategic vision and financial policy. The main goals are:</p> <ul style="list-style-type: none"> • Ensure a return on capital through projects and investments preferably in regulated businesses, renewable assets or long-term contracts. • Increase geographic diversification, further balancing the contribution of the countries in which it does business. • Tailor investment levels to the actual needs of each market. | <ul style="list-style-type: none"> • Total investment of €5,891 million, with almost 88% channelled into regulated businesses or long-term contracts. • Almost €900 million was invested in the Networks Business in the United States and €2,300 million in Renewables, mainly in onshore wind farms in the United States and the <i>Wikingier</i> (Germany) and <i>East Anglia 1</i> (United Kingdom) offshore wind farms. The investments in Mexico reached €700 million, including the construction of 3,400 MW at the Topolobampo 2 and 3, Escobedo and El Carmen facilities. All of them will commence operations between 2018 and 2020. | <ul style="list-style-type: none"> • Strict investment criteria based on earnings security, project profitability and strategic fit. • Investments continue to be concentrated on regulated activities and long-term contracts. • Net investment of more than €32,000 million over the 2018-2022 period, of which approximately 90% will be dedicated to regulated businesses, renewables or long-term contracts. • By business, Networks will absorb 50%, €15,500 million. Investments in dollars will represent 38%, followed by 25% in euros, 19% in pounds and 18% in Brazilian reais. |
| Solid financial structure | <ul style="list-style-type: none"> • Iberdrola considers financial strength to be an essential factor that allows it to successfully face potential turbulence in the markets and to be in a position to exploit growth opportunities in the countries in which it does business. • The financial policy seeks improvement in solvency ratios, balancing an increase in debt with the generation of additional cash flow from new investments. • The debt structure is in line with the profile of the business, which is mostly regulated, and the composition thereof reflects the results obtained in the relevant currencies. | <ul style="list-style-type: none"> • Gross margin of €13,364 million (+3.5%). • Net profit of €2,804 million (+3.7%). The positive impacts of the tax reform in the United States and the gain from the Siemens-Gamea merger offset non-recurring aspects like the low hydraulicity in Spain, storms in the United States, and write-offs in the gas business in the United States. Efficiency measures were also provisioned. • Adjusted net financial debt is €32,856 million, increasing €3,626 million over the year, as a result of the inclusion of Neoenergia (€2,817 million) and the investments made during 2017. • Liquidity of €8,616 million, which covers more than 24 months of financing needs. | <ul style="list-style-type: none"> • During the 2018-2022 plan, the company will continue to grow and increase in profitability, reaching EBITDA of between €11,500 million and €12,000 million by 2022, and net profit of between €3,500 million and €3,700 million. • Net investments of approximately €32,000 million, financed by cash flow generation (FFO) of €42,000 million. • The new investment cycle will be funded while maintaining financial discipline: growth in cash flow, new financing schemes and rotation of assets. • Optimisation of the liquidity position to cover financing needs for 18 months in a stress scenario. |
| Operational excellence | <ul style="list-style-type: none"> • Notwithstanding the high efficiency levels that have been reached, the company believes that there is still a margin for improvement thanks to investments in digitisation and innovation. • The implementation of best practices in all areas will allow for additional savings and an increase in synergies at the global level. | <ul style="list-style-type: none"> • Net operating expenses increased 20.3% to €4,170.6 million, mainly impacted by the consolidation of Neoenergia (€259.3 million), the costs of storms in the United States (€106.5 million) and the efficiency plans that have been provisioned (€162.4 million). Excluding such impacts and the exchange rate impact, NOE would have increased by 7.1%. | <ul style="list-style-type: none"> • Additional efficiencies thanks to data analytics and artificial intelligence. Specific plans to transfer best practices to the networks processes in Brazil and the United States. • Cumulative efficiency improvements of more than €1,000 million on homogenous terms, to achieve incremental EBITDA of ~€350 million by 2022. |
| Sustainable results and dividends | <ul style="list-style-type: none"> • Iberdrola offers its shareholders an industrial enterprise for the long-term creation of value. The confidence of its shareholders enables Iberdrola to secure the resources needed to move its enterprise forward. | <ul style="list-style-type: none"> • Shareholder remuneration of 0.317 euro per share, equal to a dividend yield of 4.9%. • Flexible dividend offering tax benefits, the repurchase of shares to avoid dilution, adding the cash payment option. | <ul style="list-style-type: none"> • Increase of dividend to 0.323 euro per share, with a charge to 2017 profits. • Maintenance of the flexible dividend programme, adding the cash payment option. • Target of maintaining the number of shares at 6,240 million, neutralising the capital increases associated with implementation of the flexible dividend programme. • Growing shareholder remuneration, in line with the increase in results, converging on a pay-out ratio of between 65% and 75%. |

Create value for the shareholder with sustainable growth

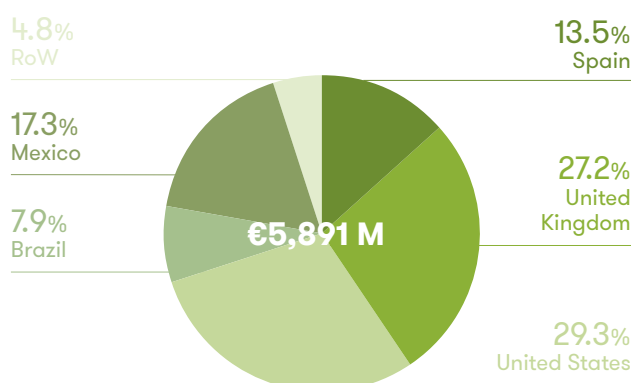
Gross margin by business 2017



EBITDA by business 2017

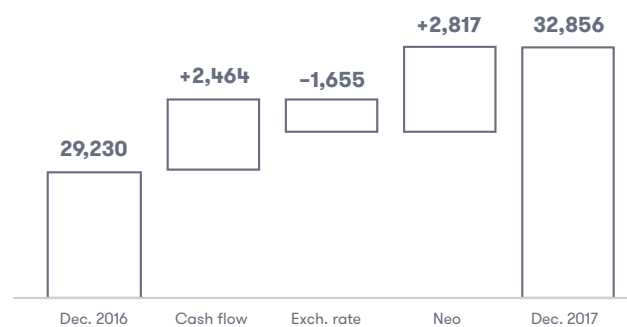


Investment by geographic area 2017



Diversification of investments, with a heavy concentration outside of the euro zone.

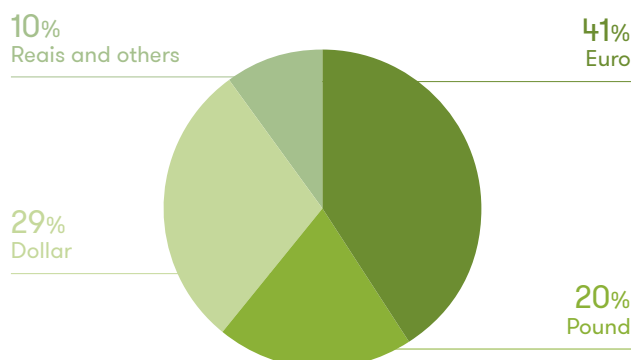
Net Debt (€M)



* Including 1,000 €M of hybrid green bond

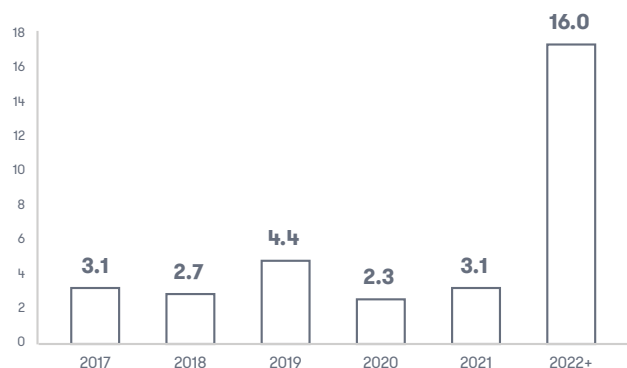
Net financial debt adjusted by treasury stock cumulative hedges at 31 December 2017 is €32,856 million, increasing €3,626 million over December 2016 mainly as a result of the integration of Neoenergia (€2,817 million), the investments made during 2017, and the worse operating conditions, partially offset by the exchange rate effect.

Debt structure by currency in 2017



Debt structured by origin of cash flow earned in each currency. Includes derivatives to hedge net investment.

Maturity of financial debt (€M)



Comfortable maturity profile. Excludes credit lines and Neoenergia.