OUTLOOK 2016 / 20
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Financial Management

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1. Financial strategy for 2016-2020 period

2. Risk & sensitivity analysis

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Financial strategy for 2016-2020 period

Our central scenario for macro hypothesis assumes a moderate economic recovery

Progressive GDP growth recovery to around 2% by the end of the period, supported by low commodity prices, and ECB accommodative monetary policy in a context of low inflation…	…and **low interest rates**
Average GDP slightly above 2%, with good employment level and inflation reaching 2% …	…**normalization in monetary policy** through 2016; interest rate adjustments in the following years to control inflation
GDP **growth** towards 2% with inflation under control **UK stays in…**	…with the **BoE's monetary policy normalization beginning** in 2017
GDP **growth recovery not expected until 17/18** Inflation rate progressively decreasing to 6.5% target level in 2018…	…allowing lower interest rates as the **Central Bank starts easing its monetary policy** to support growth

Interest rates will gradually increase as monetary policies normalize in the main economies, with the exception of Brazil where rates will be cut

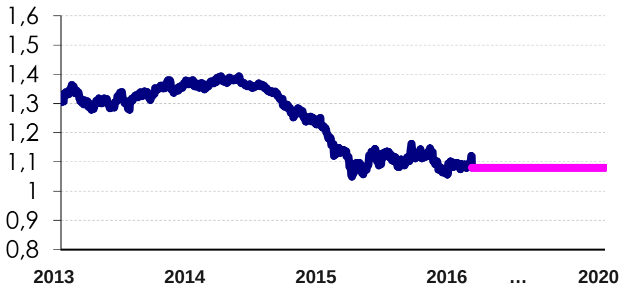
		Average 2016-2018		Average 2019-2020	
		3M	5Y	3M	5Y
Interest rates	EUR	0.22%	1.10%	1.58%	2.00%
	USD	1.67%	2.58%	3.10%	3.75%
	GBP	1.52%	2.35%	2.65%	3.08%
	BRL	12.85%	-	11.88%	-
Average spreads for 7/10* year new debt	USD	1.22%		1.11%	
	GBP	1.50%		1.40%	
	EUR	0.80%		0.76%	

* Eur: 7 years; Usd and Gbp: 10 years

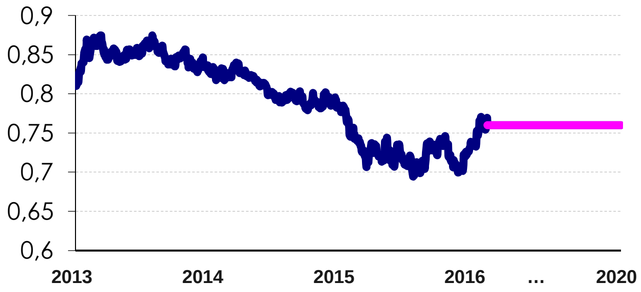
Iberdrola Group financing spreads will remain stable during 2016 - 2020

End of January USD and GBP FX spot rates maintained unchanged during the Plan …

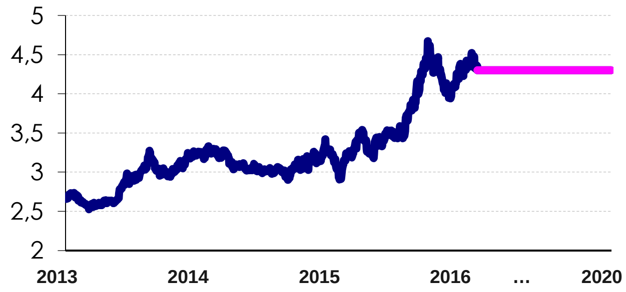
USD/EUR real & expected rate



GBP/EUR real & expected rate



BRL/EUR real & expected rate



Average FX rates vs euro

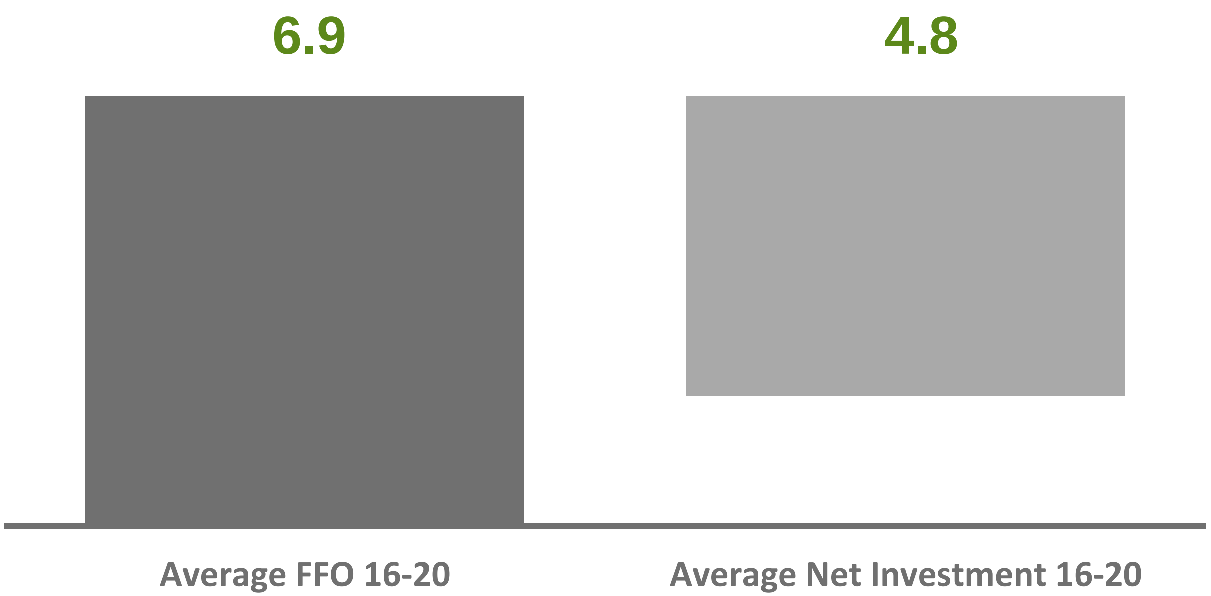
USD	GBP	BRL
1.08	0.76	4.30

… due to current volatility in the FX market

Financial Management
Financial Outlook

Cash flow generation exceeding annual investments will allow a sustainable dividend policy while improving our solid financial profile …

2016 – 2020 average FFO vs. Net Investment (Eur Bn)

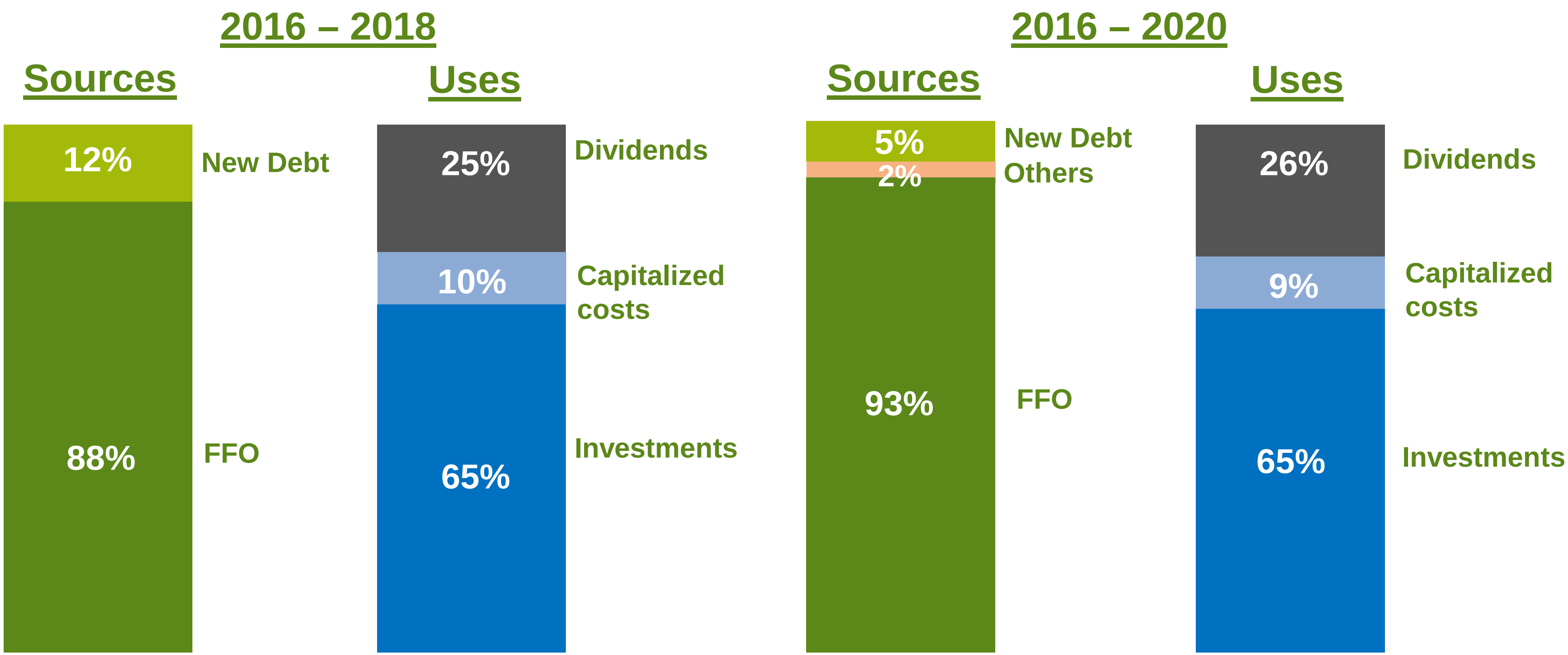


Average FFO generation is Eur 2.1 Bn over net investments

… with Net debt under control growing Eur 1 Bn per annum in the first years. Debt in 2020 will be around Eur 30 Bn.

Financial Management
Sources and uses of funds

93% of the needs in the plan funded with operating cash flow

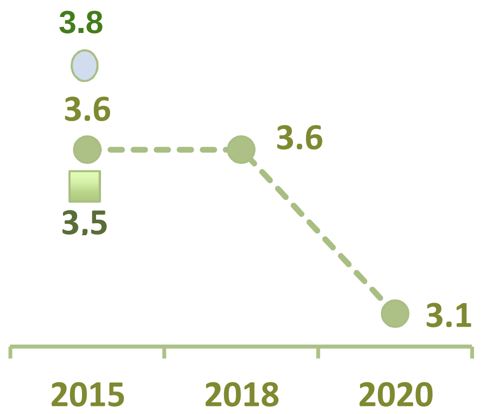


Proportionally higher investments at the beginning of the plan

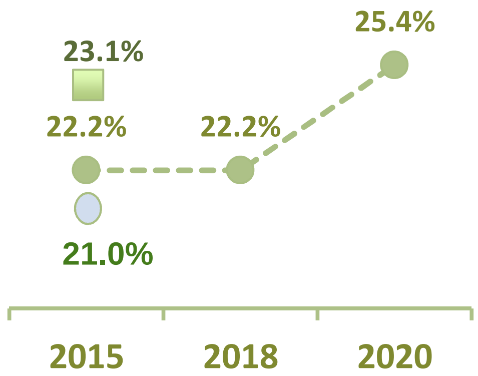
Growth in EBITDA and operating cash flow lead solvency ratios to maintain strong levels

2018 ratios: ND / EBITDA: ≤ 3.6X ; FFO / ND ≥ 22%

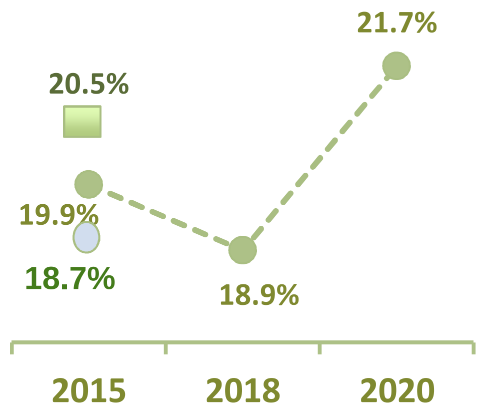
Net Debt/EBITDA (X)



FFO/Net Debt (%)



RCF/Net Debt * (%)



- 2015 Reported Ratios: w UIL
- 2015 Ratios w/o UIL
- 2015 Pro-forma: including 12 months contribution of UIL

* RCF / Net Debt 2015 pro-forma with 2 dividends

Growth in cash flows to 2020 will lead to solvency ratios improvement with ND/EBITDA at 3.1X in 2020

Group capital structure underpins a sound investment grade rating …

Financial model also optimize the capital structure in the countries taking into account the business mix and the country solvency

Business financial optimization

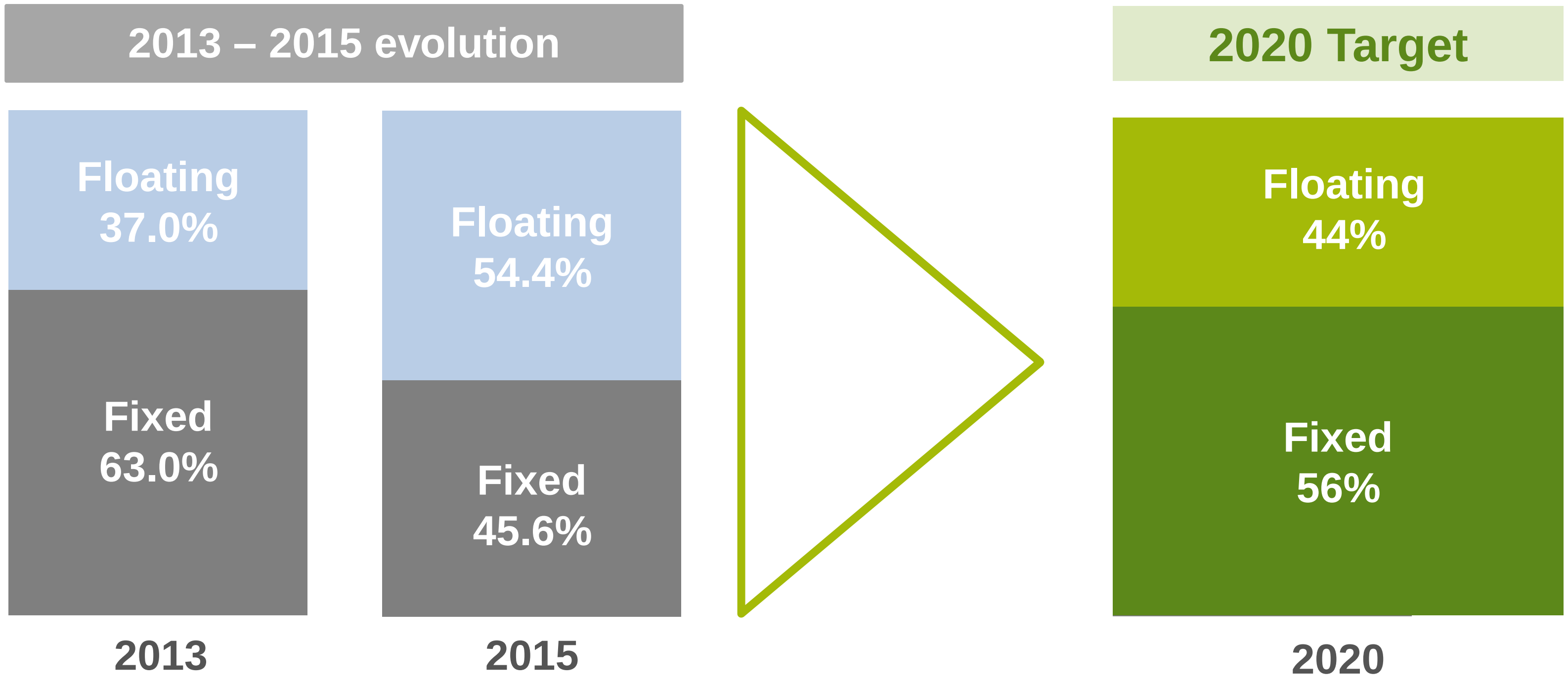
- **Regulated**
  - In line with regulatory requirements
  - Following the debt /equity regulatory allowance
- **Renewables**
  - Adequate to optimize fiscal advantages and maintain financial solvency
- **Liberalized**
  - Adequate to guarantee financial solvency

… with reference ratios compatible with investment grade rating in every country

Financial Management
Interest rate risk management

Increase in floating rate (mainly in Eur) has contributed to reduce financial cost. Gradual increase in fixed rate to align financial structure with business profile

Debt Structure



Average cost of net debt for the plan below 4%

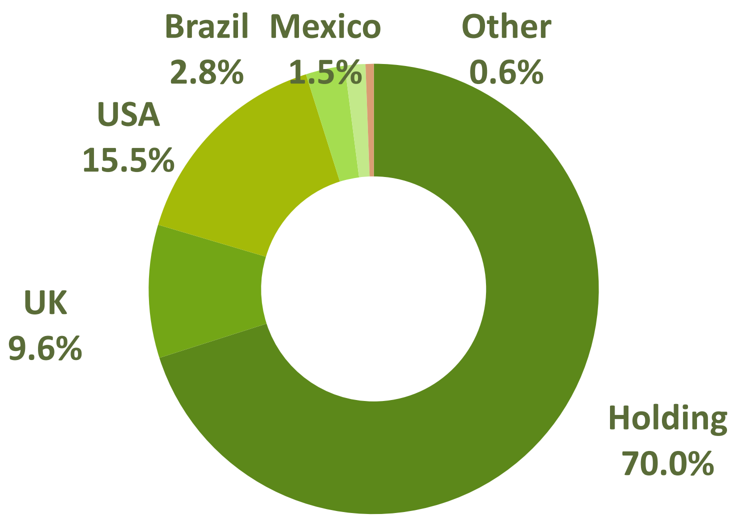
Each currency will have its fixed / floating structure depending on business profile

	Current debt structure*			Target debt structure		Rationale
	% of Debt	% Fixed		% of Debt	% Fixed	
€	49%	27%	→	24-48%	45-60%	Debt balanced floating / fixed in line with the revenue structure
$	30%	96%	→	28-38%	75-85%	Debt mainly issued in long-term fixed rates: 1) For regulated business in US 2) Renewable and Regulated generation (Mexico) mainly based on long term PPA
£	20%	80%	→	23-33%	50-60%	Fixed & inflation-linked cash flows Renewables mainly fixed revenues
BRL	1%	3%	→	1-5%	5-15%	Mostly floating. Difficult market to obtain fixed references

*2015 year-end situation

Financial model designed to follow current structural subordination guidance …

Current situation



2016-2020 Plan

	Average	Target
USA	13.8%	To be maintained below the 30% threshold
UK	8.7%	
Brazil	2.0%	
Mexico	2.8%	
Others	0.3%	

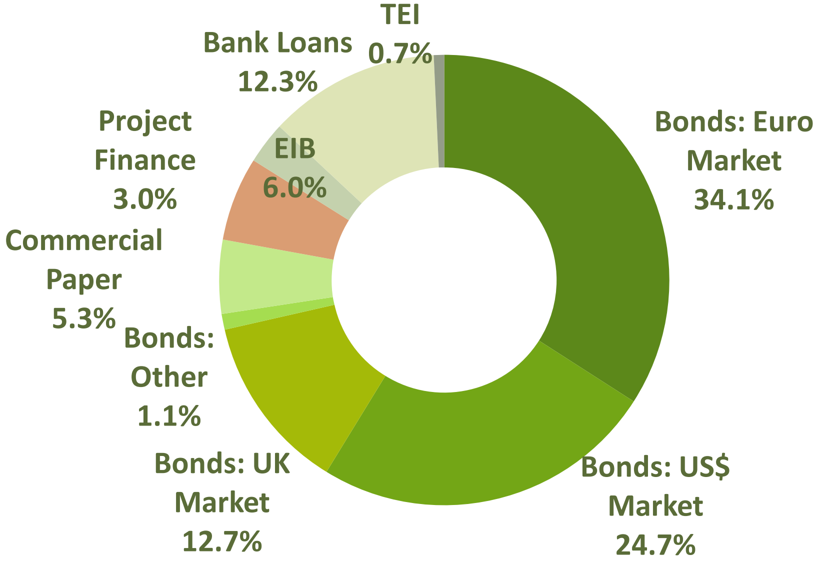
Flexible management to optimize non-holding company level debt based on country situation and regulatory requirements

Strong diversification in sources of finance …

Current situation*

Strong diversification ...

* At 2015 year-end



During the Plan

**…to be maintained
with increasing importance of green financing**

Bond market: Eurobond will be our main source. Complete secondary curve with a target of two benchmark references each year

Bond market: More than 40 issuances in six markets other than the Eurobond

Supranational lenders:
Iberdrola strategic target.

… provides access to many markets

Active liquidity management, maintaining around Eur 8 Bn – 9 Bn, with room to increase if required…

Comply with rating agencies' liquidity requirements

Minimize liquidity cost

Maintain adequate liquidity in each country and managing it according to the different markets and needs

… aiming to cover 18 months in stress scenario or 24 months in base case scenario

Comfortable debt maturity profile of Eur 2.0 - 3.3 Bn / year…

Current average maturity: 6.4 years

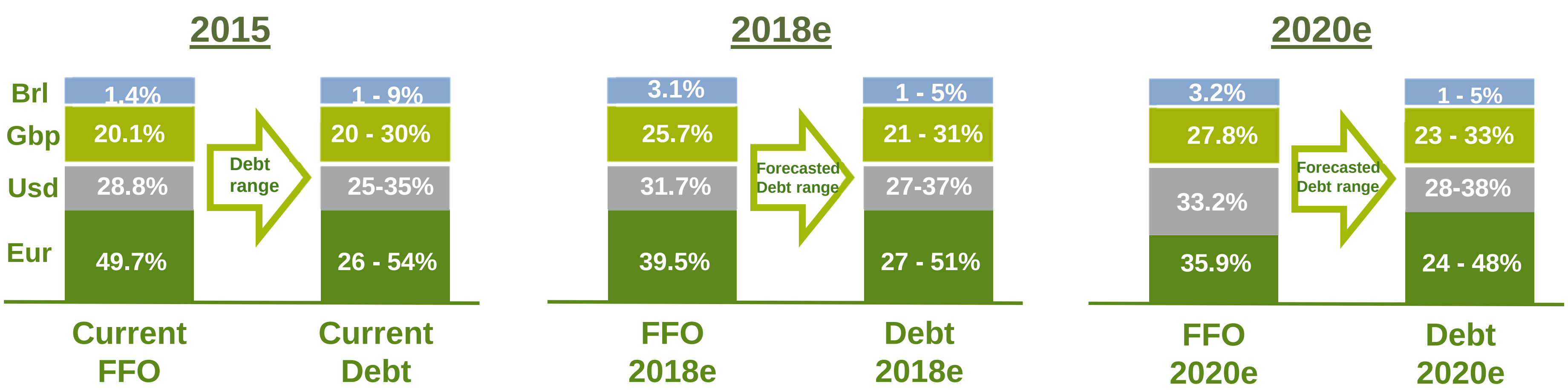
Including 1.5 Bn commercial paper. Including Eur 1.8 Bn of UIL assumed debt (as of 31 December 2015)

… with the aim of maintaining an average life over six years

Structural FX hedge is taken by having the debt in the same currency and similar % that the funds from operations to …

… minimize FFO / Net Debt ratio volatility protecting solvency ratios

FFO vs. Debt



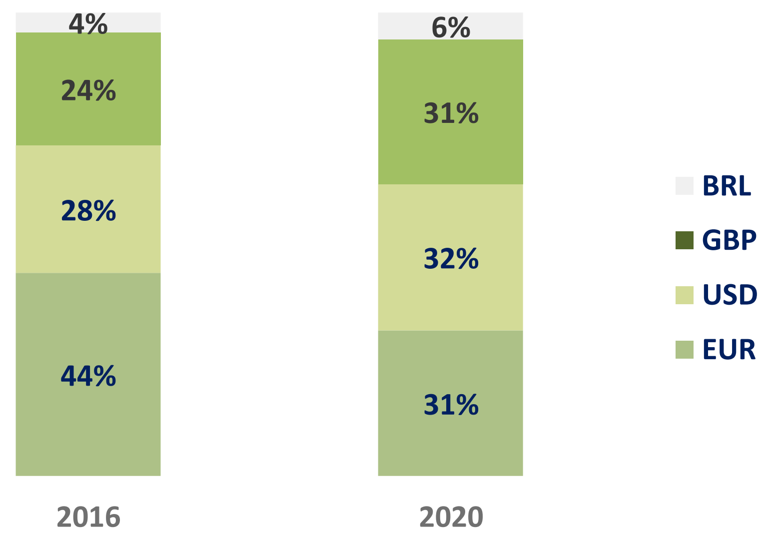
2020 expected FFO breakdown: 36% EUR, 33% USD, 28% GBP

… and annually minimizing FX risk in the Profit & Loss account through derivatives

Target | Hedging Net Income FX exposure in currencies other than Euro

Maximum risk allowed: ~6.5% of yearly Net Income

Net Income by currency



2016 risk position already hedged: 79% USD, 87% GBP and 49% BRL

Maintaining scrip dividend due to the tax advantages and the shareholder optionality …

1	Receiving shares	No withholding tax
2	Selling rights to Iberdrola	Subject to withholding tax (19%)
3	Selling rights in the market	from 1 January 2017 considered as a capital gain

No withholding tax	**Resident institutional shareholders**
	Non-resident shareholders (instit.&retail): no real impact as double-taxation treaties should exempt most investors from the capital gain
Subject to withholding tax (19%)	**Resident retail shareholders:** proceeds declared as a capital gain (taxed at a rate from 19 to 23%)

… including the buy- back program with target share capital of 6,240 million shares, avoiding shareholders' dilution

Risk & sensitivity analysis

The main sources of risk are:

Political / Economic

Prices and Spreads

FX

Interest Rates

Regulation

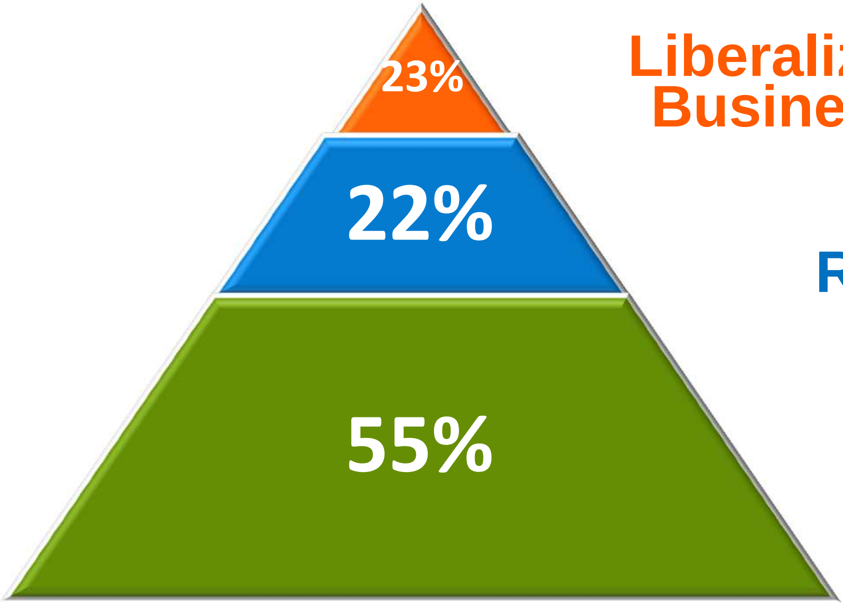
Demand Variation

Execution

Weather

On average, 77% of annual EBITDA originates from Regulated Business and Renewables…

Average annual EBITDA share*

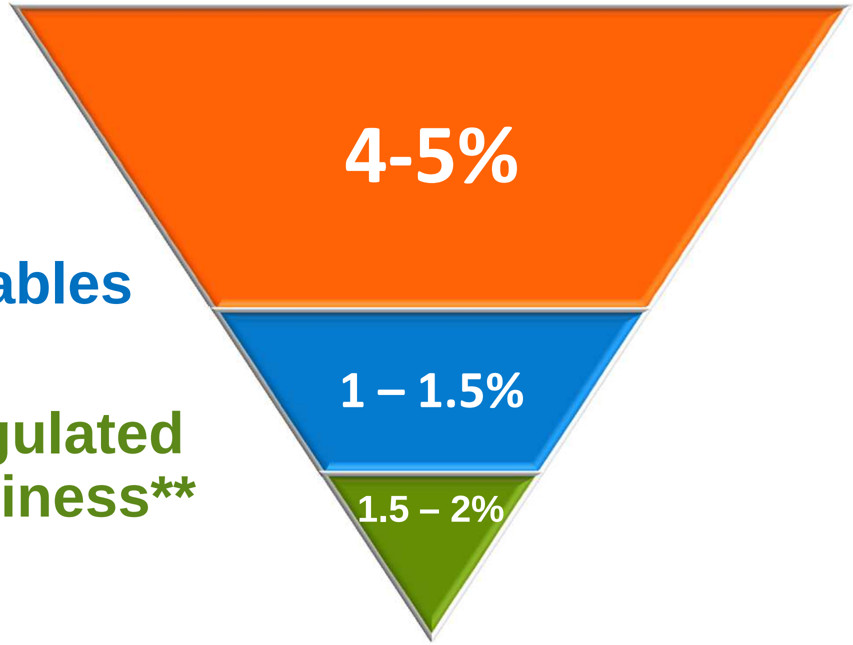


Liberalized Business

Renewables

Regulated Business**

Risk as % of annual EBITDA***



(*) 5 years average
(**) Networks and Regulated Generation (Mexico)
(****) Weather conditions considered, average five consecutive worst years

… which have inherent stable earnings profile with a maximum EBITDA impact of 8% in an adverse scenario

Limited deviations to main sensitivity macro & price factors

	Sensitivity to:	EBITDA	Net profit
Power prices	+/- 5 € / MWh driven by oil, coal & gas and CO2 prices	+3% / - 3%	+7% / -7%
CO2 prices	Impact of +1 € / t variation on CO2 price	+0.43%	+0.9%
FX	+/- 10% variation of exchange rates	+6% / -6%	+6% / -6%
Interest rates	+/-1 p.p. deviation in short term rates vs. plan		+3.5% / -3.5%

Business, geographic & currency diversification reduce volatility in the P & L

Conclusion

Iberdrola's financial strategy for 2016-2020 focuses on …

… maintaining a solid financial profile compatible with a growth investment plan …

**… that will deliver, with low risk,
sustainable value creation for our shareholders**

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