IBERDROLA

OUTLOOK 2016/2020 Update

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Environment

Financial strategy for 2017-2020 period

Risk analysis

Our central scenario for macro hypothesis assumes…

Stable GDP growth around 1.5% over the period, supported by stable commodity prices, and ECB accommodative monetary policy in a context of inflation below historical average …

…and low interest rates

Average GDP around 2%.
Uncertainty on fiscal and trade policies of US Administration. Good level of employment, inflation reaching 2.5%...

…and monetary policy normalization to continue in 2017; interest rate rises through the period

GDP **growth to recover** (towards 2%) at the latter part of the plan with inflation rising in the short term …

…with the **BoE's monetary policy normalization beginning** in 2018

Higher uncertainty due to Brexit, possible measures under new US Administration and their impact on global trade

Improving economic outlook in Brazil

GDP growth recovery expected to begin in 2017 with inflation rate moderating

Interest rate cuts by the Brazilian Central Bank to support the economy

GDP **growth could slow down** due to new trade policies of the US Administration, with **higher inflation** affected by a **weaker currency** that could lead to **higher interest rates**…

…with **limited impact** on the Group as revenues are dollarized

Interest rates will gradually increase with the exception of Brazil
Levels around 50 bp lower than previous forecast

Interest rates

	2017 – 2020 update: Average 2017-2020 3M	2017 – 2020 update: Average 2017-2020 5Y	Vs. 16-20 Plan: Average 2017-2020 3M	Vs. 16-20 Plan: Average 2017-2020 5Y
EUR	0.18%	0.54%	0.94%	1.68%
USD	2.35%	2.58%	2.58%	3.28%
GBP	1.65%	2.13%	2.23%	2.78%
BRL	10.13%	-	12.21%	-

Average spreads for 10 year new debt

EUR / 0.74%	GBP / 0.95%	USD / 1.50%

Iberdrola Group financing spreads will remain stable during 2017 - 2020

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

Average FX rates vs Euro (compared to 16-20 Plan)

USD 1.07 Vs 1.08

January'17- end

1.08

GBP 0.87 Vs 0.76

January'17- end

0.86

BRL 3.64 Vs 4.30

January'17- end

3.40

We have hedged 2017 Net Profit

Financial strategy for the 2017-2020 period

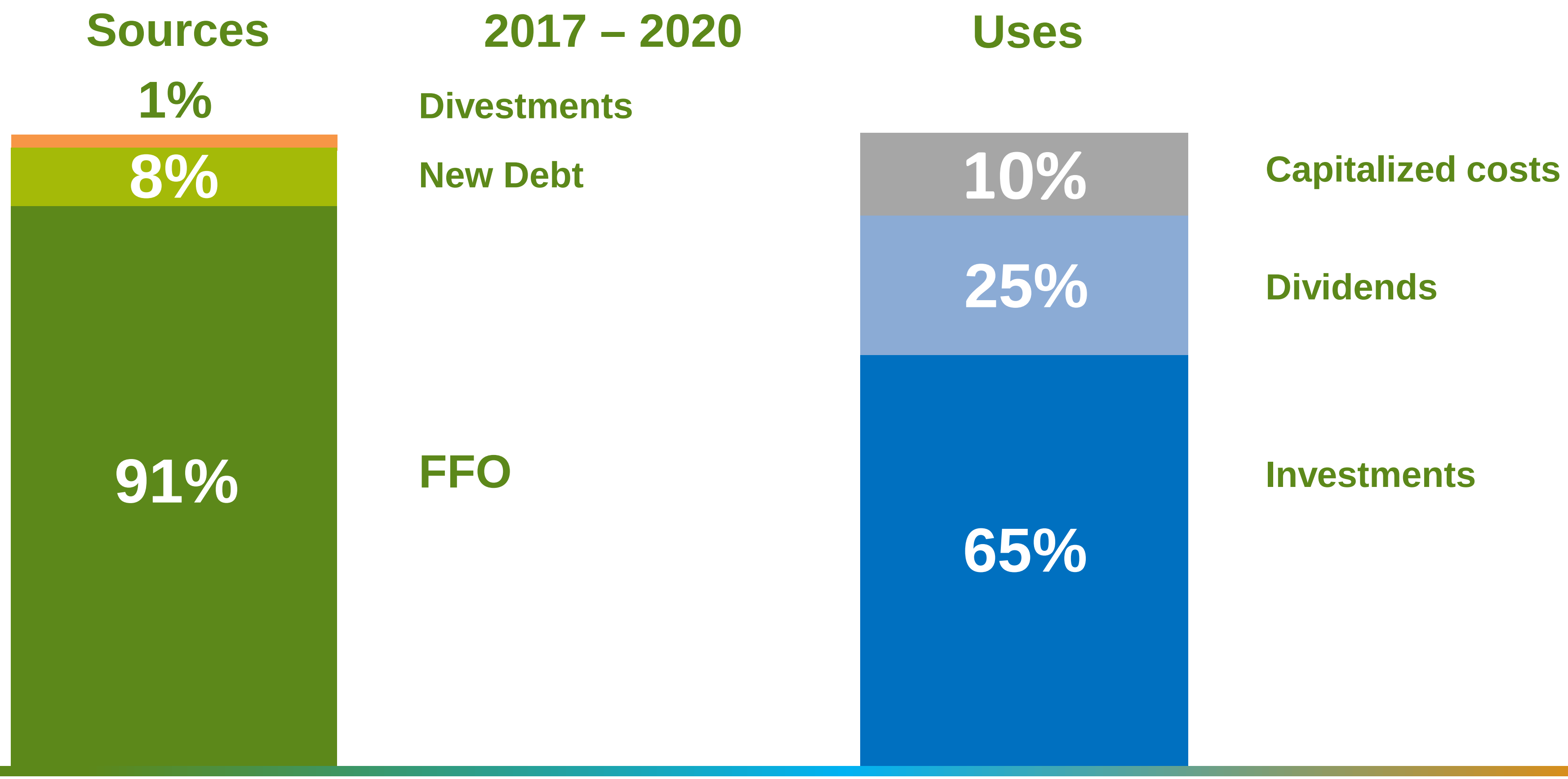
2016 financial activity milestones:

- 37 b.p. financial cost reduction vs. Plan 2016 to 3.49%
- Issued 2,700 M € in EMTN at Iberdrola´s ever lowest coupons (average below 1%). 91% in green bonds.
- More than Eur 2 Bn of new bank financing (Usd 1.5 Bn Revolving Credit Facility) at very low margin with more than 30 banks involved
- Liability management transactions + fixing interest rates (Eur 3,813 M) + Pre-fixed interest rate up to Dec 2016 (Eur 3,150 M)
- Successfully managing exchange rate risk in a volatile environment due to political issues (Brazil, UK, USA) with positive hedge results of Eur 100 M

Main financial guidelines for 2017 – 2020 period:

Financial structure	Protecting the company from interest rate increases: increasing fixed rate debt >60%
Liquidity	Optimizing liquidity management , covering 18 months in stressed scenario
FX risk management	Structural & annual coverage
Solvency ratios	Maintaining solid levels to preserve credit quality. Asset rotation & hybrids to be used if needed to maintain financial strength.
Financing	Strong diversification in sources of finance provides access to many markets, banks and supranational lenders

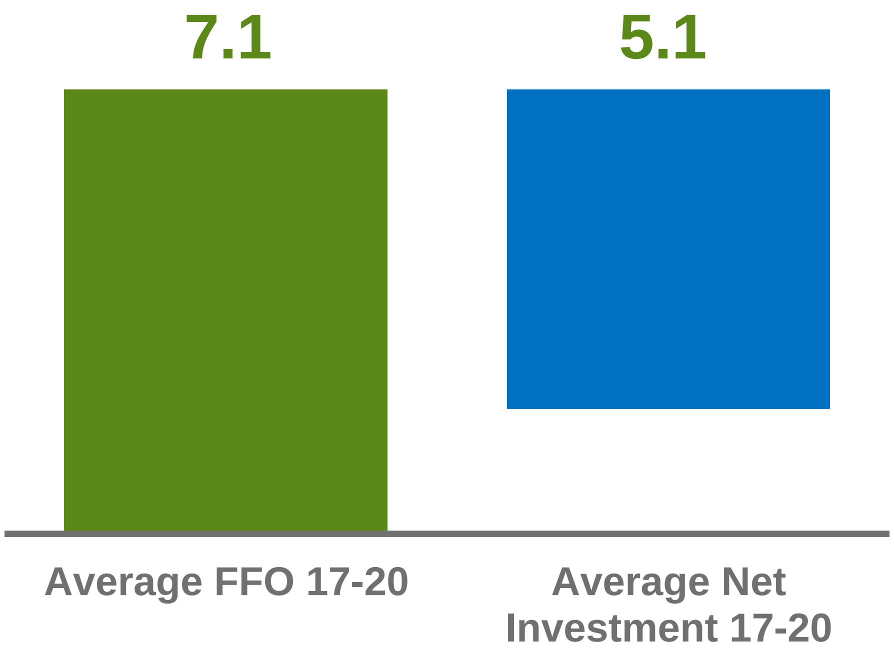
91% of the plan needs are funded by operating cash flow



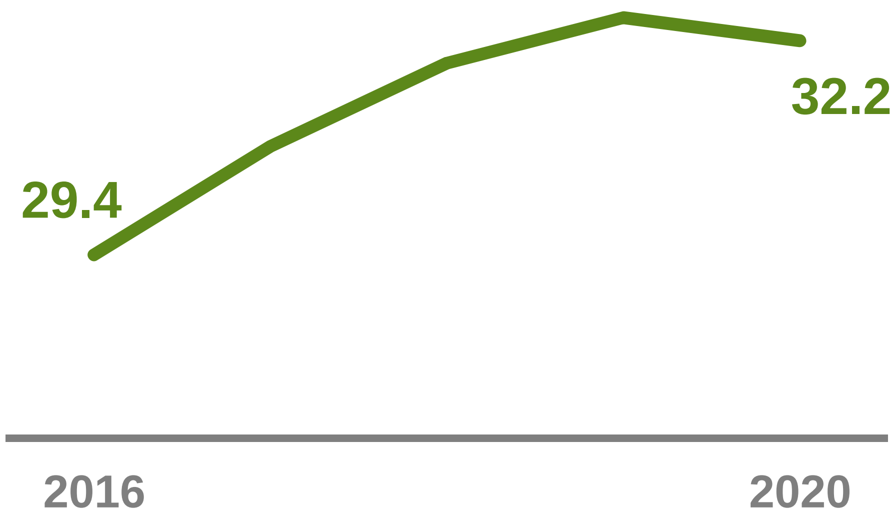
Cash flow will accelerate growth during the plan as investments pay -off

Cash flow generation exceeding annual investments by Eur 2 Bn

2017 – 2020 average FFO vs. Net Investment (Eur Bn)



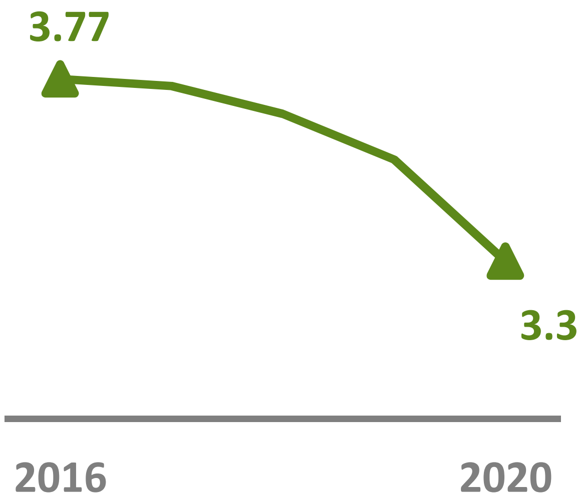
Net Debt evolution (Eur Bn)



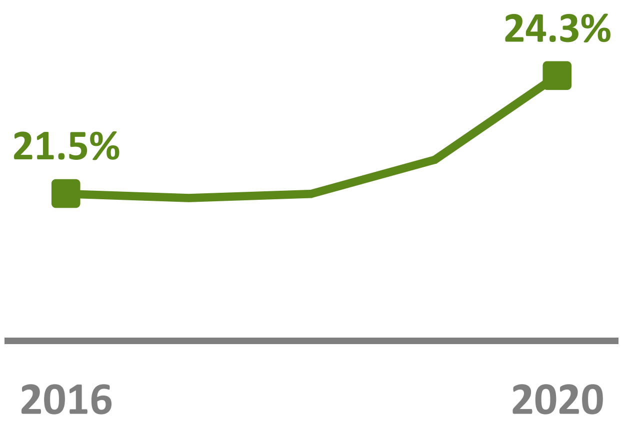
with Net debt growing on average by Eur 1 Bn per annum, in line with cash flow generation, up to 2019. Debt in 2020 will be around Eur 32 Bn.

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

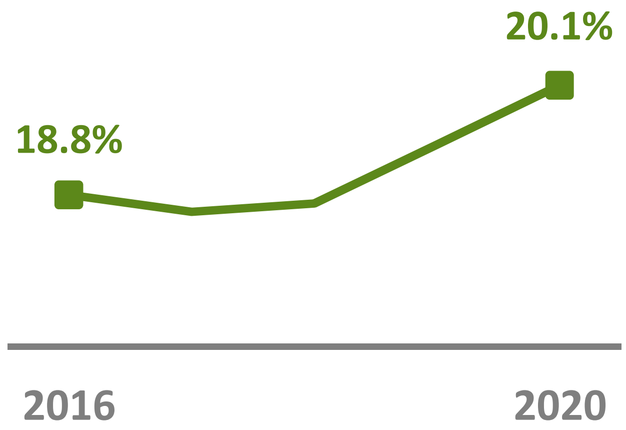
Net Debt / EBITDA



FFO(1) / Net Debt



RCF(2) / Net Debt

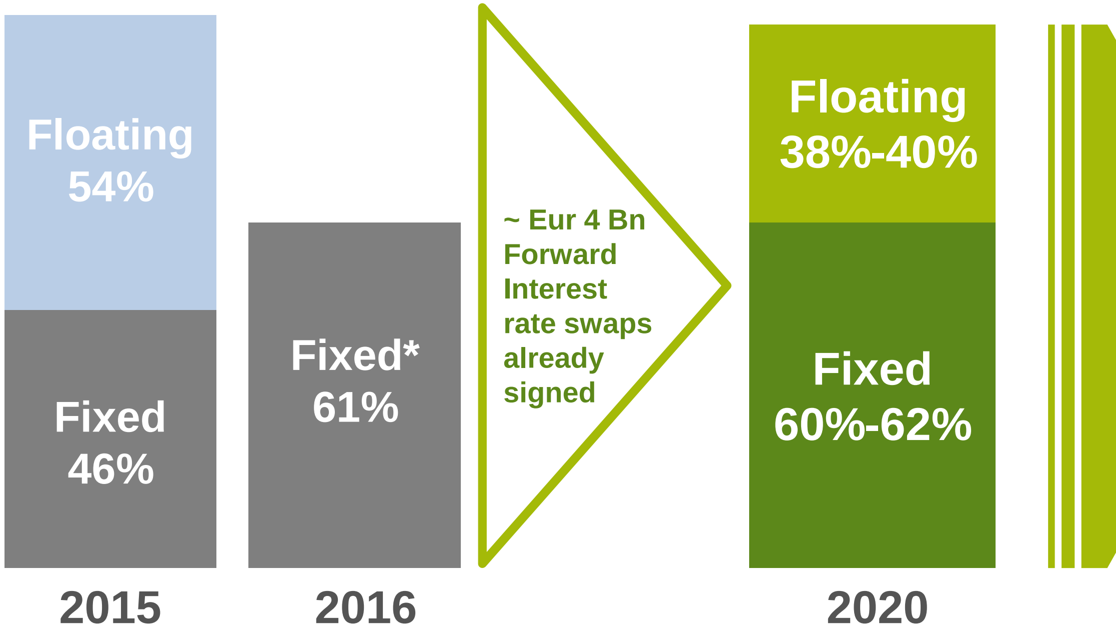


With current investment plan, 2017 & 2018 will have solvency ratios in line with 2016 that will strengthen in 2019 & 2020

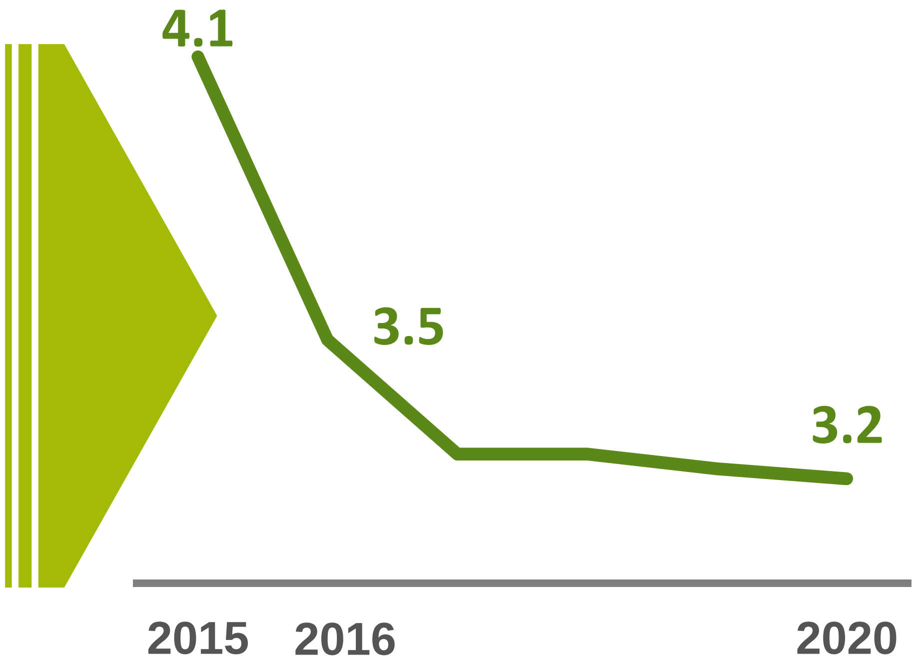
Increase in fixed rate percentage to ensure low cost of capital through the plan

Debt Structure

2015 – 2016 **2020 Target**



Cost of debt



*Adding the Eur 3.1 bn forward swap already fixed at 2016 year-end (11,9%) to debt at fixed rate(49,0%)

Average cost of net debt for the plan will be 25 b.p. below 2016 actual cost

Structurally in the medium term, Iberdrola's business is protected from inflation & interest rates rises

inflation & financial cost recognition

Regulated: **a) Spain:** No immediate update >2020 onwards (but impact capped to 0.5% over RAB p.a.)

Avg. NOE/ Revenues: ~22%

b) USA: When rate cases are reviewed Dist: 2019 (NY),2020(CT)

Trans: 2017/18/19

c) U.K.: Yearly RPI true-up 2023 (Dist),2021(Trans)

d) Brazil: Revenues yearly updated 2017/18/19

e) Mexico regulated (80%): Fixed annual income

Liberalized: **a) Spain & UK:** mostly exposed to market. Hedging strategy for market risk.

b) Mexico liberalized (20%): income linked to CFE tariff.

Prices should reflect inflation

Renewables: **a) Spain:** 35% market/ 65% investment incentive + partial market risk.

Avg. NOE/ Revenues: ~25%

b) USA: 30% merchant generation / 70% PPAs: of which 20% indexed to actual inflation. 30% with forecasted inflation-partial hedge; 50% fixed price .

c) U.K.:CFDs & ROCs prices directly linked to inflation

Periodical regulatory reviews of our Network Business on average cover:

Inflation cost (either immediately or with a time lag)

+

Cost of capital variations (either immediately or with a time lag)

Debt financial structure to protect P&L in the short – medium term

Duration of regulatory cycles: on average 5-6 years

Average life of debt of over 6 years guarantees re-pricing of debt post regulatory changes to adapt to new interest rates scenario

Debt structure

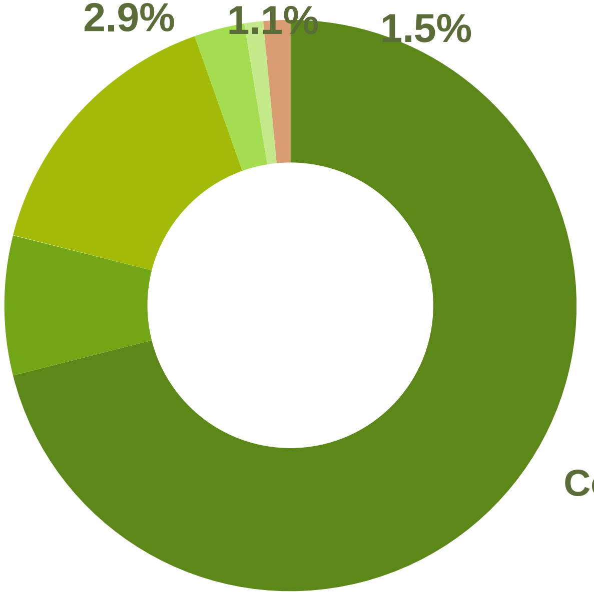
	Weight % of Debt	% Fixed current*		% Fixed target
Eur	40%	54%	↑	50-65%
Usd	30%	78%	↔	75-85%
Gbp	25%	60%	↔	55-65%
Brl	5%	4%	↔	5-15%

*2016 year-end situation

Increase in the Eur fixed percentage to adapt to the revenue structure

Financial model designed to follow current structural subordination guidance …

Current situation



2017-2020 Plan

Average	
USA	17.0%
UK	6.5%
Brazil	3.6%
Mexico	1.4%
Others	1.2%

Target

To be maintained below 30% Threshold

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

Financial Management / Debt structure by market

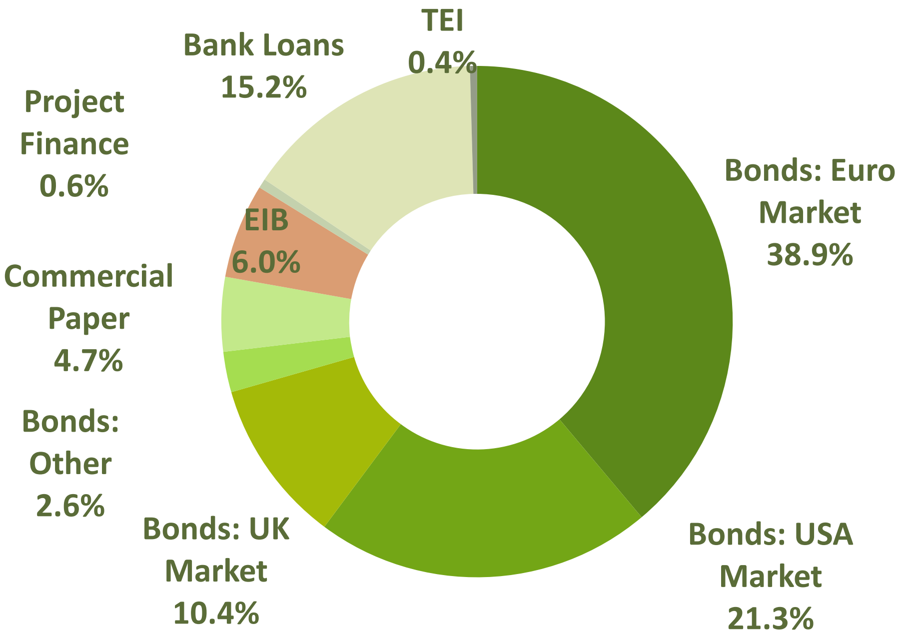
Strong diversification in sources of finance provides access to many markets …

Current situation

Strong diversification
Green Financing: 10.3%

During the plan

Increasing importance of green financing
(#1 private issuer in 2016)



* At 2016 year-end

Green Financing
- In all financing sources (Capital and bank markets)

Bond market
- Eurobond will be our main source with a target of two benchmark references each year
- More that 40 issues in 6 market other than Eurobond

Supranational lenders (EIB)
- Iberdrola considered strategic partner

… with very low bank risk in our debt with very competitive conditions

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

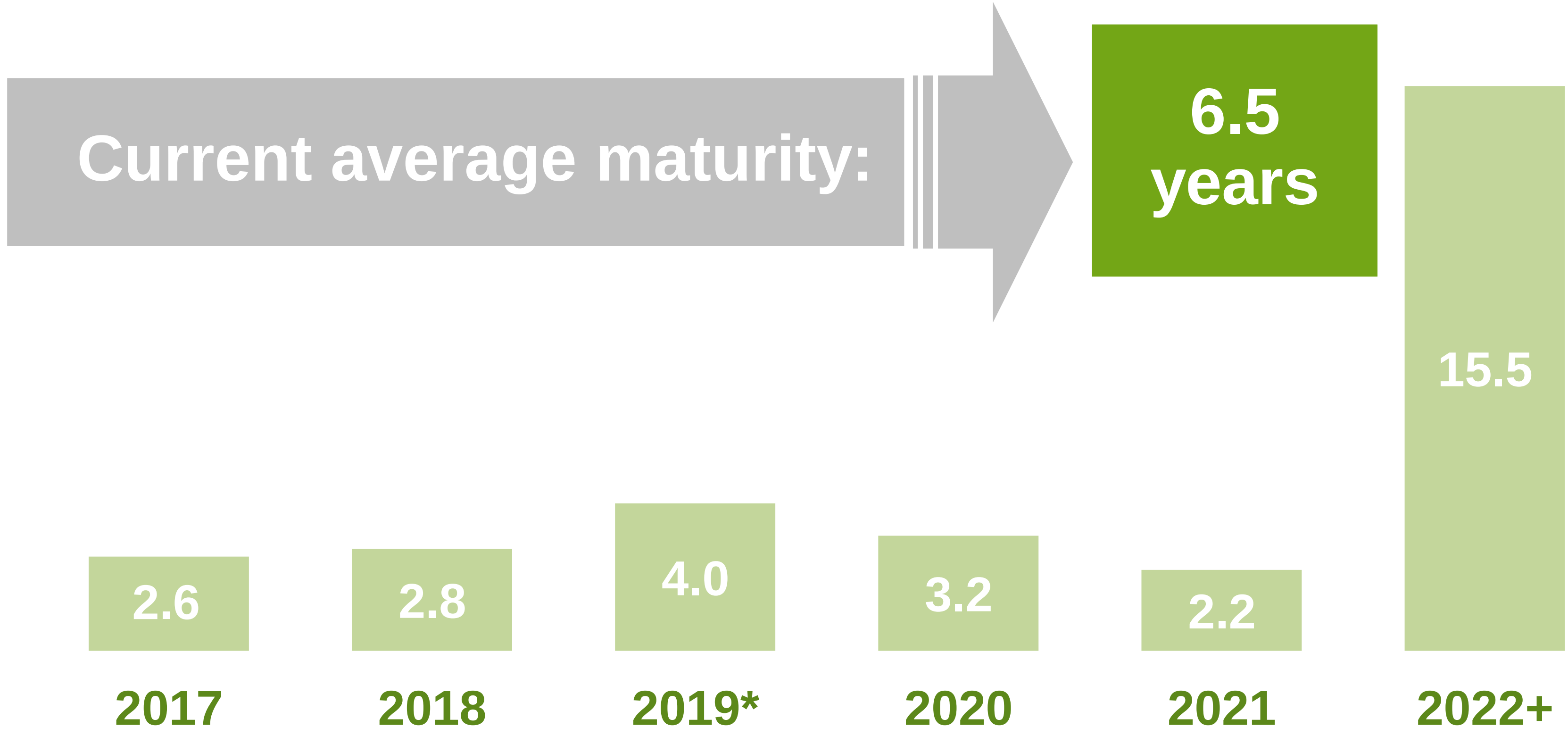
Comply with rating agencies' liquidity requirements

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

Comfortable debt maturity profile of around Eur 3.0 Bn / year…



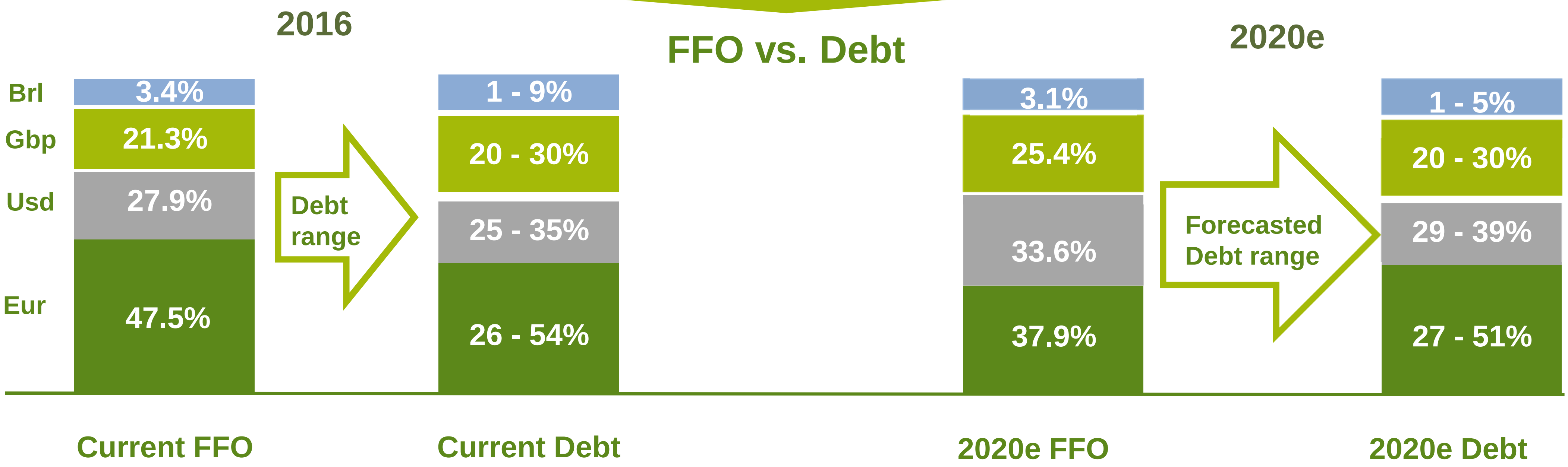
* Eur 975 M that maturing in 2019 has the option to extend 1+1 years the maturity

… with the aim of increasing our average life to around 7 years
Eur 2.8 bn of new needs in the period

Financial Management / FX risk management: structural

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



2020 expected FFO breakdown: 38% EUR, 34% USD, 25% GBP

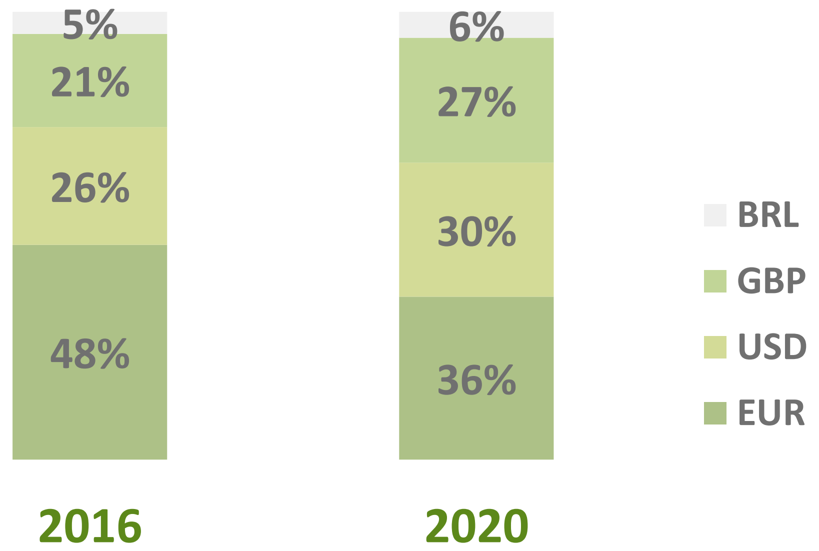
Minimizing annual FX risk in the 2017 Profit & Loss account through derivatives

Target

Maximum risk allowed: ~6.5% of yearly Net Income

Hedging Net Income FX exposure in currencies other than Euro

Net Income by currency



> 90% 2017 risk position already hedged: USD, GBP and BRL

Maintaining scrip dividend due to tax advantages and shareholder optionality while avoiding shareholders' dilution through buy back and cancellation of shares (target share capital of 6,240 million shares)

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 & subject to 19% withholding tax only for resident individual shareholders *

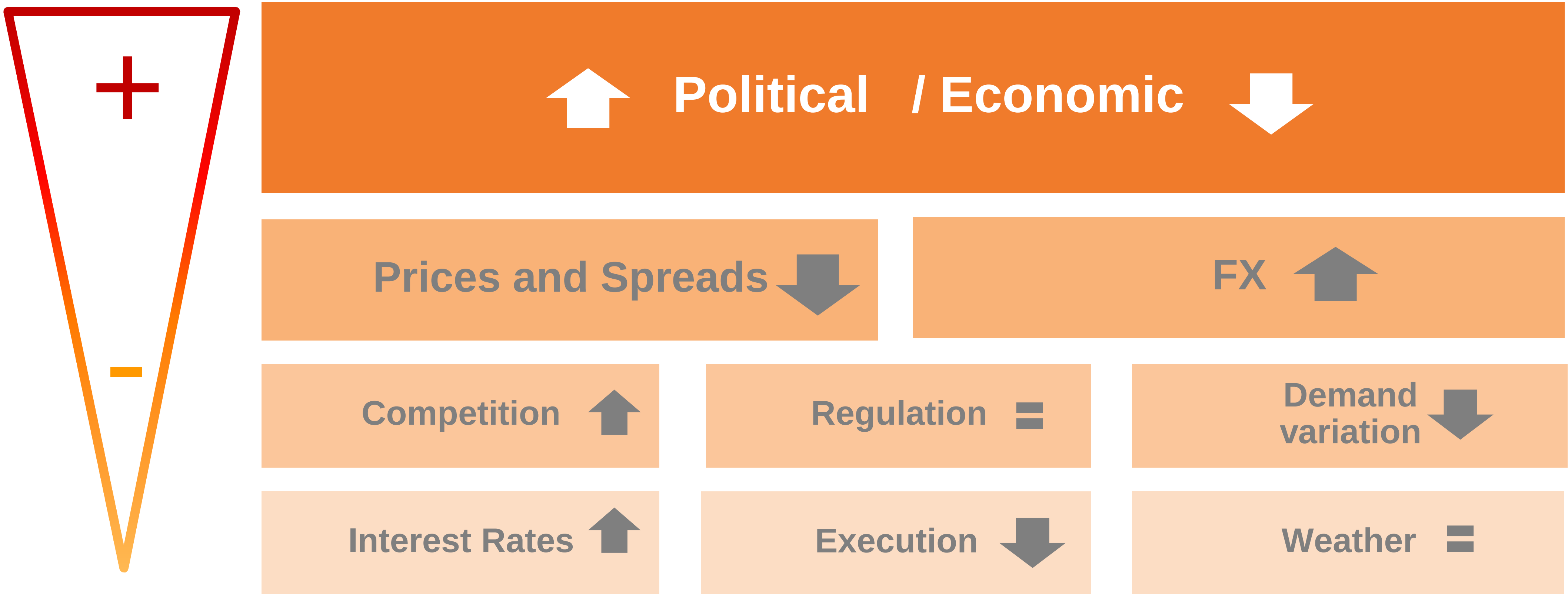
Increasing acceptance of the option to receive shares:
an average of 72.2% of the capital opted for new shares in the last 4 scrips
(vs. an average of 62.4% in the total 14 scrips executed)

(*) Non-resident shareholders (instit.&retail): in most cases no impact as investors resident in countries with a double-taxation treaty with Spain should not be affected.

Introducing a shareholder remuneration floor of 0.31 € / share

Risk analysis

The main sources of risk remain the same:



Political risk moving focus from Spain to UK and America

Possible increase of FX volatility due to uncertainty on economic policies.

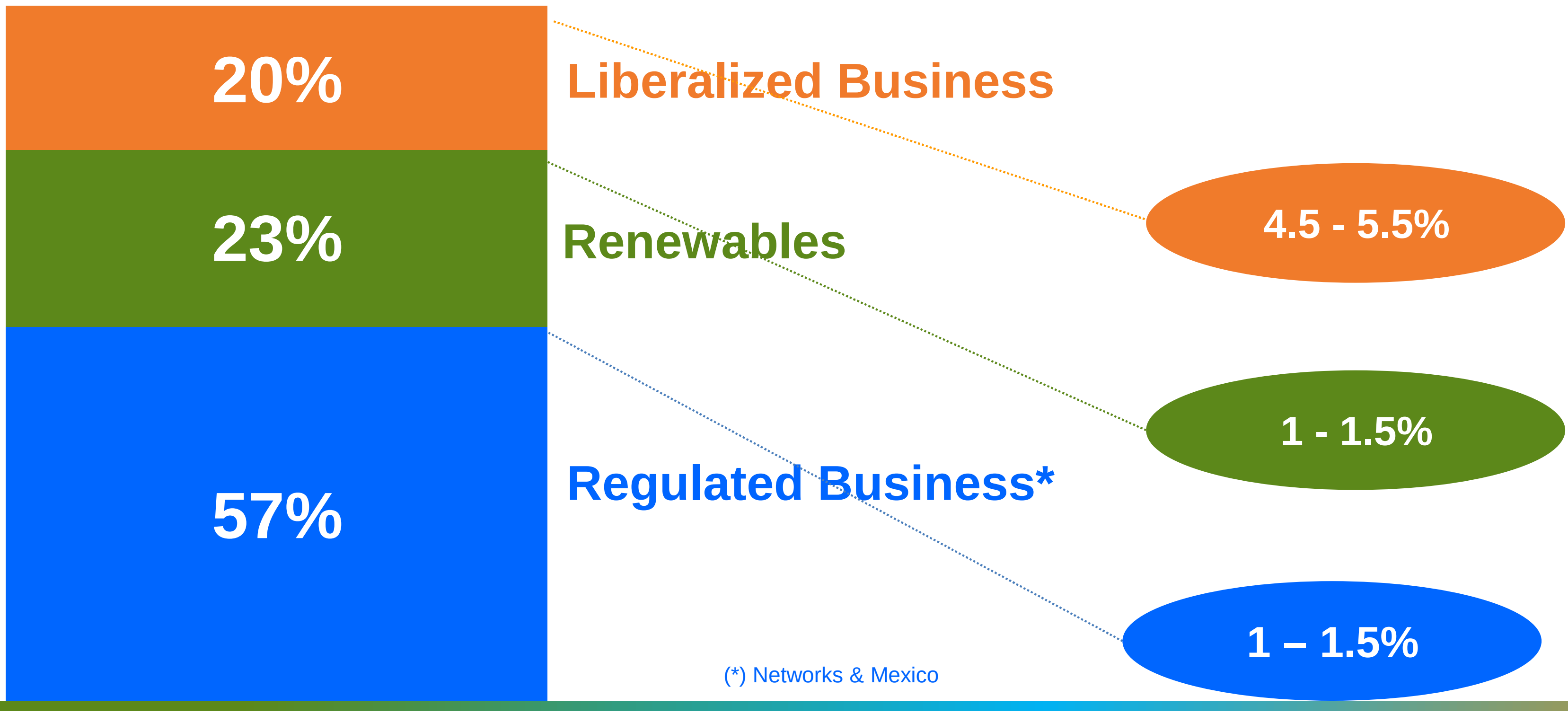
Decrease of 2020 execution risk. 90% of investments already on track.

Financial Management / Business risk

On average for 2017-2020 period, 80% of annual EBITDA originates from Regulated Business and Renewables…

Average annual EBITDA share 17-20

Risk as % of annual EBITDA 17-20



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