# OUTLOOK 2018 / 2022

London / 21 February

IBERDROLA

Iberdrola, "utility of the future":

**Building the foundations for growth in the next decade**

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# Financial Management

# Agenda

## Plan  Hypothesis

## 2017 Financial performance

## Financial strategy for 2018-2022 period

Agenda

# Plan Hypothesis

# Macro hypothesis for 2018-2022

**Higher interest rates in Eurozone, USA and UK as solid growth and inflation drive monetary policies to normalize**

**Low rates in Brazil due to a recovery scenario and controlled inflation**

| | Interest rates | | | | | | |
|---|---|---|---|---|---|---|---|
| | Average 2018-22 | | 2020 End of year | | 2022 End of year | | New financing average spreads |
| | 3M | 10Y[1] | 3M | 10Y[1] | 3M | 10Y[1] | |
| € | **0.75%** | **1.56%** | 0.90% | 1.78% | 1.60% | 2.00% | **0.84%** |
| $ | **2.82%** | **3.26%** | 2.90% | 3.35% | 3.30% | 3.50% | **1.10%** |
| £ | **1.71%** | **2.26%** | 1.85% | 2.30% | 2.55% | 2.90% | **1.20%** |
| R$ | **7.52%** | - | 7.50% | - | 7.50% | | **1.40%** |

1/ Swap 7 years for Eur, Treasury 10 years for USD and GBP

**Credit spreads stable in €, $ and £. Decreasing in BRL.**

# Macro hypothesis for 2018-2022

## New Plan assumes depreciation of all currencies vs. EUR compared to Old Plan

### Average FX rates vs. Euro


**2018 Net Profit mostly hedged**

Old plan refers to the Revision of the Strategic Plan in February 2017 while New Plan refers to Long Term forecast January 2018 (5 years average)
* February 16th 2018

# 2020 and 2022 targets / FX impact

## New targets for 2020 in line with February 17 Outlook despite significant variation in FX rates vs. February 17 hypothesis

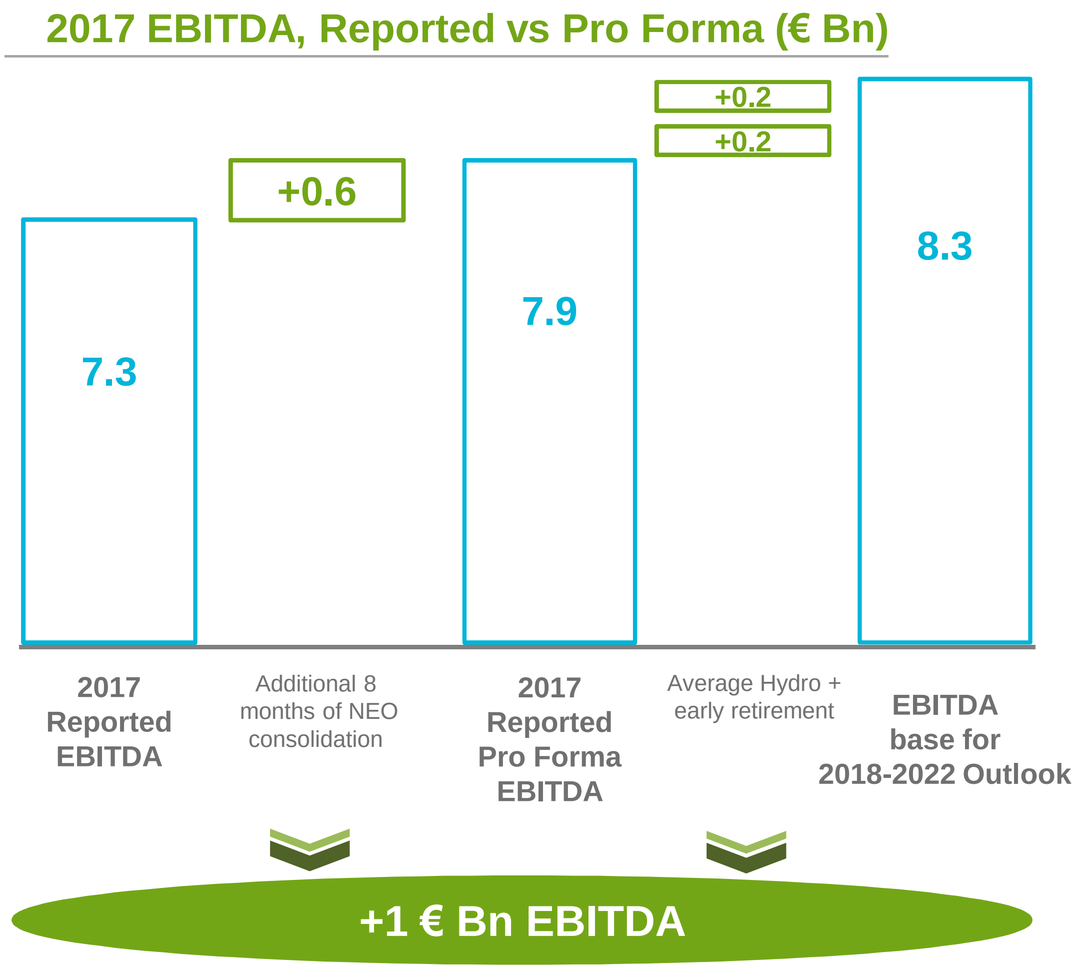
| | 2020 Old Plan target, € Bn | Main extraordinary factors: FX variation impact | Main extraordinary factors: Neo consolidation | Main extraordinary factors: New accounting* | 2020 new targets, € Bn | 2022 new targets, € Bn | 2022 new targets € Bn Old Plan FX rates |
|---|---|---|---|---|---|---|---|
| EBITDA | 10 | - 0.6 | >1 | + 0.1 | >10 | 11.5 - 12 | 12.3 – 12.8 |
| Net profit | 3.5 | - 0.25 | - | - | ~3.25 | 3.5 - 3.7 | 3.8 – 4.0 |

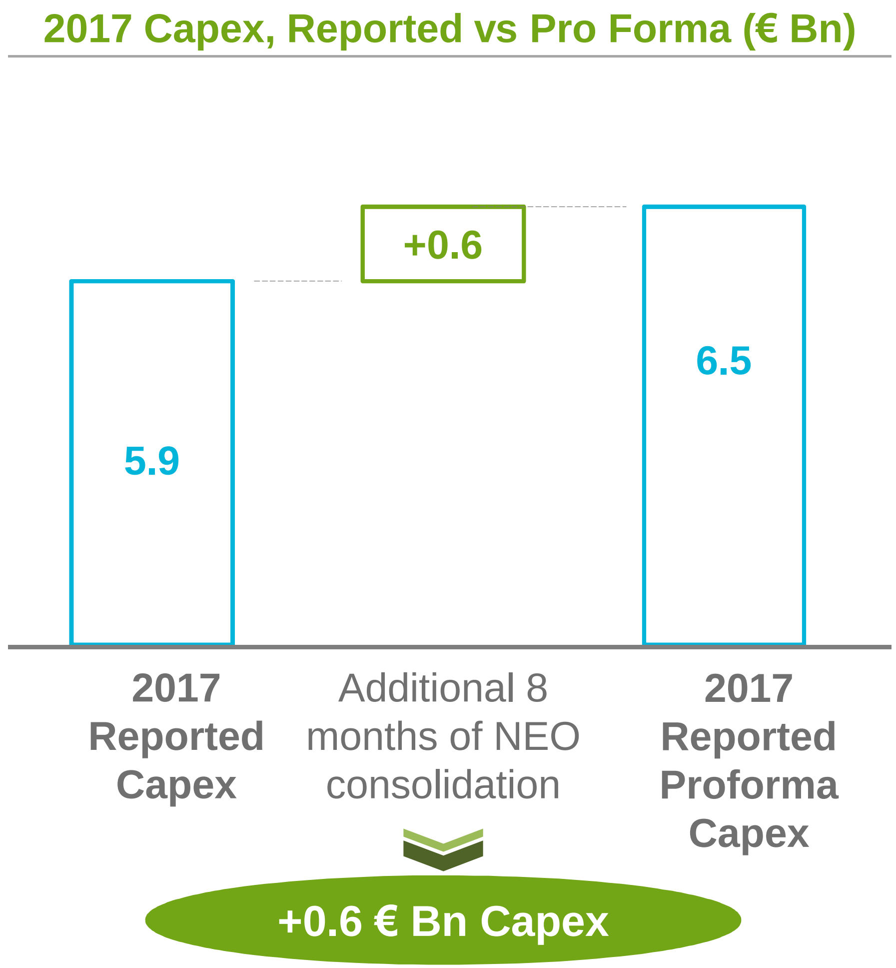
**2022 new targets: EBITDA, 11.5-12 € Bn, equivalent to 12.3-12.8 € Bn at Old Plan FX rates**
**Net Profit 3.5 – 3.7 € Bn, equivalent to 3.8-4.0 € Bn at Old Plan FX rates**

* IFRS 16 Leases,

# 2017 / From Reported to Pro Forma

**2017 Reported Pro Forma EBITDA and Capex include 1 year consolidation of Neoenergia**




**2017 base EBITDA for the 2018-22 Outlook will be Eur 8.3 Bn.**

**2017 base Net Profit for the 2018-22 Outlook will be Eur 2.8 Bn, as EBITDA effects are compensated by Non Recurring impacts***

*Gamesa capital gain and other

# Main impact of new accounting standard for leases

**Main impact of new accounting standards is an increase in Net Debt >1 €Bn that reduces FFO/Net Debt by ~0.5 p.p.***

## New IFRS 16 standard

- From 2019 new IFRS 16 accounting standard will come into place
- Main differences with respect to previous standards are:
  - Leases considered as debt
  - Leases removed from External Services (EBITDA) to increase depreciation & financial costs

## IFRS 16 impacts 2019 onwards

**Balance Sheet**

Net Debt: >1 € Bn

*0.8 – 1.0 € Bn Rating Agencies include in debt calculation*

**P&L**

EBITDA: >100 € Mn

Net Profit: ~ 0

**Cash Flow**

FFO: >100 € Mn

RCF: >100 € Mn

**Net Debt / EBITDA**

**~ + 0.1**

**FFO / Net Debt**

**~ - 0.5 p.p.**

**RCF / Net Debt**

**~ - 0.5 p.p.**

* Final impact to be determined during 2018

Agenda

# 2017 Financial performance

# 2017 Interest rate risk management

**Increase in fixed-rate structure in 2017 to 80% excluding Neo (72% with Neo) to take advantage of low interest rates reducing volatility in the financial expenses**

Debt Structure

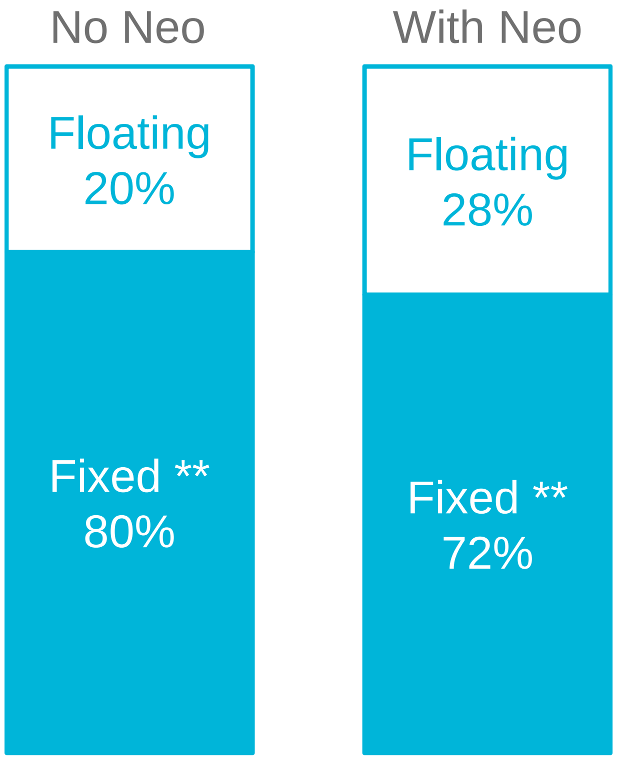

2016

- **New debt at fixed rates:**
  - 2016: 3,150 m€ (81% of Total)
  - 2017: 3,400 m€ (60%, 70% ex-Neo of total)
- **IRS Fw start at present:**

€ 2,850 Mn

$ 1.950 Mn

£ 1.280 Mn




Current

* Including the 3.2 Bn in forward swaps already fixed at 2016 year-end
** Including the 6.0 Bn in forward swaps already fixed at present

**Managing interest rate risk advancing rising trend**

# 2017 Financing

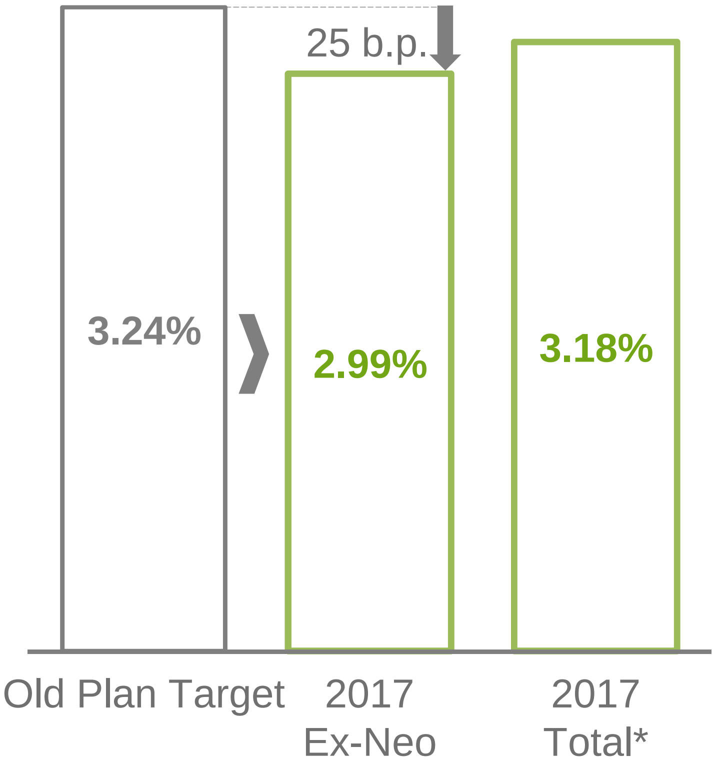
## 6.8 € Bn of new financing in different markets at very competitive levels, continuing with green financing strategy

| Total financing | Green financing – Amounts | Green financing – Details |
|---|---|---|
| **Hybrid** 1,000 € Mn | **1,000 € Mn** | **First issue ever in the Spanish Market**<br>• Coupon: 1.875% |
| **Bond market** 2,570 € Mn, 900 $ Mn, 670 R$ Mn | **2,000 € Mn**<br>**600 $ Mn** | • **Public Euro market:** All public Bonds issued in Green Format<br>• **Private Euro Market:** First Iberdrola private placement to Green investor<br>• **USD public market:** First public Bond – 600 $M |
| **Bank market** 1,600 € Mn, 1,850 R$ Mn | **500 € Mn** | • **First green loan to an energy corporation in Spain** |

- **61%** (67% ex-Neo) of new funds **raised in green markets**
- Iberdrola was the **largest company green bond issuer** in 2016 and 2017, and the **largest in bonds outstanding** worldwide
- **7 € Bn of green financing** over our debt portfolio (including Hybrid)

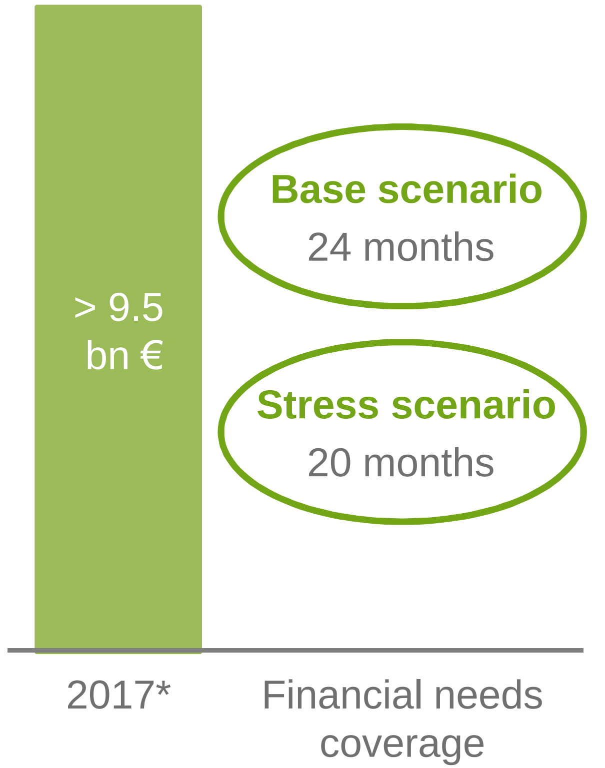
# 2017 Financial activity

## Financial cost




**Improving financial cost target: 2017 financial cost ex-NEO 25 b.p. below plan**

## Liquidity (Ex Neo)




**Fulfilment of rating agency requirements**

* Including early 2018 liquidity deals signed

## FX Risk management


Positive hedge result

**Successfully managing exchange rate risk in a volatile environment**

* Including Neoenergia from August 24th

Agenda

# Financial strategy for the 2018-2022 period

# Financial Management Strategy for 2018-2022

## Main financial guidelines for 2018-2022 period

### A Financing growth Capex …

**Strong cash flow generation**
- ~ 42 €Bn cash flow generation to finance growth

**Asset rotation: 3 €Bn**
- Non-core assets
- Minority stakes
- Low EBITDA contribution assets

**New debt**
**>3 €Bn**
**New financing structures**
➢ **2 €Bn**
**Including Hybrid and TEI**

**Partnering Green**

### B … while strengthening the financial position …

**Solvency** B1
- Strong solvency ratios

**Interest rate risk** B2
- Appropriate debt structure (fixed rate >65%)

**Financial cost** B3
- Cost of debt below 4% until 2020
- Low bank risk

**Liquidity** B4
- Optimize liquidity management
- (18 months in stressed scenario)
- Stand alone  sound liquidity policy for Neo

**FX risk** B5
- Structurally: debt currencies % to FFO´s
- Yearly: though derivatives

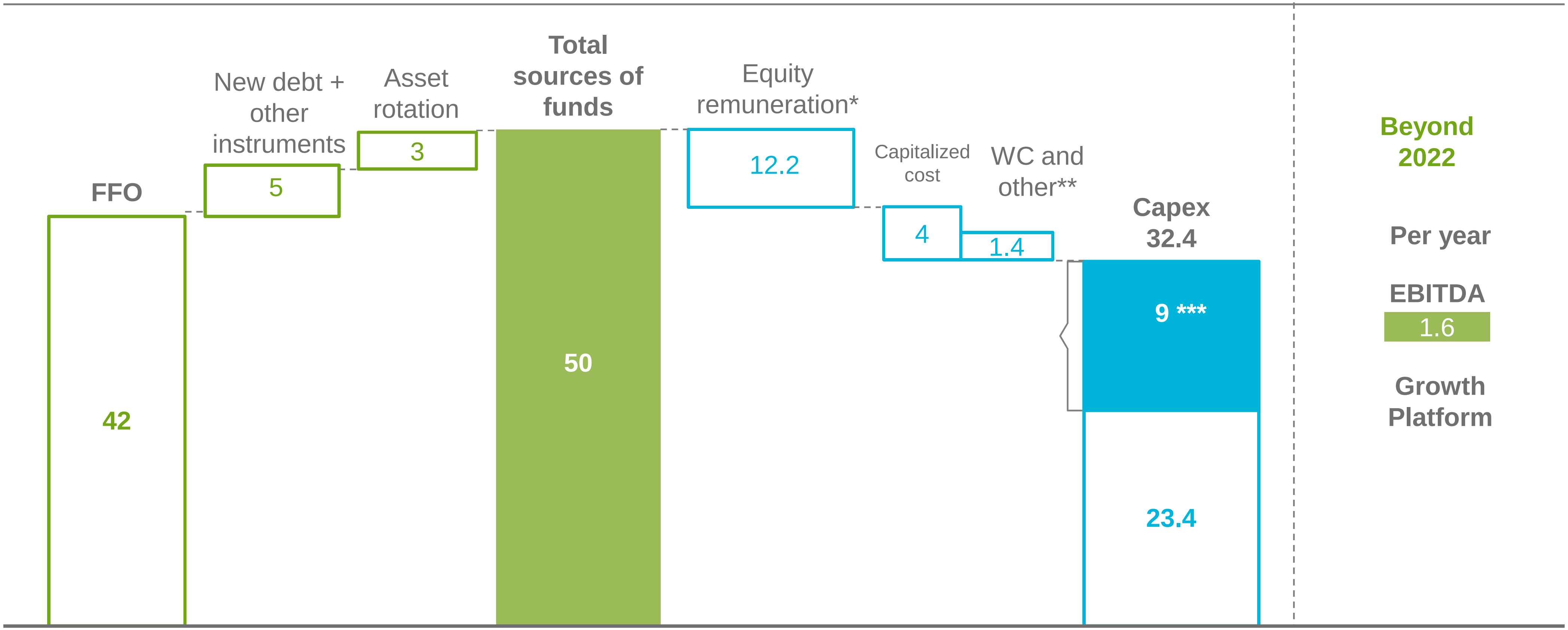
### C … allowing to sustain dividend policy

**New Iberdrola "Retribución Flexible"**
- Scrip dividend:
  - Receive new shares
  - Sell rights in stock market
- Cash dividend (new)
- Despite new cash option, in January's 2018 scrip 88% elected to receive new shares
- Maintaining 6,240 million shares as we amortize shares from scrip.

# Sources and uses of funds

## During the 18-22 period we will use 50 € Bn to fuel growth, and to maintain our dividend policy through 12 € Bn remuneration, investing 32 € Bn, 9 Bn asset under construction at the end of the period that will contribute future EBITDA growth

**Sources and use of funds 2018-2022 (€ Bn)**

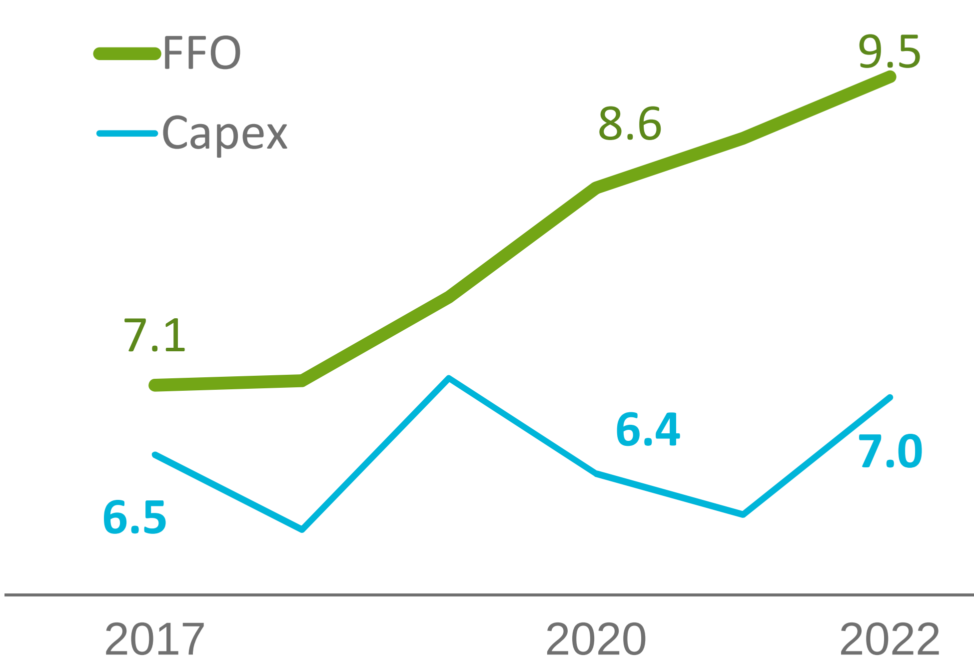



* Holding dividend: Eur 11.0 Bn, Dividend to minority stakeholders: Eur 1 Bn; Net Hybrid Debt cost: Eur 0.2 Bn
** Translation differences: 0,4 €Bn, Working Capital 0,7 €Bn, others 0.3 € Bn
*** Asset under construction at the end of 2022 (7 € Bn at beginning 2018).

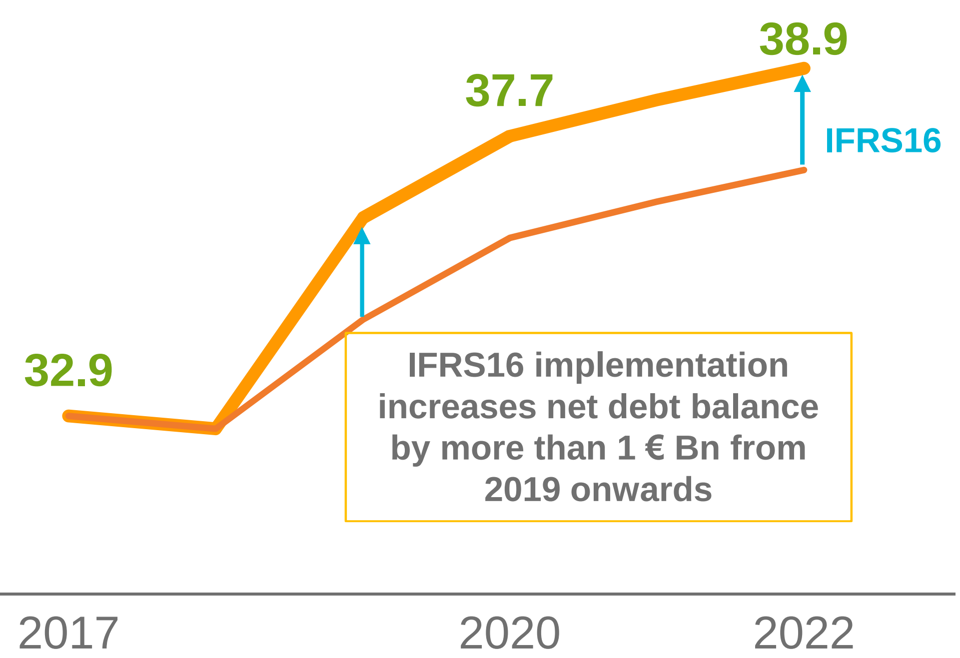
# Ⓐ Outlook: FFO, Capex and Net Debt

**Investments drive 34% higher FFO (+2.4 € Bn) while Net Debt grows 18%**

## Investments evolution vs. FFO (€ Bn)




## Net Debt evolution (€ Bn)

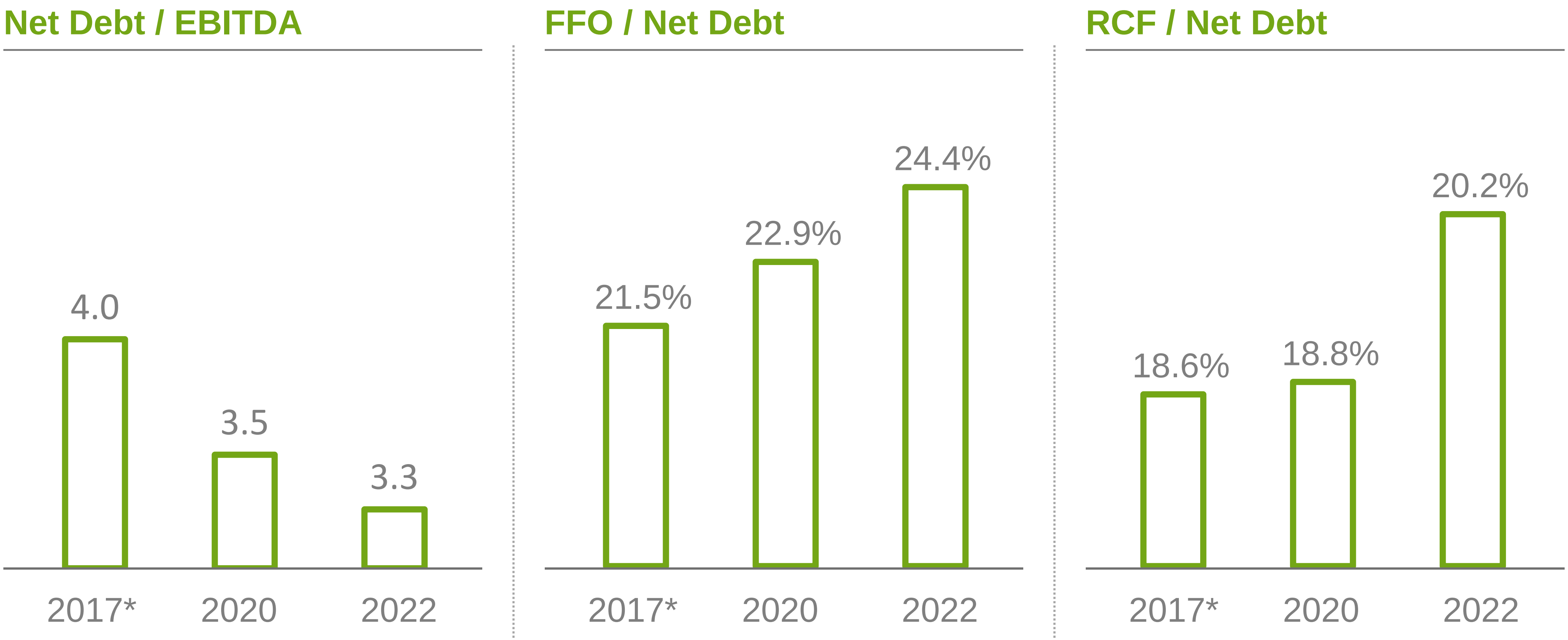



**Investments on average (transmission, distribution periods, offshore) take 3 to 4 years to generate cash flow**

* 2017 data is Proforma with Neoenergia from January, 1st

# B1 Solvency ratios

**New investment cycle will be funded maintaining financial discipline: growth in operating cash flow, new financing schemes and asset rotation …**



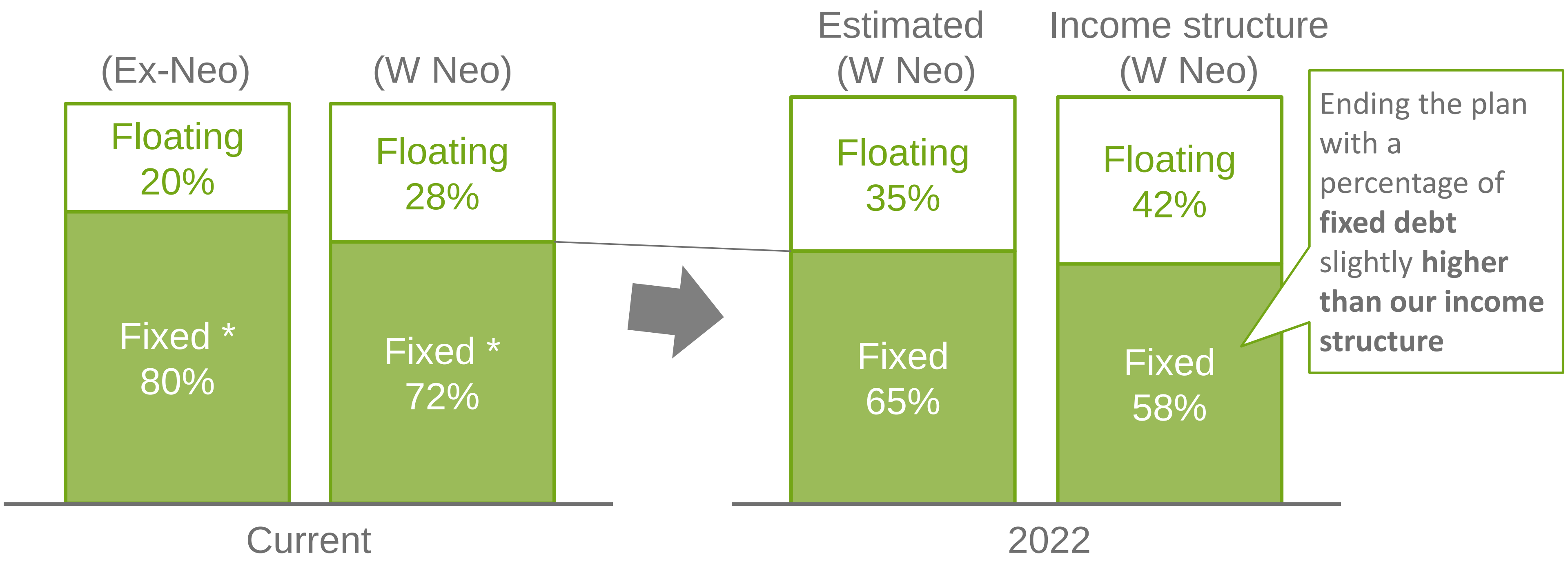

**… that jointly will maintain solvency ratios at strong levels**

* 2017 data is Proforma with Neoenergia from January, 1st and excluding "Plan Salidas" and considering average hydro impact

# B2 Interest rate risk management

## Optimum cost of capital ensured by having increased our fixed-rate structure during the last two years, anticipating the forecasted rate hike

### Debt structure




* Adding the 6.0 €Bn in forward swaps already fixed at present

**Low refinancing risk in fixed debt as we have more than 6 € Bn in forwards**

# B2 Interest rate risk management

## Debt structured to protect P&L in the short/medium term, maintaining a current high fixed percentage to protect from rising interest rates

- Duration of regulatory cycles: on average 4-5 years
- Average life of debt of 6 years guarantees re-pricing of debt post regulatory changes to adapt to new interest rate scenario

### Debt structure

| | Debt weighting* | % fixed current | | % fixed estimated | % fixed income structure |
|---|---|---|---|---|---|
| € | 45% | 75% | ↑ | 65-75% | 60% |
| $ | 26% | 96% | ↔ | 80-96% | 85% |
| £ | 17% | 76% | ↔ | 55-76% | 55% |
| R$ | 12% | 6% | ↔ | 5-15% | 17% |

- Over net debt 2018/2022 average

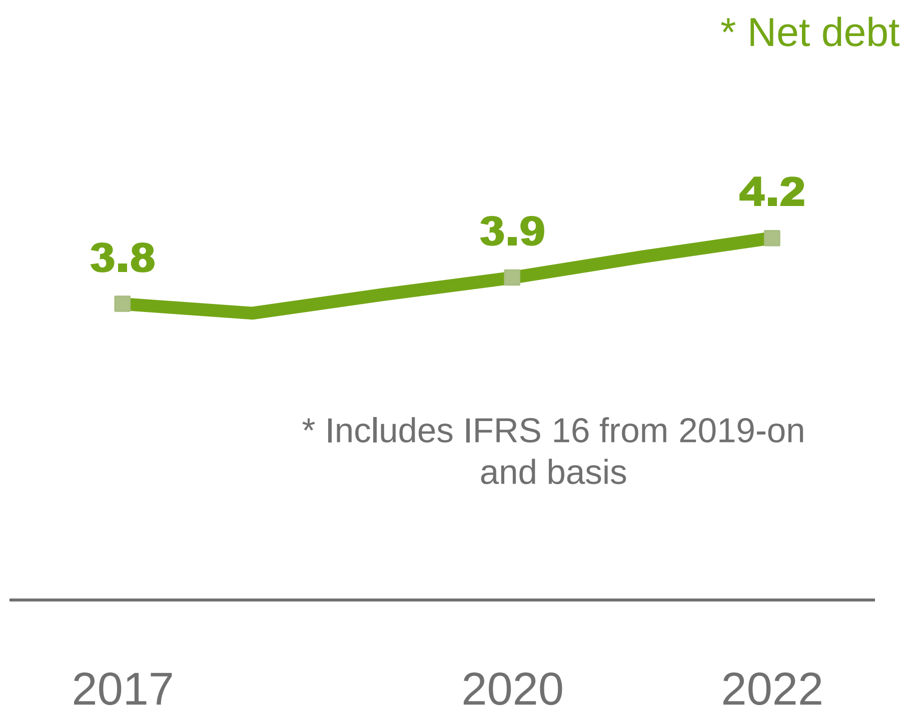
# B3 Cost of Debt

## Average cost of net debt will remain low during the Plan after including NEO, below 4% until 2020 …

### Gross debt financial cost by currencies

| | 2017 | 2022 |
|---|---|---|
| € | 1.7% | 2.1% |
| $ | 4.3% | 4.2% |
| £ | 4.9% | 3.7% |
| R$ | 9.1% | 8.9% |

### Net debt cost evolution



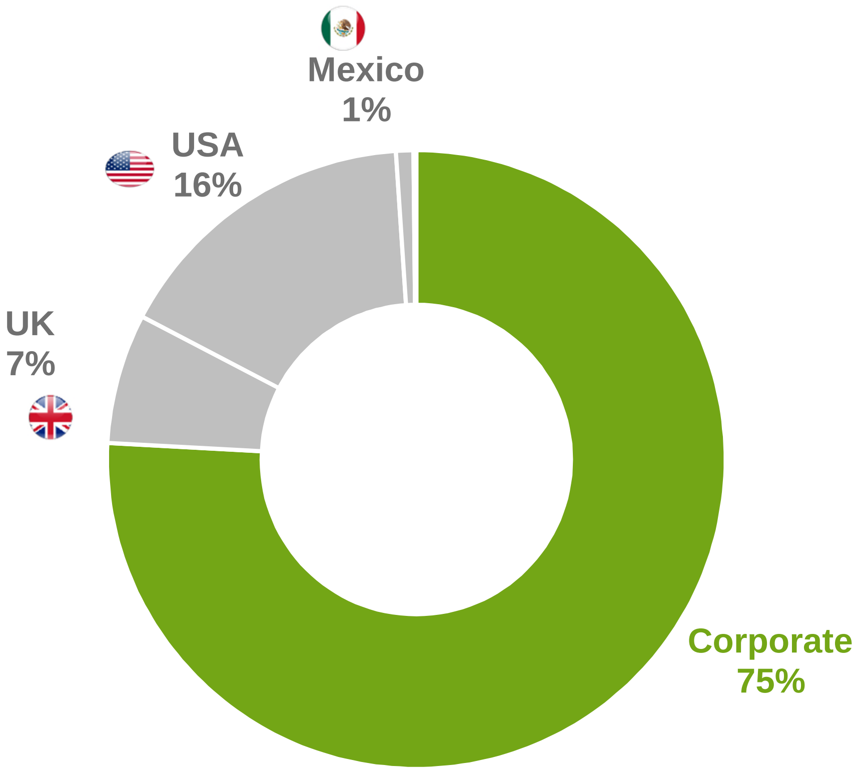

**… larger investments in Brazil and The US during the Plan drive higher average cost of debt to 4.2% by the end of the Plan**

* Includes IFRS 16 and basis

# B3 Structural subordination

## Financial model designed to follow current structural subordination guidance (ex Neo)

### Current situation*




### Subordination during the plan*

| | Average |
|---|---|
| | 20% |
| | 7% |
| | 1% |
| Other | 2% |

**Target**

To be kept below 30% threshold

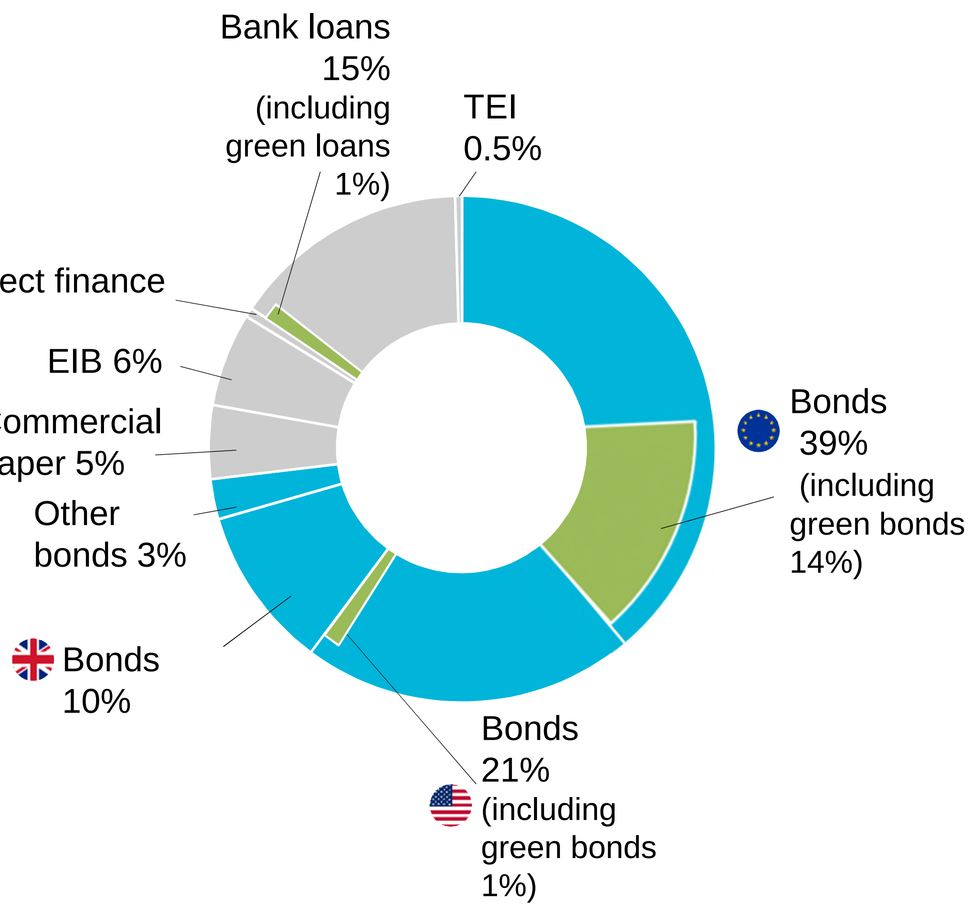
**Our model gives us flexibility to optimize non-holding company level debt based on country situation and regulatory requirements**

* Ex Neoenergia. Its debt increases structural subordination an average 10%

# B3 Debt structure per markets

**Strong diversification in sources of finance provides access to many markets with low bank risk and very competitive conditions**

## Current debt structure per markets




## During the plan

**Green financing**

- Increasing importance of green financing (# 1 private issuer in 2016 and 2017)
- In bonds 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

**Supra-national lenders (EIB)**

- Iberdrola considered strategic partner

# B4 Liquidity

## Active liquidity management, maintaining ~ 8-10 € Bn, with room to increase if required

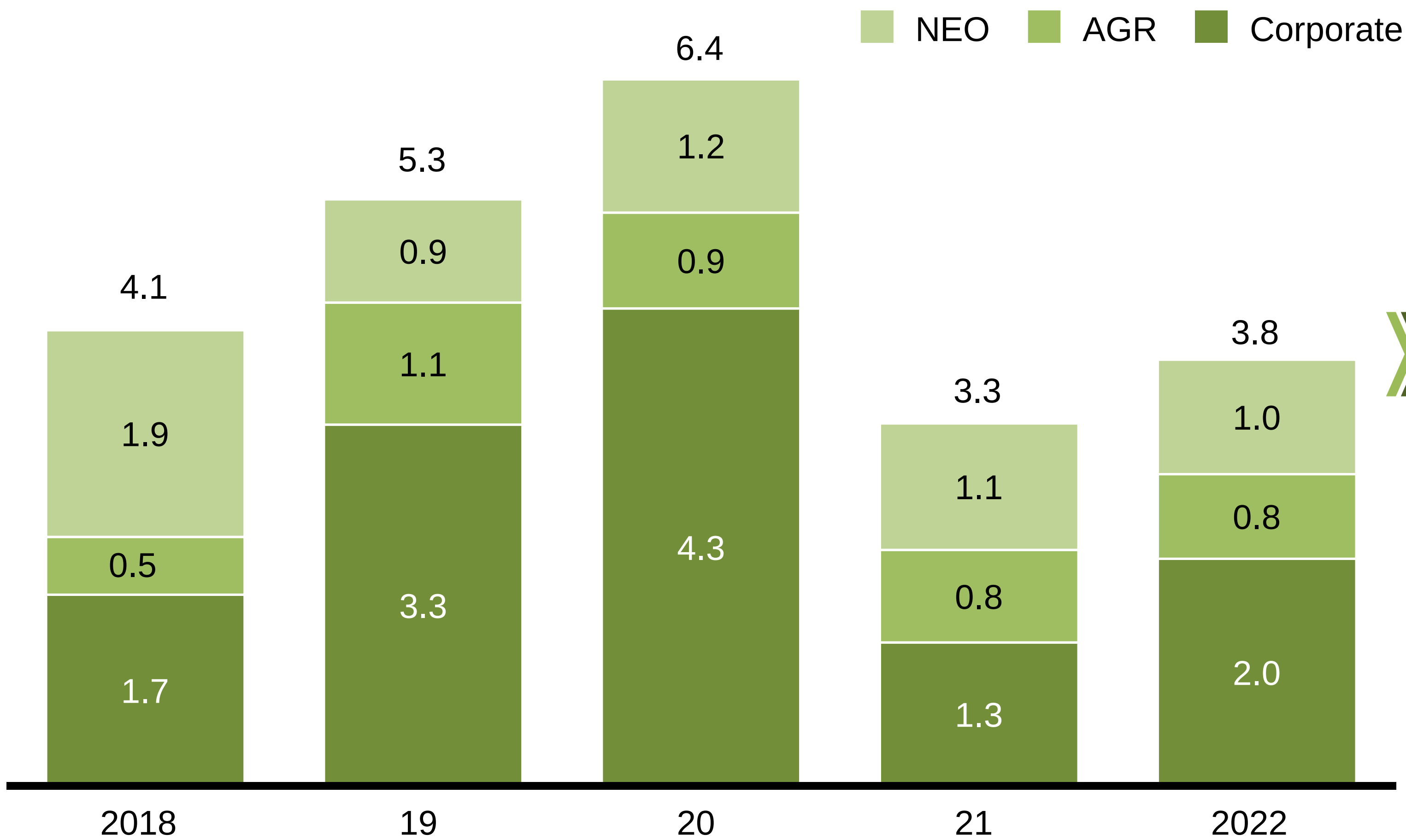
| Target | Liquidity management criteria | |
|---|---|---|
| Cover **18 months** in stress scenario | **Rating agencies' requirements** | ▪ **Comply:**<br>▪ **S&P: 12 Months Sources / Uses > 1.2**<br>▪ **Moodys: 18 Months in risk scenario** ✓ |
| | **Cost** | ▪ **Minimize:**<br>▪ Reduce cash and increase credit lines ✓ |
| | **Allocation** | ▪ Maintain **sufficient liquidity in each country** and managed it according to the different markets and needs ✓ |

**Neoenergia has its own liquidity policy that covers 12 months of financing needs**

# B4 Financing Policy

## Financial needs have a comfortable maturity profile over the period

**Coverage allocation** (€ Bn)



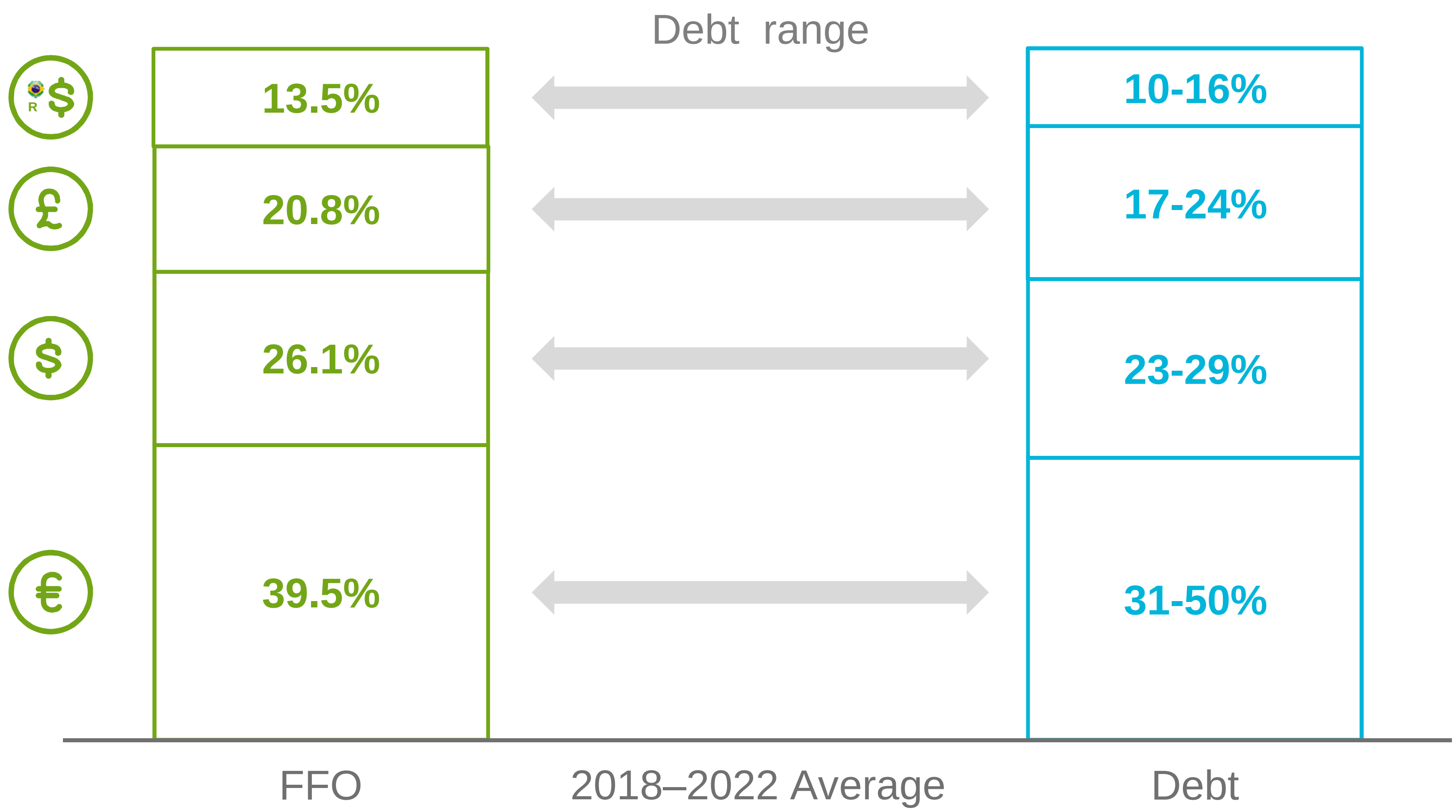

- Moderate financial needs thanks to a **comfortable debt** maturity profile and **strong funds generation**
- **Main source of financing** will be **Holding** (55%) but **USA and Brazil** will **access** financing markets too (17% and 28% respectively)
- Aim to maintain **average debt life of 6 years** (excluding Neo, which has an average life < 3 years)
- **Neoenergía has a higher turnaround** in needs as average debt life is shorter (<3 years)

**Will be financed mainly from the Holding (55%)**

# B5 FX risk management: structural

**Structural FX hedge is taken by having the debt in the same currency and similar % as the funds from operations**

**Minimize FFO / Net Debt ratio volatility**



# B5 FX risk management: yearly

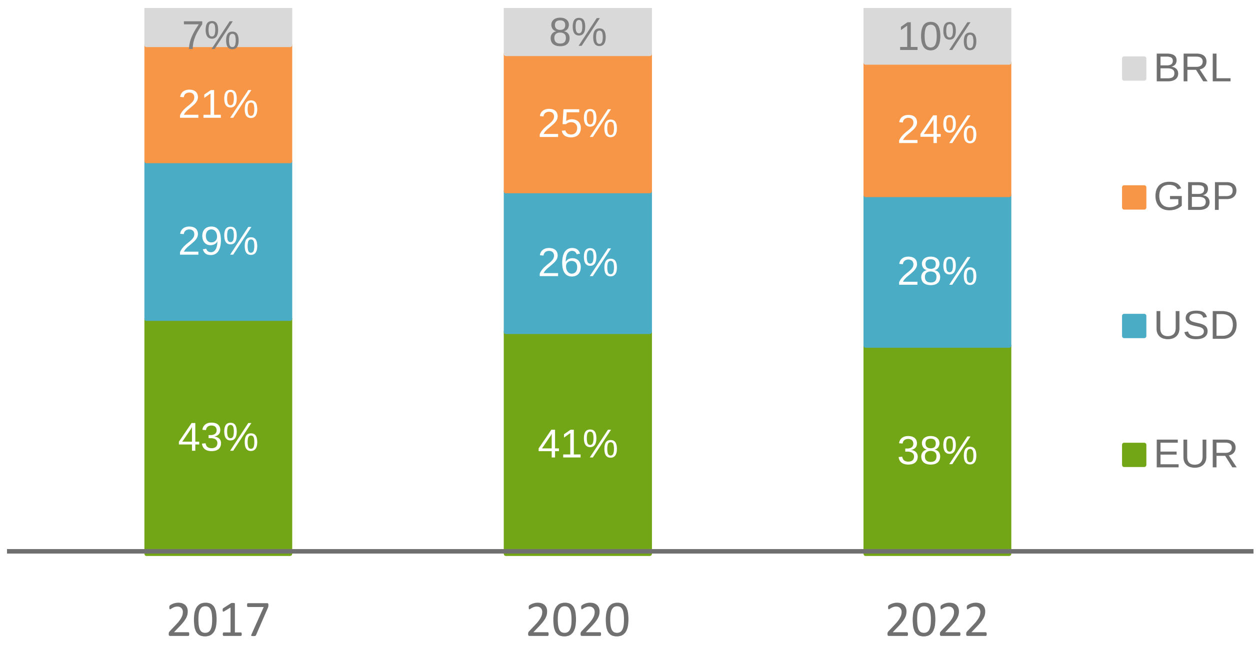
## FX risk in the Profit & Loss account is minimized through derivatives

**Target**

**Hedging Net Income FX exposure in currencies other than Euro**

Maximum risk allowed:
**150 €Mn per year**
~5.0% of average Net Income

**Net Income by currency**




**Almost 100% of the 2018 risk position already hedged: USD, GPB and BRL**

# C Shareholder remuneration

**Despite new cash option, in January's 2018 scrip 88% elected to receive new shares versus a 62% average in the previous 15 scrips**

**New "Iberdrola Retribución Flexible" (Scrip dividend)**

**Scrip dividend:** historically high demand

**A** — **Receive new shares**

**B** — **Sell rights in stock market**

*In response to some institutional investor needs…*

**C** — **Cash dividend New**

*…substituting the sale of rights to Iberdrola at guaranteed price*

**Maintaining…**

- ✓ **… share buy-back program to avoid dilution**
- ✓ **… two payments: interim and supplementary shareholder remuneration**

* The traditional 0.03 € of cash dividend paid in July will disappear and all the remuneration will go through the new scrip dividend formula which already contemplates a 100% cash dividend alternative