IBERDROLA

OUTLOOK

19th FEBRUARY
LONDON

2014/16

2014-2016 Strategic Pillars

Ignacio S. Galán, Chairman and CEO

Agenda

The Global Scenario

Strategic Pillars

Projections 2014-2016

Conclusion

The Global Scenario - Energy

Moderate growth trend in the medium- and long-term, driven by economic recovery

Demand	Europe: slight growth supported by UK USA: growth in line with macro and industrial recovery Brazil and Mexico: growth in line with GDP
CO2 prices	Slight increase due to the implementation of backloading, EU 2030 reduction targets and improvements in CO_2 market
Commodities prices	Forecasts remain stable for oil and coal Expected reduction of gap between gas prices in USA and Europe
Energy prices	UK: slight increase due to reserve margin reduction and introduction of carbon price floor Spain: normalisation due to macro recovery and higher thermal gap

Energy Challenges and Opportunities

Fulfilling current energy policy objectives will imply a great investment effort…

Electricity sector investment needs (2012-2035)

European Union	USA	Latam
USD 2.6 trillion	USD 2.3 trillion	USD 0.8 trillion

Transmission and distribution networks
Interconnections
Renewable capacity
Back-up capacity (CCGTs)
Efficiency measures
Energy storage
Smart grids
…

… which requires predictable and stable regulatory frameworks as is the case in US and Latam countries where we are present

Source: International Energy Agency, World Energy Outlook 2012, New policies Scenario

Energy Challenges - Europe

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But regulatory uncertainty in some European Member States…

Lack of a clear energy policy

+

Unstable & unpredictable legal and regulatory frameworks

+

Excessive taxes, charges, levies…

Unattractive returns

- Higher prices for consumers
- Loss of competitiveness for the industry
- Increase in CO_2 emissions despite large investment in renewables
- Value destruction and limited access to finance for utilities
- Long term supply at risk (50 GW mothballed or decommissioned)

… has hindered the fulfilment of energy policy objectives

Energy Challenges - Europe

Some European Member States are beginning to understand the problem and fostering a change in trend…

FROM a model in which political decisions negatively affected consumers, industry and utilities

TO a model balancing both affordability and environmental targets

- *Clean up tariffs of charges not related to energy supply*
- *Auction mechanisms instead of feed-in tariffs for renewables*
- *Limits on investment in non-mature renewables*
- *Capacity payments*
- *CO_2 backloading and global emissions targets up to 2030*
- *Rational regulation for distributed generation*

Energy Challenges - Europe

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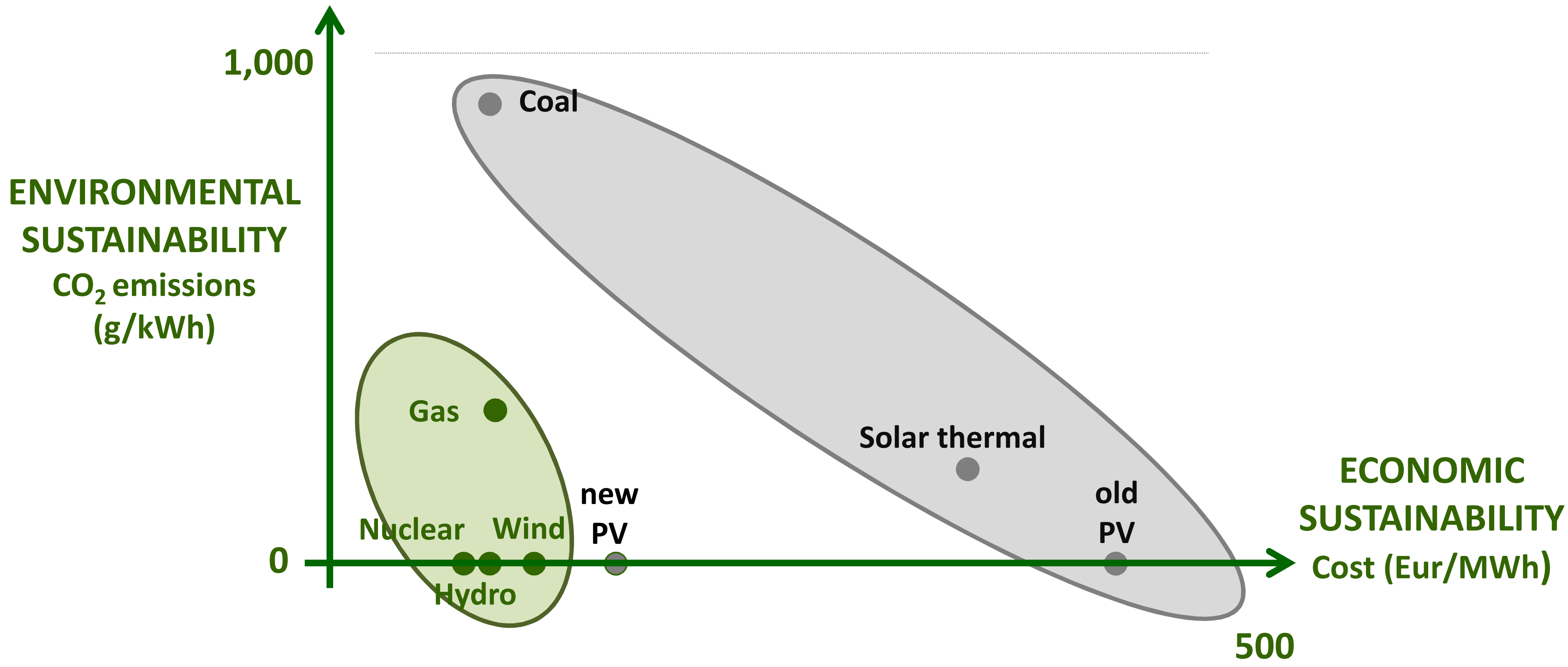
… and new EU energy guidelines and initiatives support an optimal balance between environmental and economic sustainability…



… to ensure security of supply

Source: Company estimates based on remuneration perceived in 2012 by technology in Spain

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Maintaining our strategic pillars…

Balanced risk profile

- More than 80% of investments in regulated businesses
- Increasing geographic diversification

Operational efficiency

- Costs flat for existing businesses
- Headcount reduction to around 27.000 employees

Financial strength

- Net Debt reduction to Eur 25 bn improving financial ratios
- Portfolio management

… to provide a shareholder remuneration floor of Eur 0.27 per share, with potential growth in line with Net Profit

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Balanced Risk Profile

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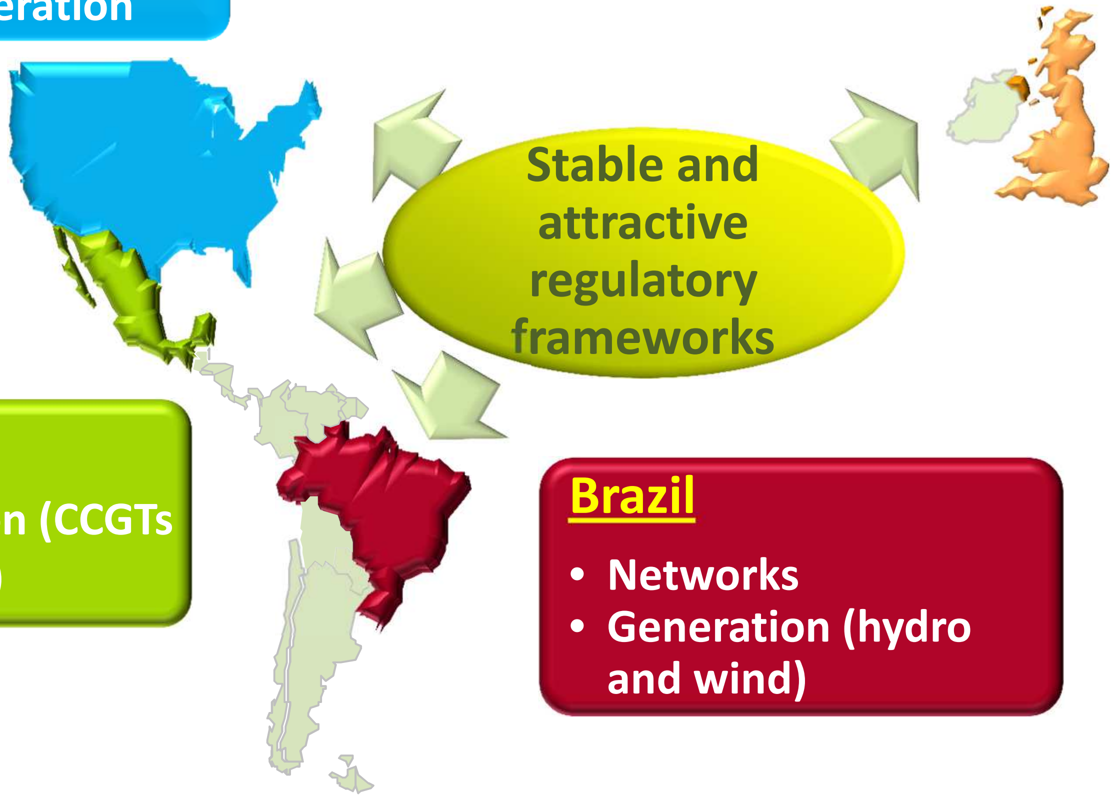
Focus in countries with opportunities to boost growth and with stable and attractive frameworks

USA
- Networks
- Wind generation



UK
- Networks
- Wind generation

Mexico
- Generation (CCGTs and wind)

Brazil
- Networks
- Generation (hydro and wind)

Strategic vision by country

UK	• Investments in network infrastructures (RIIO-T1 up to 2021, DPCR5 up to 2015 and RIIO-ED1 up to 2023) • Investments in onshore and offshore wind • Additional efficiency measures in Wholesale & Retail • Operational efficiency in wind farms and networks • If attractive capacity mechanism, investment in generation
US	• Investments in network infrastructures with a defined regulatory framework • If PTCs extension, investments in renewables • Further optimization of the corporate structure

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Strategic vision by country

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Mexico	<u>Opportunities from Energy Reform</u> • New CCGT and wind generation • Potential investments in transmission • Supply contracts with private consumers and CFE
Brazil	• Further optimization of existing businesses to maximize dividends • Investments in networks to satisfy demand growth
Spain	• Additional efficiency measures • Quality of service in line with remuneration framework

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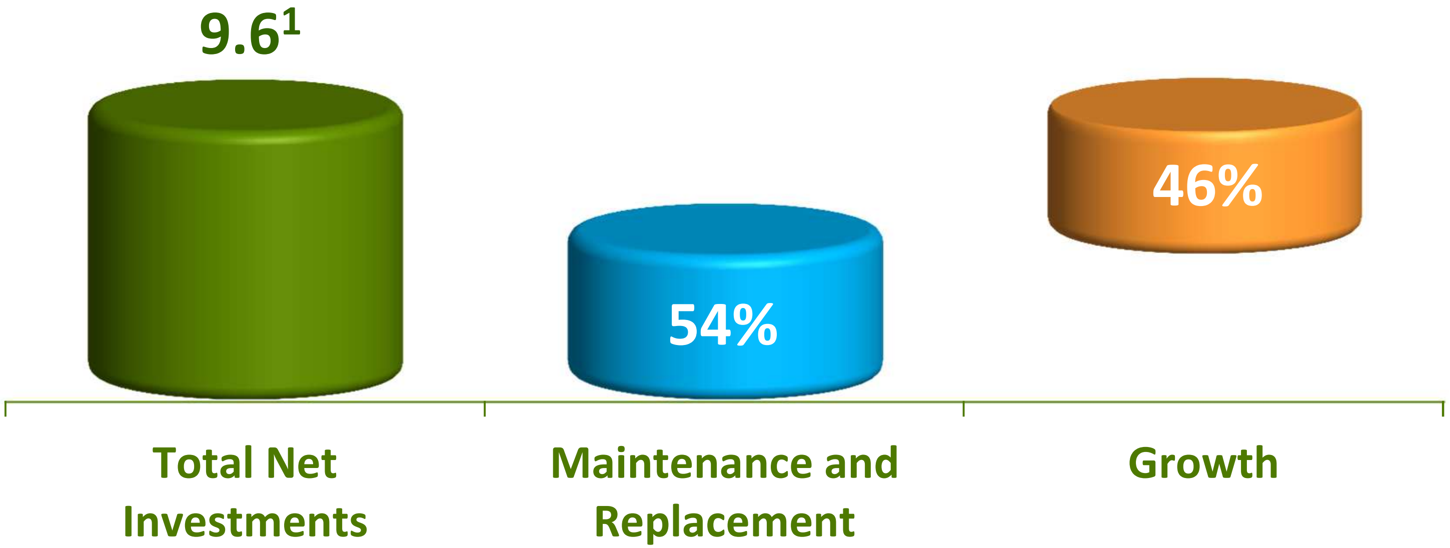
2014-2016 Investments

Eur 9.6 bn to be invested during the period…

2014-2016 Investments

Eur bn



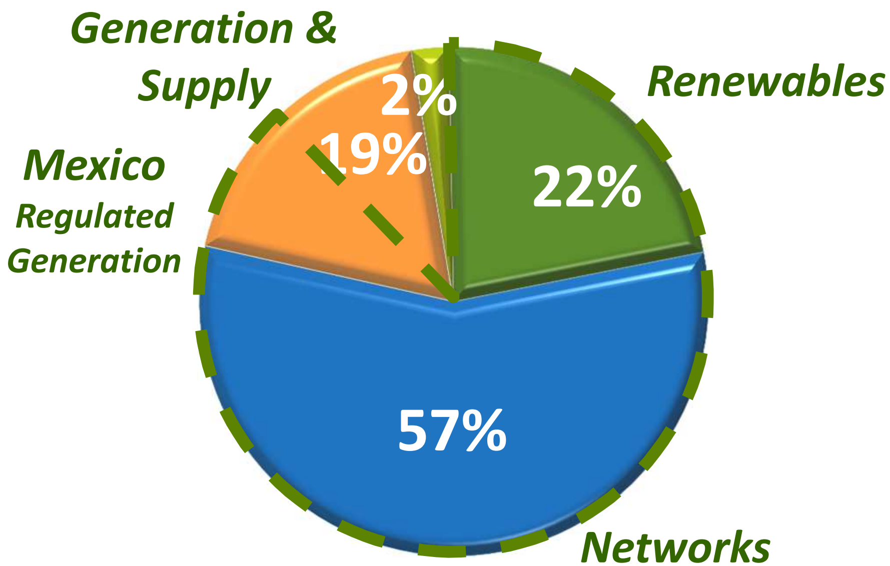
… with Eur 4.4 bn focused on growth

1. Net of grants and not including capitalised costs

2014-2016 Investments

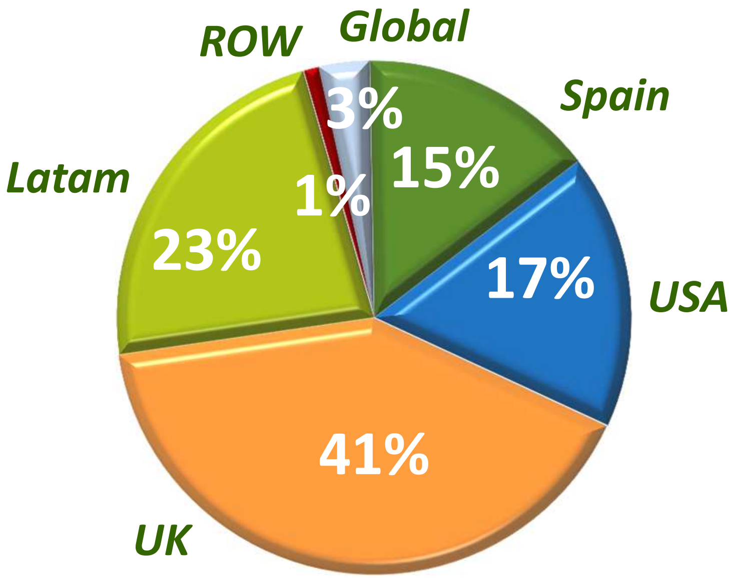
Investments focused in businesses and countries with predictable and stable regulation

Investments by Business[1]



Regulated Businesses
88%

Investments by Country[1]



88% in regulated businesses

1. Including investments in Neoenergia projects which are not consolidated under IFRS 11

2014-2016 Investments

Investments in networks and regulated generation

Networks

- USA: HV line in Maine (MPRP)
- UK: RIIO-T1, DPCR5, RIIO-ED1, Western HVDC, smart meters
- Brazil: increasing demand and new connections
- Spain: smart meters

Renewables

- Offshore wind - West of Duddon Sands in UK + new projects
- Onshore wind - UK, USA, Mexico and Brazil

Generation

- 3 CCGTs in construction in Mexico (Norte III, Baja California, Monterrey enlargements)
- 3 hydro plants in construction in Brazil (Belo Monte, Teles Pires, Baixo Iguaçu)[1]

Potential additional investment opportunities beyond 2016

1. Neoenergia projects not consolidated under IFRS 11

2014-2016 Operational Efficiency

Personnel and External Services Expenses remain flat…

Personnel

Headcount reduction of 1,000 people in existing businesses

Around 27,000 employees by the end of 2016

External services

Structure optimisation

Procurement management

Management of processes

… contributing to efficiency improvements

2014-2016 Outlook

After the impact of fiscal & regulatory modifications in Spain, 2014 is an earning floor

	2014e[1]	CAGR 2014-2016
EBITDA *Eur bn*	≈6.6	around 4%
Net Profit *Eur bn*	≈2.3	around 4%

Growth potential from 2015 onwards

1. IFRS 11 applied

2014-2016 Financial Strength

Net Debt reduction of Eur 1.8 Bn to Eur 25 Bn…

Operating Cash Flow (FFO) exceeding investments across all businesses

Investments of Eur 9.6 Bn

Divestments of Eur 500 M
(in addition to the Eur 2 Bn Plan announced)

Portfolio management

… and improving financial ratios: leverage ≈40%, Net Debt/EBITDA<3.5 and FFO/EBITDA>22%

2014-2016 Growth Drivers

Growth drivers in 2014-2016

Management actions

Investments:

- New capacity in regulated generation (Mexico, Brazil)
- New capacity in renewables (UK, USA, Mexico, Brazil)
- Networks infrastructures extensions (UK, USA, Brazil)

Operational efficiency

Financial costs reduction

Potential additional growth in EBITDA could come from Improvements in market conditions and energy prices

Shareholder Remuneration

Sustainability of shareholder remuneration policy is a priority

Minimum shareholder remuneration	Eur 0.27 per share
Scrip dividend + Treasury stock redemption	Scrip dividend maintained if tax advantages continue Treasury stock redemption to avoid dilution
Number of shares	Maintained at 6,240 million
Pay-out	In line with companies with similar business profile (mid 60s-mid 70s)

Compatible with solid financial ratios

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A business model that responds to the global energy environment

International diversification

Presence in countries with adequate regulatory frameworks and in countries where regulation begins to improve

Balanced business profile with focus in regulated activities

High quality of assets

Increasing financial strength

Proven Management track record

With a strong commitment to sustainable shareholder remuneration

2014-2016 Outlook

2014 is a floor, after which diversification will provide sustainable growth

EBITDA & Net Profit	CAGR around 4% from 2014
Financial strength	Net Debt target of Eur 25 bn Improved financial ratios
Investments	Eur 9.6 bn, focused in regulated businesses c. 50% in growth opportunities

Shareholder remuneration floor of Eur 0.27 per share

Beyond 2016

Our model will allow us to boost growth beyond 2016…

Projects undertaken in 2014-2016
will provide higher contribution to results

Additional investments in stable and attractive
businesses and countries

Further efficiency measures:
Structure optimisation and additional headcount reduction

Portfolio management to explore new opportunities for growth

… to increase shareholder remuneration in line with results