IBERDROLA

OUTLOOK

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Financial Management

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Agenda

- **Financial Strategy for 2014-2016 period**
- Risk Management
- Conclusion

Financial Management
Macro hypothesis for 2014-2016

During 2014-2016, financial markets should keep improving due to better macroeconomic expectations

Baseline scenario assumes low interest rates until 2015, increasing afterwards. Stable currencies / FX

Debt markets situation: New financing spreads in Spain will continue to improve due to better macro scenario

Interest rates: Expected to continue to be at historical minimums in Europe and recovery in UK and US. Stable in Brazil.

	€	US$	GBP	BRL
	3m/5y	*3m/5y*	*3m/5y*	*CDI*
2014	*0.39/1.80*	*0.41/2.31*	*0.61/2.07*	*10.50*
2015	*0.75/2.32*	*0.90/2.48*	*1.20/2.48*	*10.00*
2016	*1.15/2.40*	*1.25/2.65*	*1.85/2.90*	*9.50*

FX rates*: No significant movements expected

	$/€	GBP/€	$/Brl
2014	*1.31*	*0.83*	*2.40*
2015	*1.30*	*0.82*	*2.40*
2016	*1.29*	*0.81*	*2.36*

* Selected average compiled by Bloomberg as of February, 10th

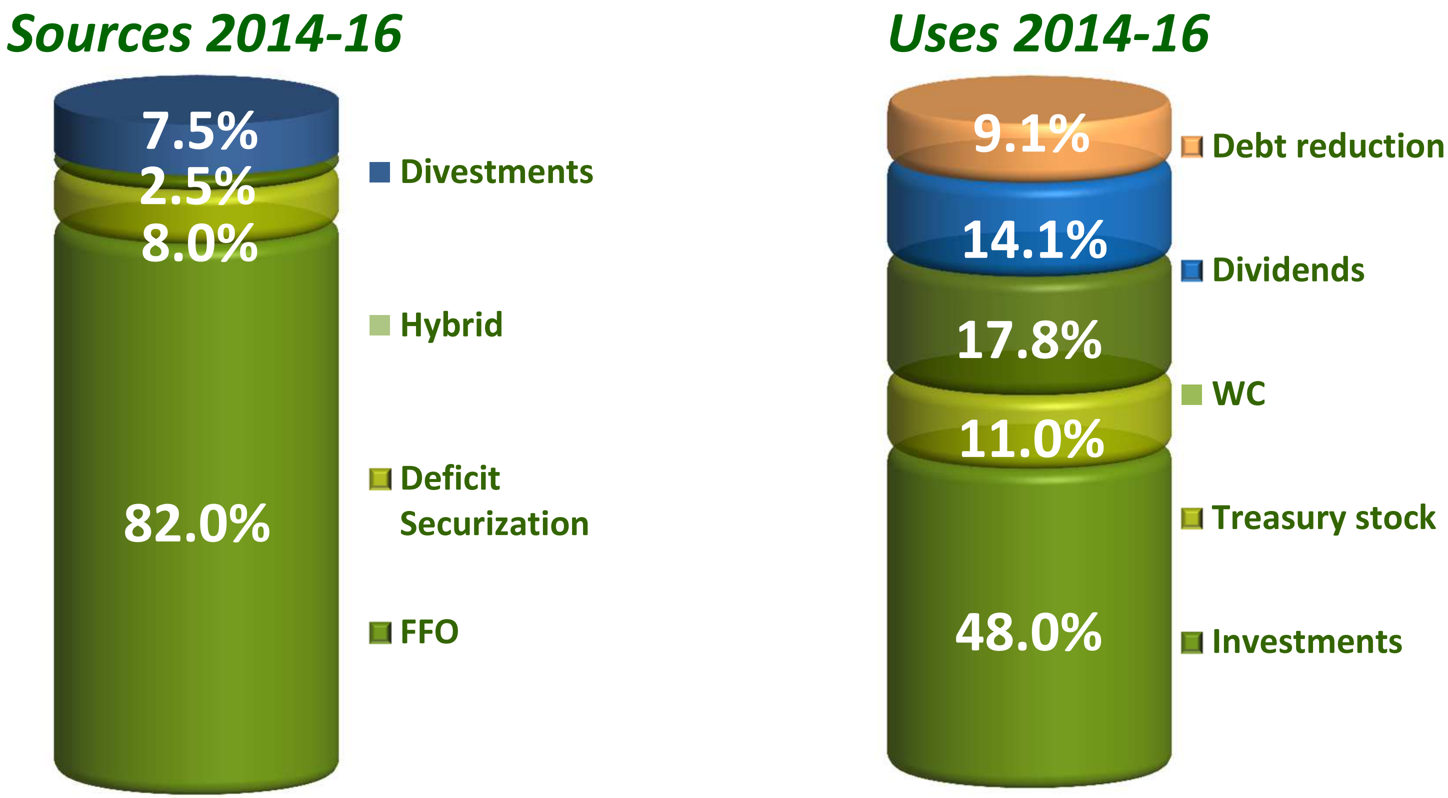
Financial Management
Targets / Financial Outlook

Net debt expected to reach Eur 25 bn (IFRS 11) in 2014 and to be stable in 2015 & 2016

Positive cash flow generation	Based on expected FFO evolution, investment control and further divestments
Sustainable shareholder remuneration policy	Sustainability of shareholder remuneration policy is a priority Compatible with solid solvency ratios Treasury stock redemption to avoid dilution
Hybrid issue	Assuming current conditions, small issue to finance growth investments in 2014-2016 plan
Tariff deficit securitisation	During 2014 all the 2013 tariff deficit should be collected. From 2014 onwards there should be no tariff deficit

Financial Management
Sources and uses of funds

The Group will generate around Eur 20 bn in the 2014-2016 period…



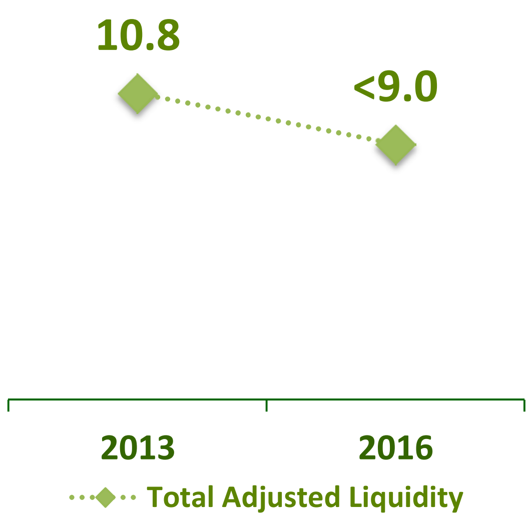
… leading to a Eur 1.8 bn debt reduction

Financial Management
Liquidity

Adaptation of liquidity policy to current market conditions maintaining 24 months coverage even in a stress scenario…

Liquidity expected evolution

Eur bn



Targets

Optimizing liquidity through lower cash balances

Extending maturity of credit lines

Reduce liquidity cost

… to improve financial cost

Financial Management
Tariff Deficit

From 2014 onwards there should be no Tariff Deficit
During 2014 all of the 2013 tariff deficit should be collected
(Eur 1.3 bn estimated for Iberdrola)

According to 24/2013 Law

Structural tariff deficit permanently eliminated

If occasional deficit arises, this cannot be higher than 2%* in one year nor 5%* cumulatively accrued and it will be collected over the following 5 years via settlements

If limits were exceeded, the access fees will be automatically increased to correct the surpassed amount during the following year

Due to timing differences between collections and payments, a temporary financing will be required which will be corrected in the following settlements

Financing will be supported by all players with regulated incomes
Iberdrola Group financing share reduced to ≤15% vs current 35%

* Imbalance between regulated costs and collections

Financial Management
Financial model

Financial model evolution in progress to provide appropriate economic signals

- Regulated subsidiaries aiming for a Balance Sheet structure consistent with regulatory guidance in every jurisdiction
- New financing needs in regulated entities raised at the entity level
- Appropriate capital structure for an active portfolio management

The model is designed to respect current structural subordination guidance

Financial Management
FX risk management

Financing plan implies more non-euro debt (up to 60%) to cover financial needs outside of Euro zone

FX risk management

Structurally	Each year
Manage Debt currency breakdown to match FFO and hedge solvency ratios	Minimize FX exposure on P&L through debt and derivatives
FFO / Net Debt ratio protection	Risk position: Net profits – Holding Financial expenses in currency

FFO vs Debt

Net Income at risk with 95% confidence is around 8% of the expected 2016 Net Income

In 2014, 81% Real already hedged, GBP 83% and USD 76%

* Correlated risk

Financial Management
Interest rate risk management

Debt structure based on economic cycle and business cash flows with a forecasted floating range of 45% to 60%…

Floating and capped structure

	% over Debt*	Range by currency (%)
Euro	65	50-60
USD	11	15-25
GBP	19	35-45
BRL	5	85-95

Rationale

- Euro: Economic cycle supports floating rate. Closely monitoring macro indicators to change strategy (inflation)
- USD: Cash flows mostly fixed (PPA + pass through); Changing economic cycle in US
- GBP: Inflation linked cash flows allow floating structure
- BRL: Mostly floating; Difficult market to obtain fixed references

… which will allow gross cost of debt to be maintained at around 4%

* 2016e. Including financial cost

Financial Management
Solvency ratio targets

Strengthening Iberdrola' solvency ratios in the 2014-2016 period

	Iberdrola 2016 targets
FFO / Net debt	> 22%
RCF / Net debt	> 18.5%
Net Debt / EBITDA	< 3.5X
FFO / Interests	> 6.0X

Financial Management
Shareholder remuneration policy

Treasury stock redemption after shareholders approval to offset the initial dilution from the share issuance under the scrip dividend scheme

During Q2 of each year

Q1	Scrip dividend (Interim – January)
Q1 / Q2	Shareholders Meeting Approval of share buy-back
Q2	Treasury stock redemption: 6,240 million shares reached
Q3	Scrip dividend (Final - July)

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- **Risk Management**
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Financial Management
Risk Sources

The main sources of business risk are regulation, prices and exchange & interest rates

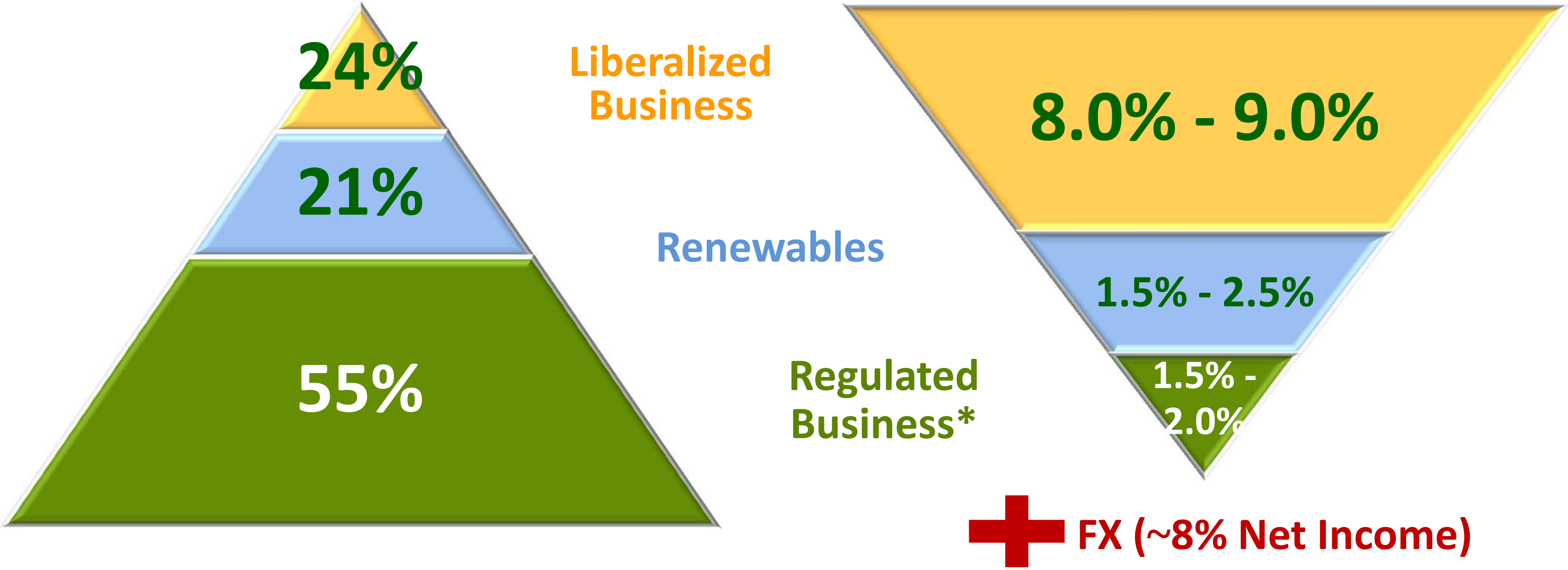
Regulation	Involves all Group but difficult to quantify
Prices, Spreads	Changes in wholesale and retail market affect margins
FX	56%* of EBITDA outside Eurozone
Interest rates	Balance fixed/floating interest rate structure Flexibility to benefit from low interest rate environment
Weather	Hydro (Spain) & wind resource variations introduce volatility in the production figures, offset in mid-long term
Demand	Low impact in Spain but more relevant in the UK due to gas business supply

* 2016e

Financial Management
Business risk management

76% of EBITDA originates from Regulated Business and Renewables…

Contribution to 2016e EBITDA *Risk as a % of total 2016e EBITDA*



… which have inherent stable earnings profiles, excluding regulatory risk

* Networks and Regulated Generation (Mexico)

Agenda

Financial Strategy for 2014-2016 period

Risk Management

Conclusion

Financial Management Conclusions

Iberdrola's financial strategy for 2014-2016 focuses on maintaining a strong financial profile...

through

- Targeting 2016 Net Debt of Eur 25 bn
- Strengthening our solvency ratios
- Optimizing liquidity position
- Managing actively our interest rate and FX risks
- Transiting to a decentralized financial model

… compatible with a sustainable shareholder remuneration policy