



**IBERDROLA**

**OUTLOOK**

19<sup>th</sup> FEBRUARY  
LONDON

2014/16



**Generation & Retail Business**

Francisco Martínez Córcoles

## DISCLAIMER

*This document has been prepared by Iberdrola, S.A. exclusively for use during the presentation “Outlook 2014-2016”. As a consequence thereof, this document may not be disclosed or published, nor used by any other person or entity, for any other reason without the express and prior written consent of Iberdrola, S.A.*

*Iberdrola, S.A. does not assume liability for this document if it is used with a purpose other than the above.*

*The information and any opinions or statements made in this document have not been verified by independent third parties; therefore, no express or implied warranty is made as to the impartiality, accuracy, completeness or correctness of the information or the opinions or statements expressed herein.*

*Neither Iberdrola, S.A. nor its subsidiaries or other companies of the Iberdrola Group or its affiliates assume liability of any kind, whether for negligence or any other reason, for any damage or loss arising from any use of this document or its contents.*

*Neither this document nor any part of it constitutes a contract, nor may it be used for incorporation into or construction of any contract or agreement.*

*Information in this document about the price at which securities issued by Iberdrola, S.A. have been bought or sold in the past or about the yield on securities issued by Iberdrola, S.A. cannot be relied upon as a guide to future performance.*

## IMPORTANT INFORMATION

*This document does not constitute an offer or invitation to purchase or subscribe shares, in accordance with the provisions of Law 24/1988, of 28 July, on the Securities Market, Royal Decree-Law 5/2005, of 11 March, and/or Royal Decree 1310/2005, of 4 November, and its implementing regulations.*

*In addition, this document does not constitute an offer of purchase, sale or exchange, nor a request for an offer of purchase, sale or exchange of securities, nor a request for any vote or approval in any other jurisdiction.*

*The shares of Iberdrola, S.A. may not be offered or sold in the United States of America except pursuant to an effective registration statement under the Securities Act of 1933 or pursuant to a valid exemption from registration*

## FORWARD-LOOKING STATEMENTS

*This communication contains forward-looking information and statements about Iberdrola, S.A., including financial projections and estimates and their underlying assumptions, statements regarding plans, objectives and expectations with respect to future operations, capital expenditures, synergies, products and services, and statements regarding future performance. Forward-looking statements are statements that are not historical facts and are generally identified by the words “expects,” “anticipates,” “believes,” “intends,” “estimates” and similar expressions.*

*Although Iberdrola, S.A. believes that the expectations reflected in such forward-looking statements are reasonable, investors and holders of Iberdrola, S.A. shares are cautioned that forward-looking information and statements are subject to various risks and uncertainties, many of which are difficult to predict and generally beyond the control of Iberdrola, S.A., that could cause actual results and developments to differ materially from those expressed in, or implied or projected by, the forward-looking information and statements. These risks and uncertainties include those discussed or identified in the documents sent by Iberdrola, S.A. to the Comisión Nacional del Mercado de Valores, which are accessible to the public.*

*Forward-looking statements are not guarantees of future performance. They have not been reviewed by the auditors of Iberdrola, S.A. You are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date they were made. All subsequent oral or written forward-looking statements attributable to Iberdrola, S.A. or any of its members, directors, officers, employees or any persons acting on its behalf are expressly qualified in their entirety by the cautionary statement above. All forward-looking statements included herein are based on information available to Iberdrola, S.A. on the date hereof. Except as required by applicable law, Iberdrola, S.A. does not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.*

## General and business overview

Spain

United Kingdom

Mexico

Investments

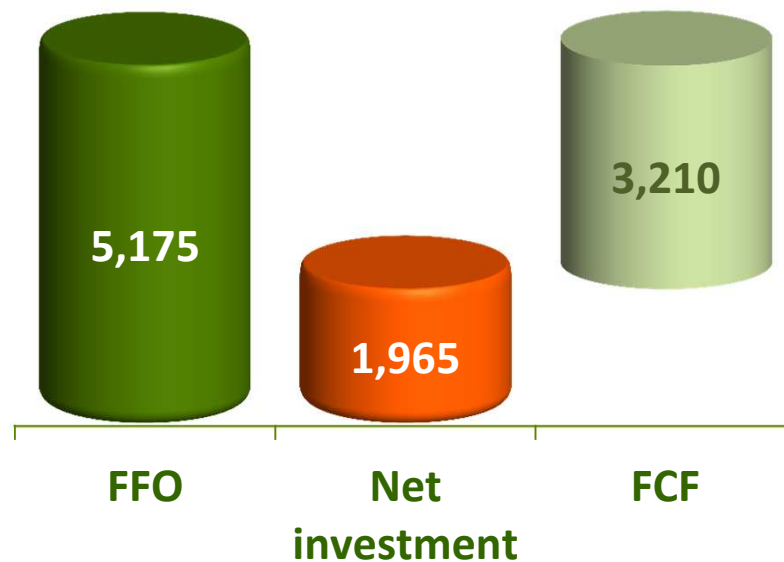
## Business focused on efficiency and selective growth (Retail and Mexico)...

Installed Capacity	30 GW
Production	95 TWh
Electricity sales	123 TWh
Gas sales	43 TWh
Customers	21 M

... that allows stability of the results...

... and ensures funds generation for the Group

*Cash-flow generation (Eur M)*  
2014-2016



## Forecast evolution of commodities would not significantly rise electricity prices

	2014	2016
Petróleo - \$/barril	104	96
Carbón - \$/t	78	85
Henry Hub-\$/MMBtu	4,7	4,1
NBP – p£/therm	62	62
CO2 - €/t	5,8	6,5

### In Europe:

Demand 2014-2016	Spain: increase lower than 1% United Kingdom: aprox. 2%
Precio electricidad 2014-2016	España: 52 €/MWh United Kingdom : 55 £/MWh

**General and business overview**

**Spain**

**United Kingdom**

**Mexico**

**Investments**



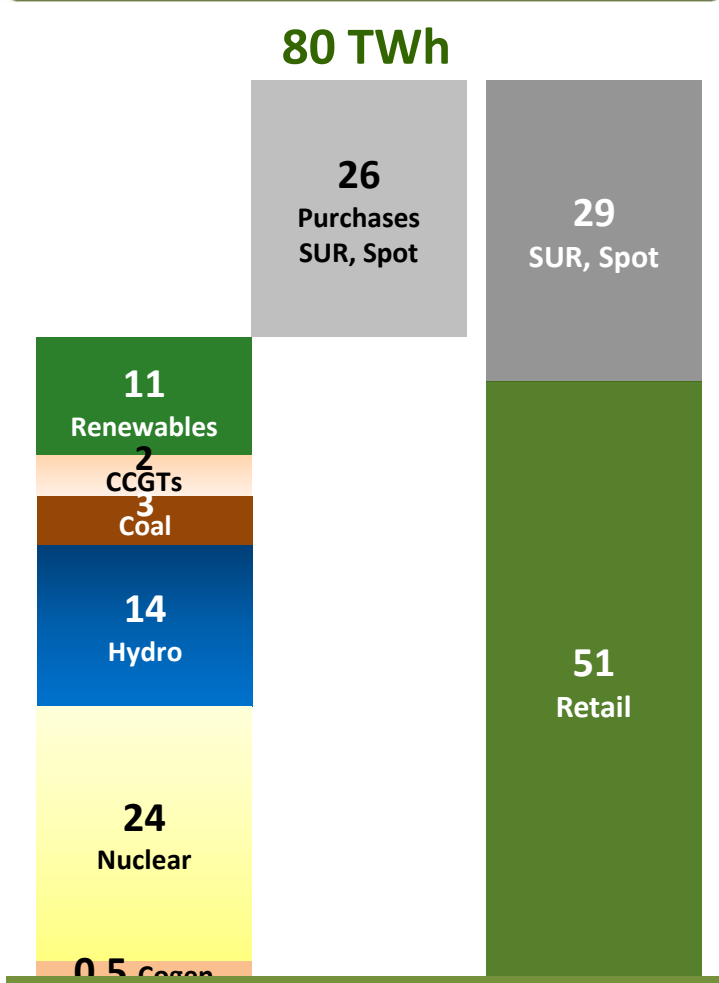
## Capacity (GW)

Hydro	9
Nuclear	3.4
Coal	0.9
CCGT	5.9
Cogen	0.4

## Contracts (Millions)

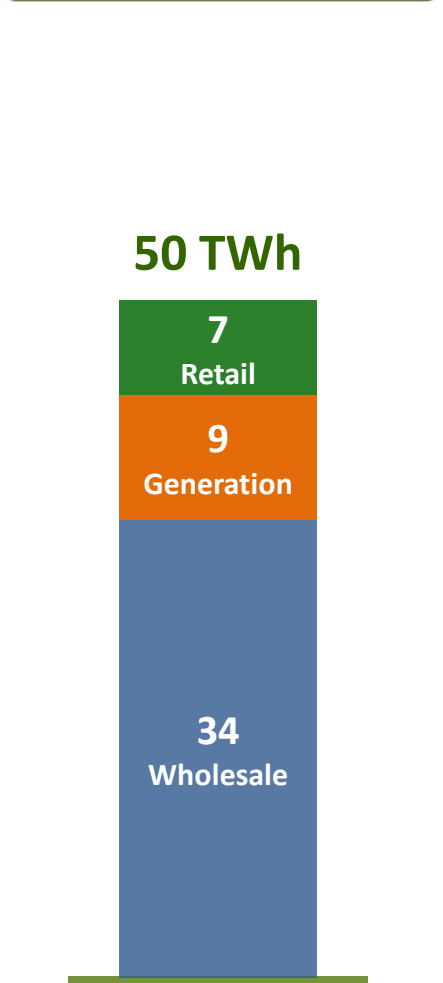
Electricity	11
P&S	4
Gas	1

## Electricity (TWh)



Average standard year

## Gas (TWh-g)



Av. standard year

## Optimization of operations, efficiency and retail growth estabilize results

### Wholesale market under pressure

- Overcapacity
- Taxes increase
- Capacity payments reduction
- Environmental restrictions

### Limited Retail market

- Official tariff 'Tarifa Precio Voluntario para el Pequeño Consumidor'
- Liberalization 07-2016



### Efficiency increase

Minimum investments and expenditures in generation

Workforce reduction due to natural attrition

Flexible functioning of power plants

Moderate growth of the customer base

## Adjustments to improve competitiveness in the market

**Geographical reorganization of thermal regions**

**Inefficient plants closure and new hydro capacity: more flexibility in volatile markets**

**Workforce reduction in the period: 100 FTE**

**Coal production optimization, with low cost NOx investments**

**Fuels procurement optimization**

**Sale of gas surplus: new global LNG model**

**Long term gas contracts renegotiation**

**In Spain, leaders in liberalized market (44% contracts share).  
 Moderate growth in accordance with full liberalization**

Focus on customer loyalty in liberalized market

Growth in services of energy efficiency, with new products launch

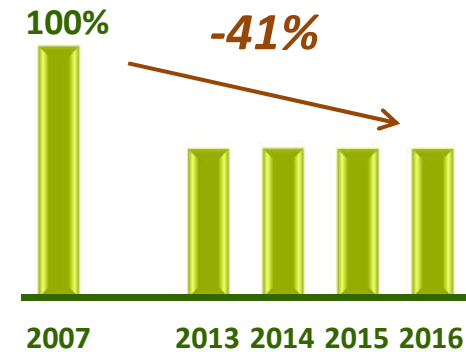
Moderate capture costs, in line with customer base increase

Minimized cost to serve: full outsourcing, optimized processes and workforce

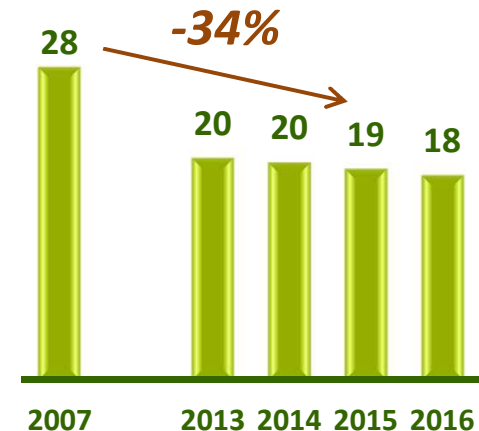
Debt control

Selective enter in Portugal, leaders in medium voltage (32% of energy market share)

*“Cost to Serve” by contract*



*Debtor days*



**General and business overview**

**Spain**

**United Kingdom**

**Mexico**

**Investments**

## Capacity (GW)

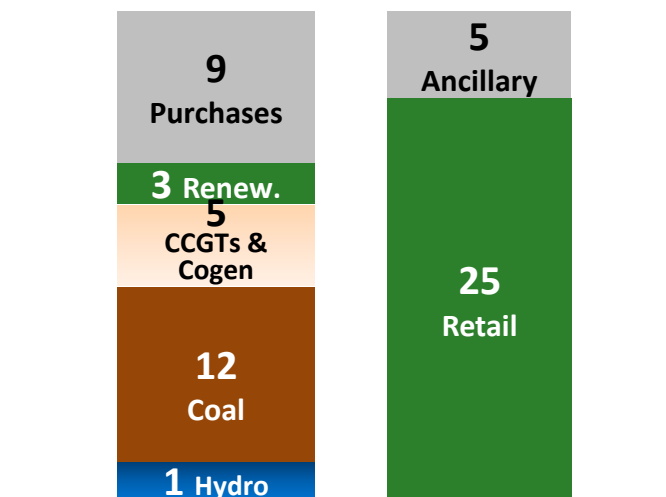
Hydro	0.5 GW
Coal	2 GW
CCGT	2 GW

## Contracts (Millions)

Electricity	3.4
P&S	0.1
Gas	2

## Electricity (TWh)

30 TWh



Average standard year

## Gas (TWh-g)

50 TWh



Average standard year

## Growth in retail business offsets lower results from coal power plants

### Wholesale market

- Slow closure of coal plants
- Carbon tax increase
- Environmental restrictions
- Capacity auctions
- Tight and decreasing reserve margin

### Retail market

- Increase of non energy costs
- ECO extension up to 2017

### Efficiency increase

Minimum investments and expenditures in generation

Functioning optimization in ancillary services

Moderate growth of the customer base

Significant workforce reduction

## Efficiency improves throughout all the power plants

Geographical reorganisation of ccgts

Inefficient plants closure

Reduction and prioritisation of investments to increase availability

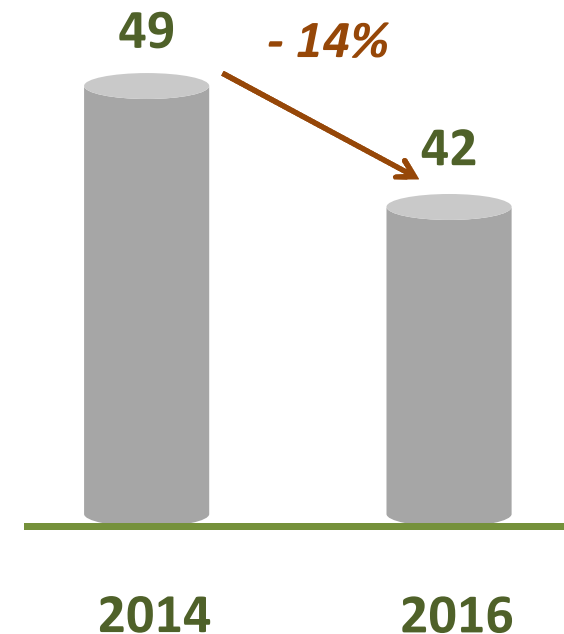
Reduction of Longannet outages to maximise availability

Optimisation of ccgts functioning in ancillary services

Larger involvement of Longannet in network constraints

Optimisation of coal production, with low cost NOx investment

### External Services Generation (GBP M)





## Synergies based on systems and operational improvements. Increase of customer base and products competitiveness

Progressive implementation of integrated system for customers (completed in 2014)

Outsourcing of services of low added value

Reduction of capture costs due to better mix of sales channels

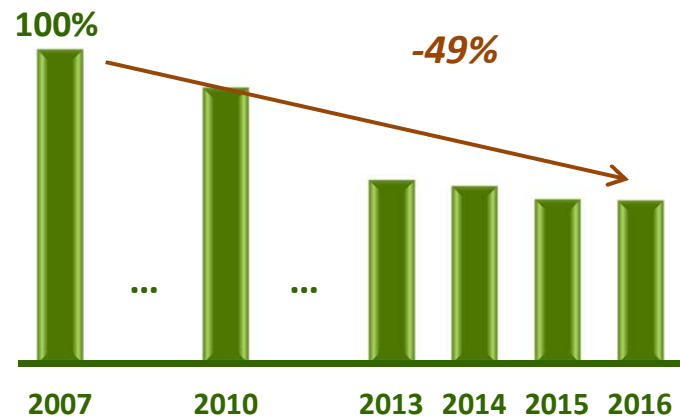
Moderate growth of customer base

Competitiveness improvement of new products

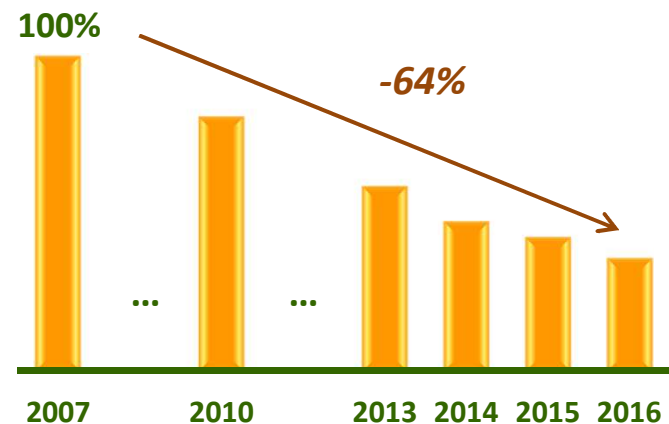
Quick ECO deployment: competitive measures mix and objectives compliance

Voluntary redundancy programmes. Reduction of 800 FTE in the period

"Cost to Serve" by contract



Workforce



**General and business overview**

**Spain**

**United Kingdom**

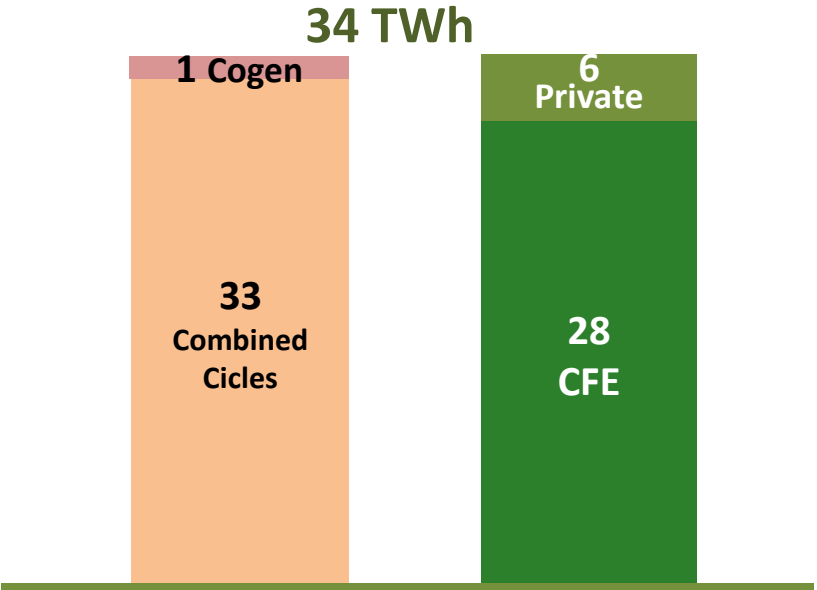
**Mexico**

**Investments**

## Capacity (GW)

Combined Cicles	4.8
Cogeneration	0.2

## Electricity (TWh)



Average standard year

## Expansion of business taking advantage of the new awards and increase in energy for private clients

Increasing electricity demand

Substitution of oil gas by natural gas

Competitive gas prices, linked to US prices

Gas restrictions in the system

New tenders

Private clients demand higher than available energy



Capacity increase, with low risk projects

Increase in energy for private clients

Improvements in operating efficiency

New projects generate synergies with existing fleet

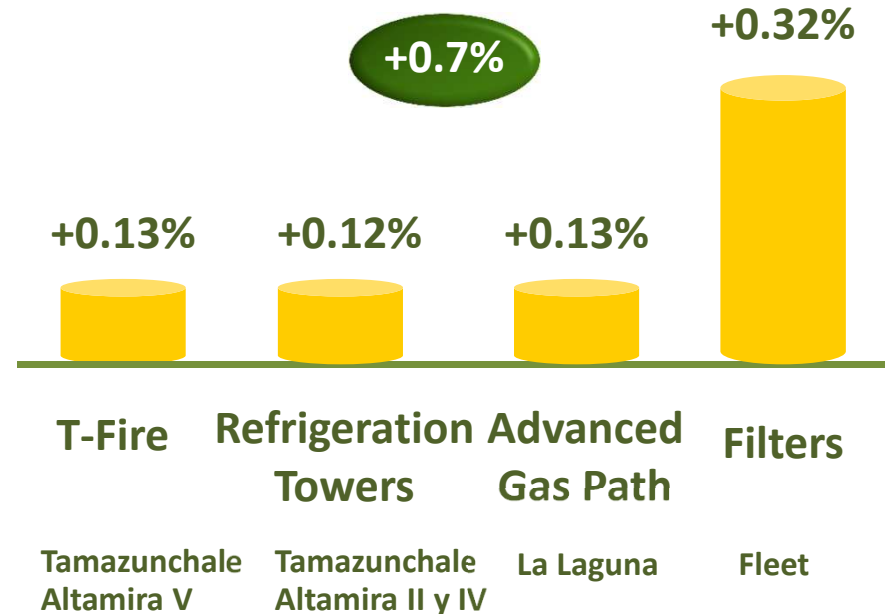
## Increase of plants availability and energy efficiency

Increase of long term availability

Operative improvements to increase performance over 0.7%

Maintenance and personnel expenses in line with activity increase

Fleet performance (%)



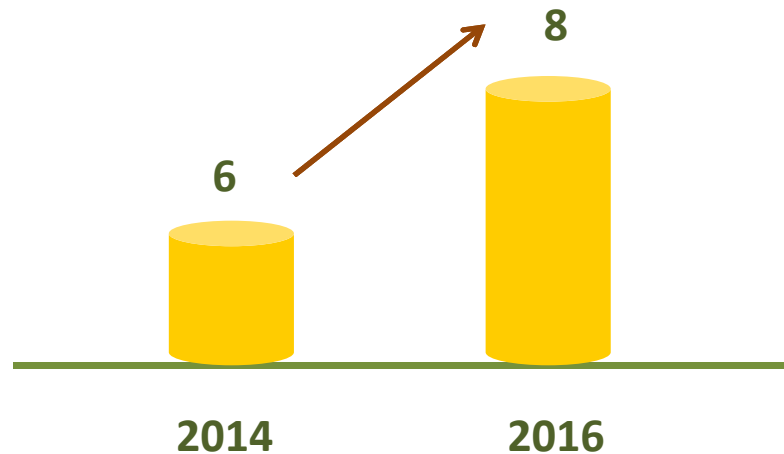
## Assets optimization and private customers retention

Contracts margin optimization

Technical improvements to increase capacity

Private customers retention

Private Clients Energy (TWh)



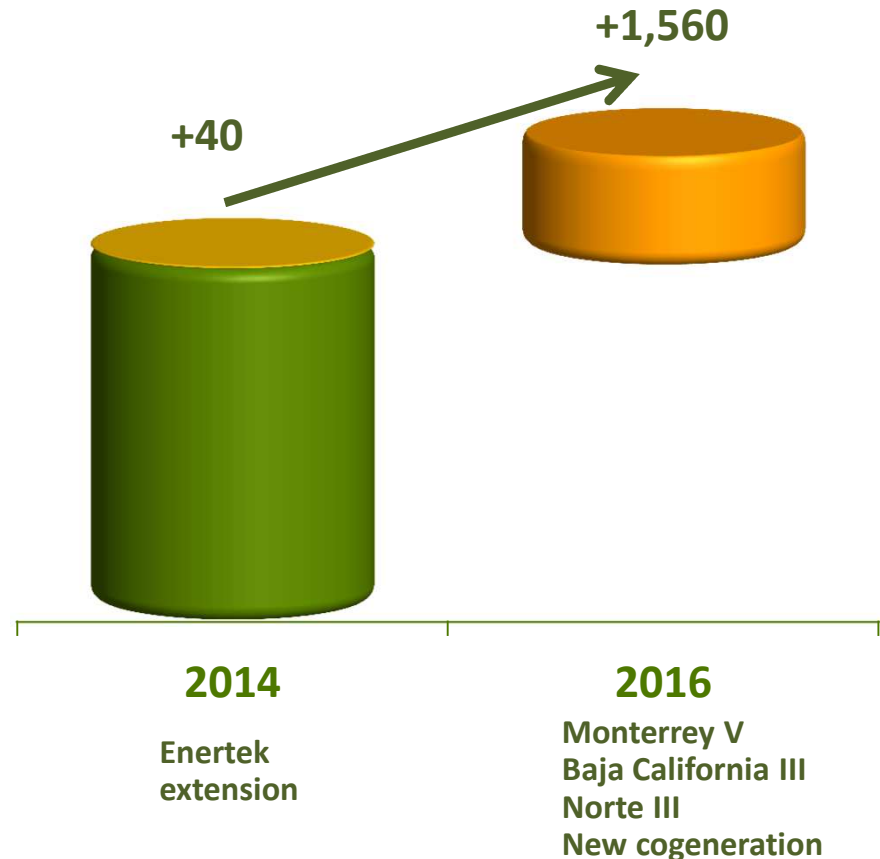
**Installed capacity increases by 32% in 2016 (+1,600 MW), mainly with regulated, predictable and dollarized remuneration**

**1,200 MW tenders:  
Baja California III and Norte III**

**300 MW for private clients:  
Monterrey V**

**90 MW cogeneration:  
Enertek extension  
New project**

*Installed Capacity (MW)*



**General and business overview**

**Spain**

**United Kingdom**

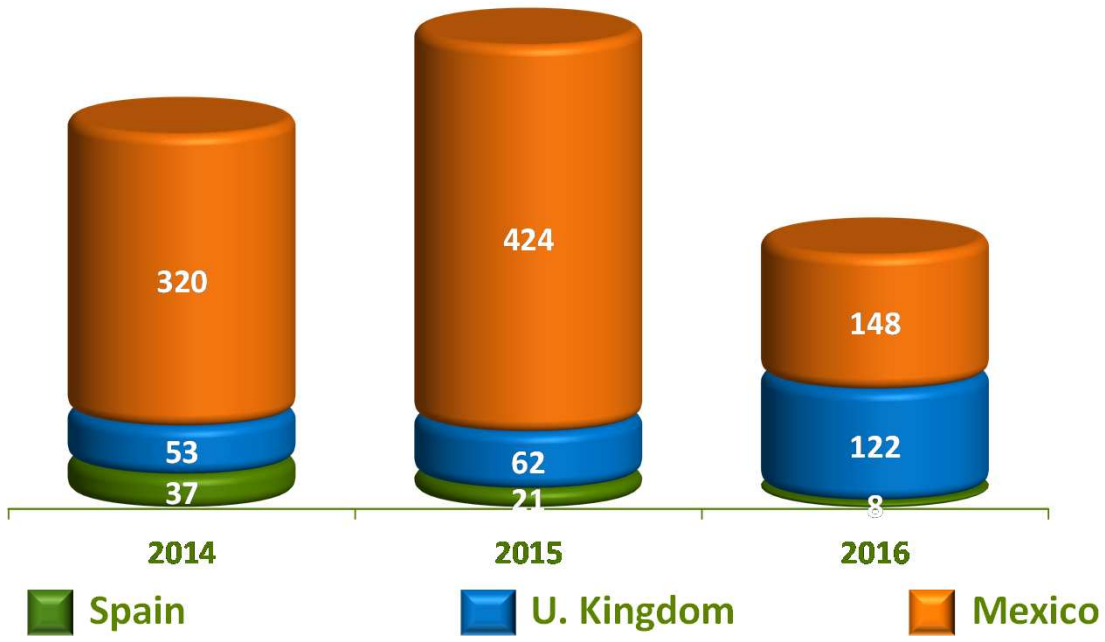
**Mexico**

**Investments**



**Mexico as focus of growth. End of ongoing projects in Spain and start of Smart Meters mandatory deployment in U.K.**

Growth Investments (Eur M)



**Maintenance investments reduced to the minimum (average of Eur 250 M per year), specially in Spain and United Kingdom**

	<b>Enertek extension (40 MW)</b>	<b>2014</b>
	<b>La Muela (850 MW)</b>	<b>2015</b>
	<b>San Pedro (23 MW)</b>	<b>2016</b>
	<b>Monterrey V (300 MW)</b>	<b>2016</b>
	<b>Baja California III (300 MW)</b>	<b>2016</b>
	<b>Norte III (900 MW)</b>	<b>2016</b>
	<b>New cogeneration (50 MW)</b>	<b>2016</b>

## Brazil, through Neoenergia:

	<b>Teles Pires (362 MW)</b>	<b>2015</b>
	<b>Belomonte (128 MW)</b>	<b>2016</b>
	<b>Baixo Iguaçu (137 MW)</b>	<b>2016</b>