



IBERDROLA

OUTLOOK

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2014/16



2014-2016 Strategic Pillars

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The Global Scenario

Strategic Pillars

Projections 2014-2016

Conclusion

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 CO2 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

**Fulfilling current energy policy objectives
will imply a great investment effort...**

Electricity sector investment needs (2012-2035)

European Union

USD 2.6 trillion

USA

USD 2.3 trillion

Latam

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**

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 CO2 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

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

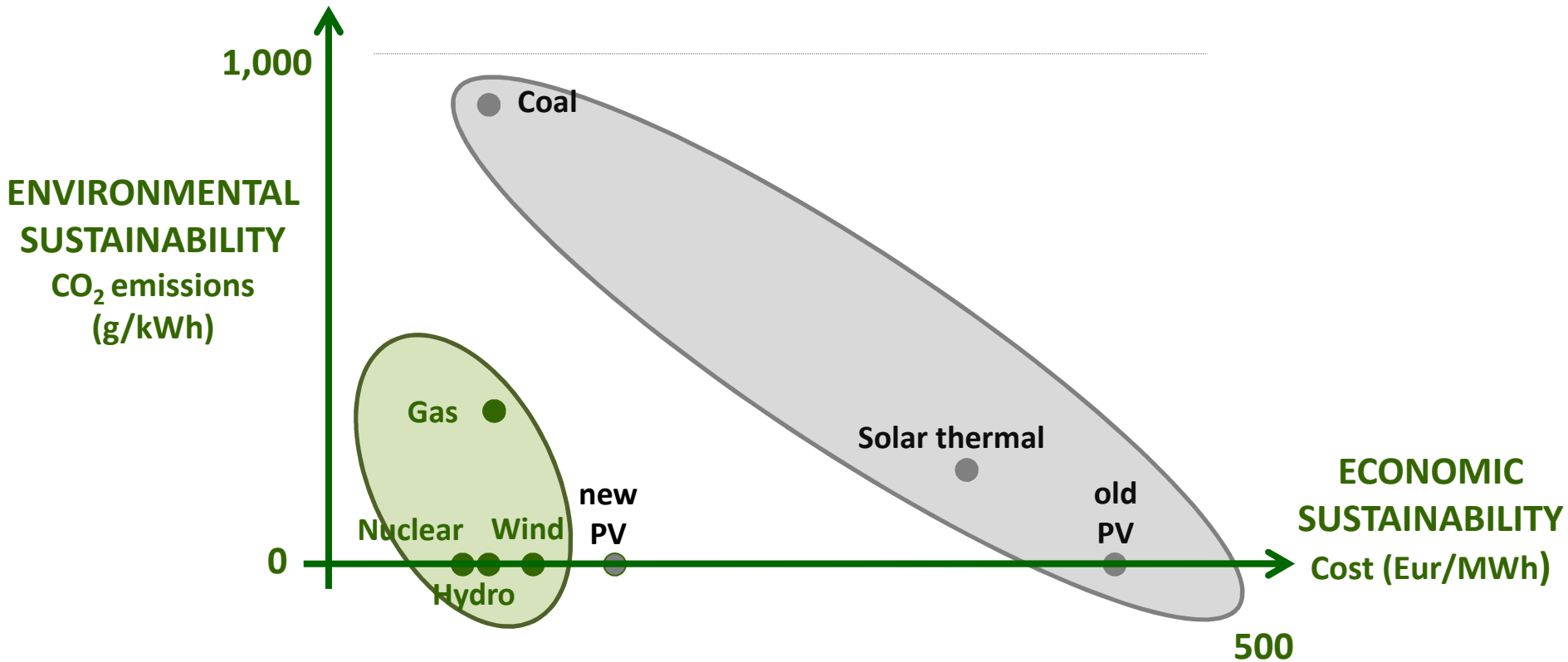
FROM a model in which political decisions negatively affected consumers, industry and utilities



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*
- *CO₂ backloading and global emissions targets up to 2030*
- *Rational regulation for distributed generation*

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



... to ensure security of supply

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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

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

USA

- Networks
- Wind generation



Mexico

- Generation (CCGTs and wind)



Brazil

- Networks
- Generation (hydro and wind)

Stable and attractive regulatory frameworks



UK

- Networks
- Wind generation

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

Mexico

Opportunities from Energy Reform

- 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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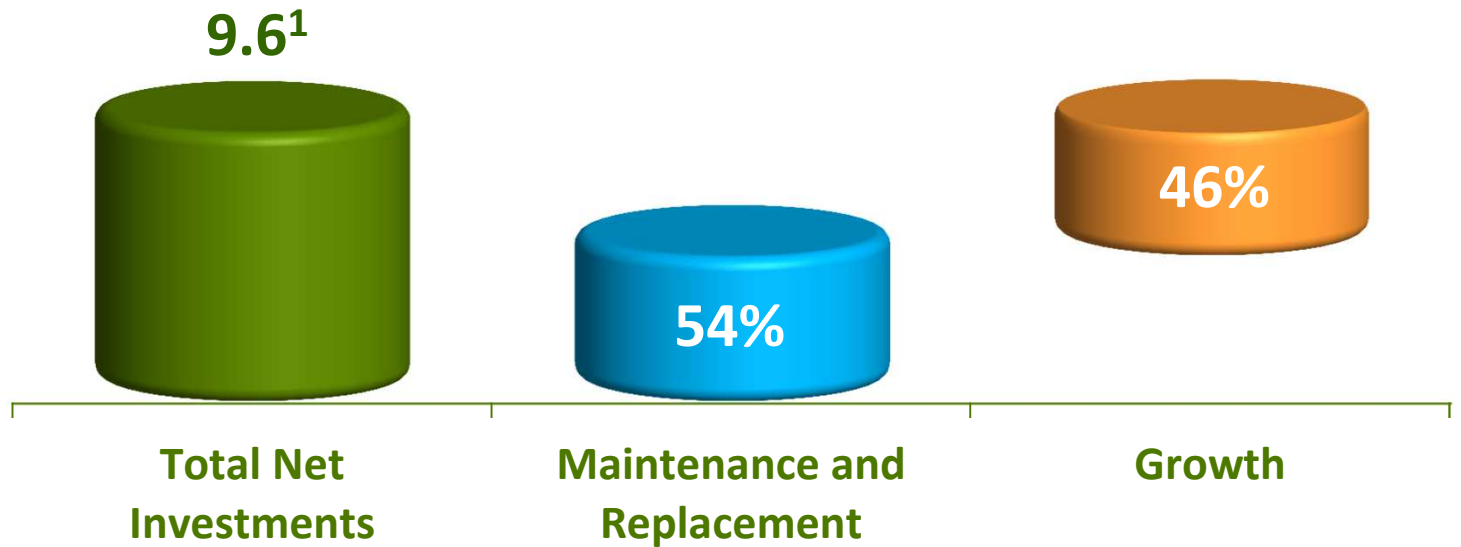
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Eur 9.6 bn to be invested during the period...

2014-2016 Investments

Eur bn

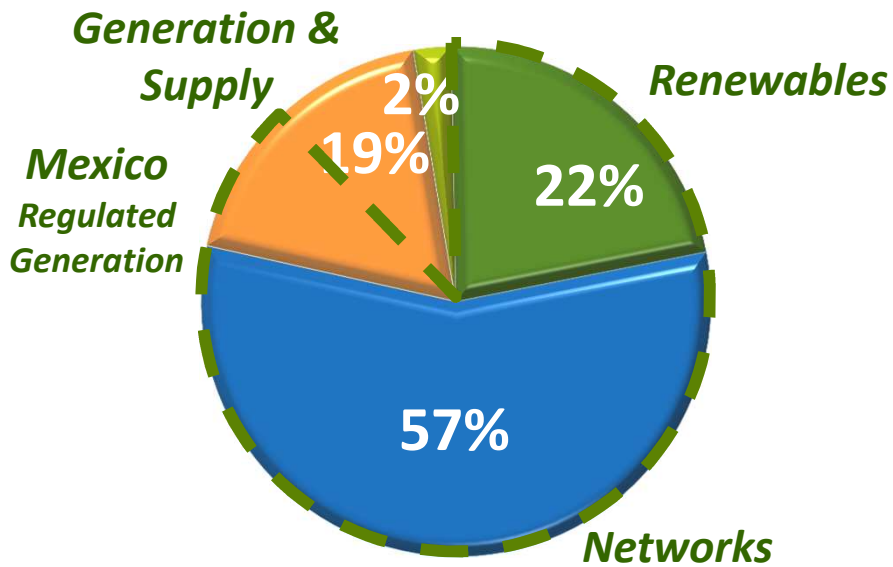


... with Eur 4.4 bn focused on growth

1. Net of grants and not including capitalised costs

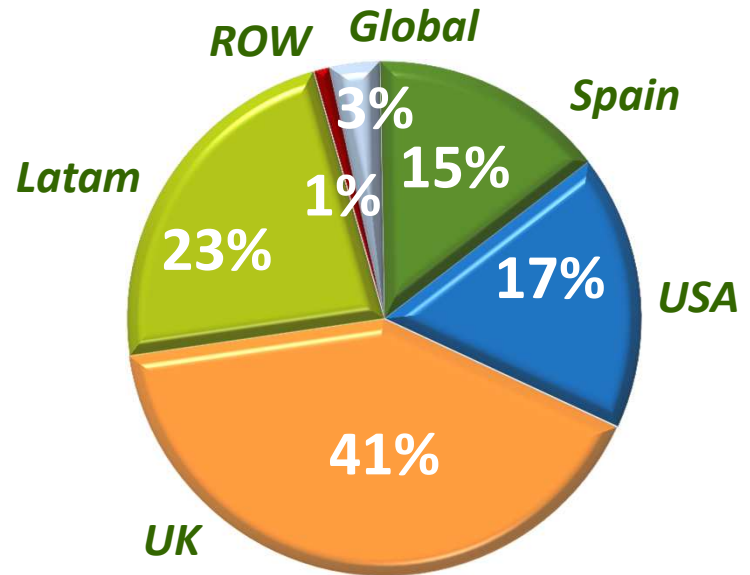
Investments focused in businesses and countries with predictable and stable regulation

Investments by Business¹



Regulated Businesses
88%

Investments by Country¹



88% in regulated businesses

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

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

Personnel and External Services Expenses remain flat...

Personnel

External services

*Headcount reduction
of 1,000 people
in existing businesses*

Structure optimisation

*Around 27,000 employees
by the end of 2016*

Procurement management

Management of processes

... contributing to efficiency improvements

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

	<u>2014e¹</u>	<u>CAGR</u> <u>2014-2016</u>
EBITDA <i>Eur bn</i>	≈6.6	around 4%
Net Profit <i>Eur bn</i>	≈2.3	around 4%

Growth potential from 2015 onwards

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 $\approx 40\%$,
Net Debt/EBITDA < 3.5 and FFO/Net Debt $> 22\%$

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

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 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

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