



 **OUTLOOK** 2016 / 20

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2016-2020

Strategic Pillars

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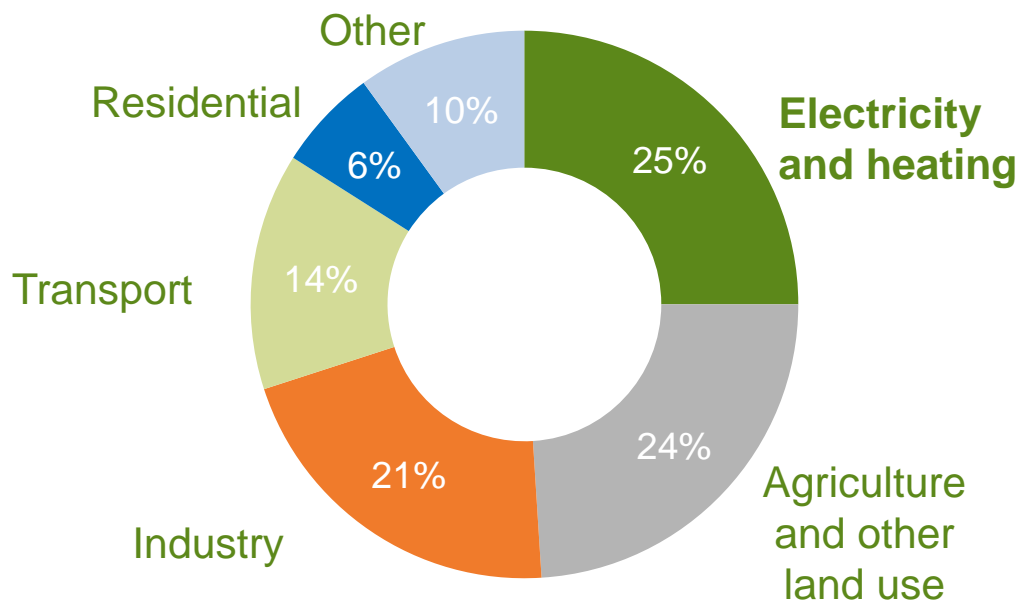
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The Global Scenario

The world needs more energy, cleaner and more sustainable (+30% 2040¹)

Emissions by sector²



¹According to International Energy Agency "New Policies" : World Energy Outlook 2015

²CO2 emissions greenhouse effect according to Intergovernmental Panel on Climate Change (IPCC) 2014

COP 21: reduction of emissions in order to limit temperature increase below 2°C

The electricity sector contributes only 25% of emissions but has the technological potential for decarbonization

... moreover, **Electricity Demand** to increase through **population growth, increased urbanization and extension of power supply**

Further Electrification of the Economy (70% 2040¹)

Through...

More Renewable Energy

**Storage
and more Back-up**

**More and Smarter
Networks**

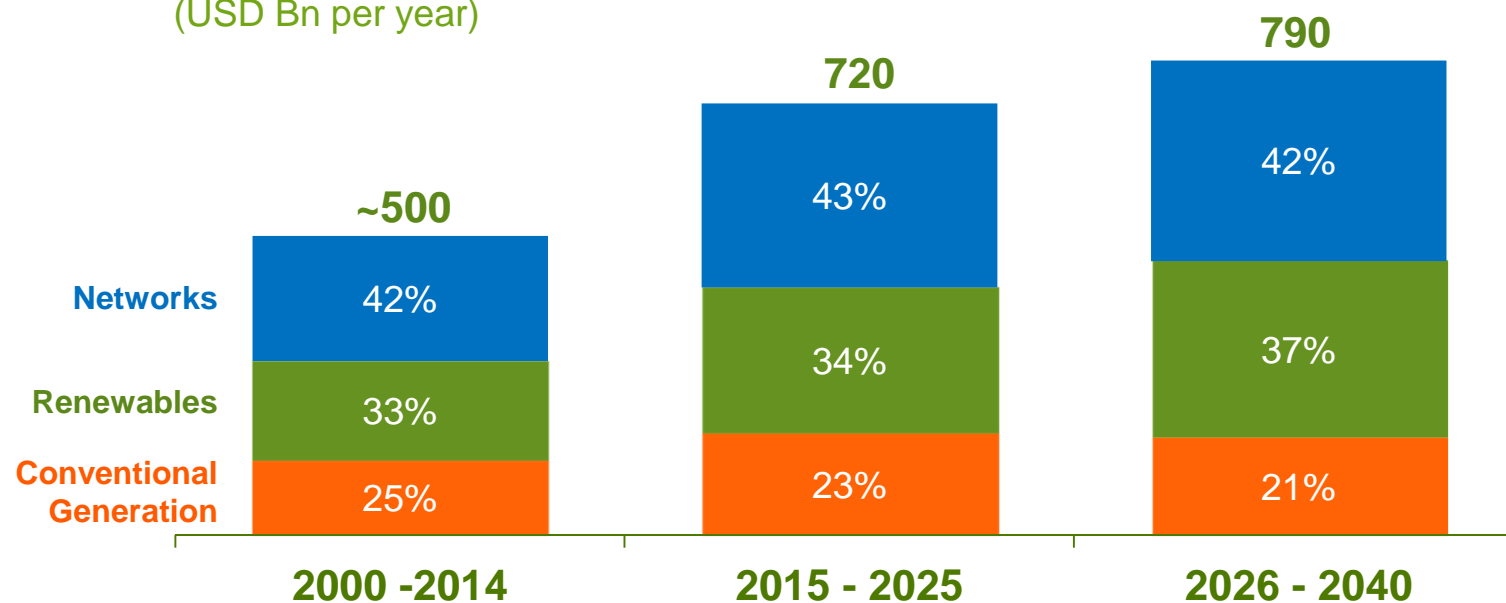
More Energy Efficiency

¹According to International Energy Agency "New Policies" : World Energy Outlook 2015 (2013 vs 2040)

The electricity sector will require around USD 20 trillion of investments over the next 25 years¹

Global annual investment in the electricity sector¹

(USD Bn per year)

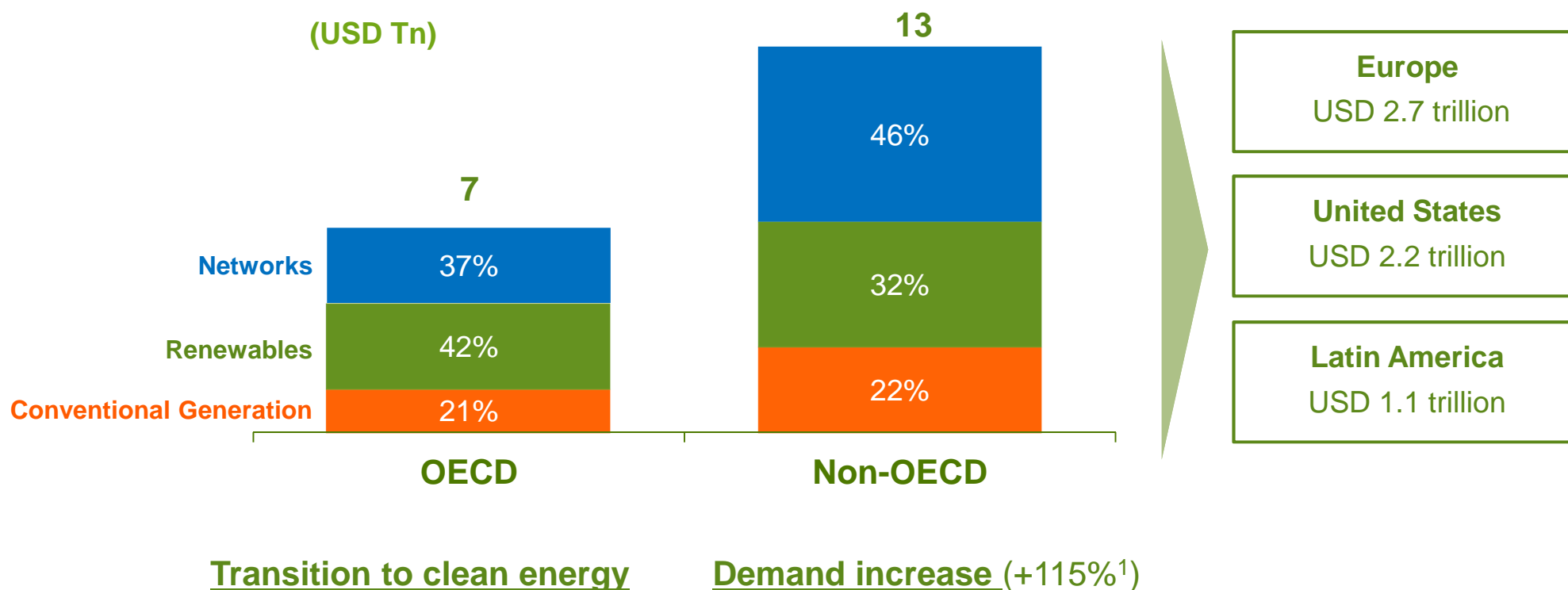


¹ International Energy Agency : World Energy Outlook 2015

Networks & Renewables: ~80% of global future investment (USD ~600 Bn/year)

By region, OECD countries will require USD 7 trillion and Non-OECD USD 13 trillion investments until 2040¹

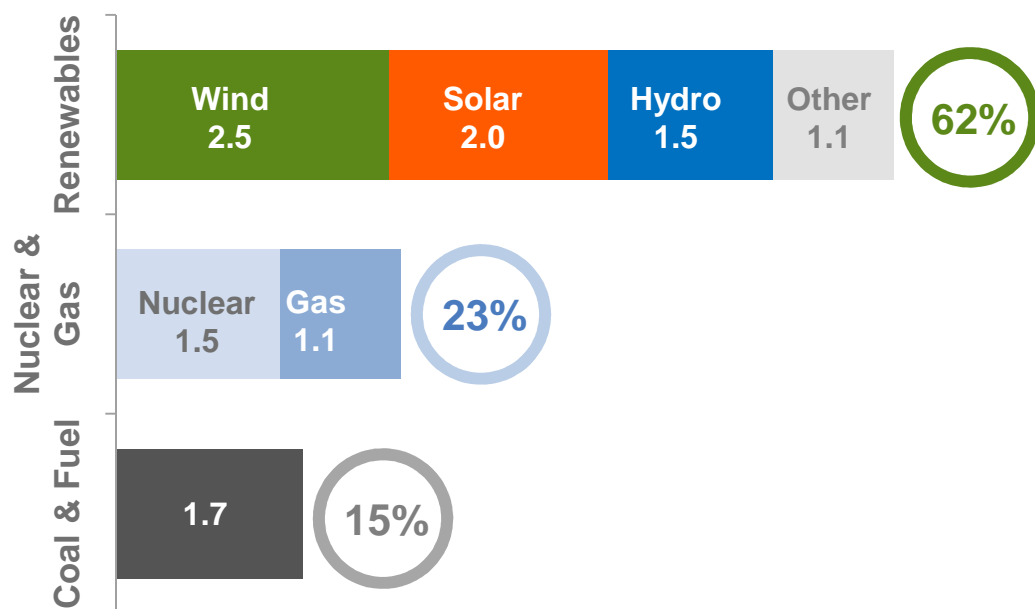
Total Global investment in the electricity sector¹



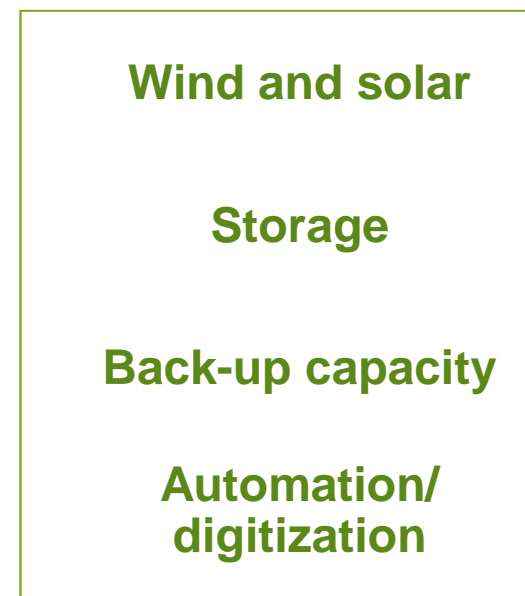
¹ International Energy Agency : World Energy Outlook 2015

USD 440 Bn/year¹ investment in Renewables and Conventional Generation (+70% of current capacity)

Total Investment Breakdown between 2015 and 2040¹
(USD Trillion)



Sustainable Generation



¹ International Energy Agency: World Energy Outlook 2015

All technologies will be required to achieve a sustainable and competitive energy model

USD 320 Bn/year investment in Networks, doubling the current length of installed power lines ...

*Investment breakdown
between 2015-2040¹*

75% Distribution
25% Transmission

55% System extension
45% Refurbish assets

70% Emerging economies
30% OECD



Networks

Distribution

Interconnections

**Automation/
digitization**

¹ International Energy Agency: World Energy Outlook 2015

... to satisfy growing demand, increase efficiency and improve service quality

Environmental goals must be compatible with economic sustainability and security of supply

- ✓ **CO₂ pricing** as an emission reduction mechanism and promotion of non-contaminating technologies
- ✓ Contribution from **all Sectors** (industry, transport...)
- ✓ **Reduction** of fuel subsidies
- ✓ **Rationalization of incentives for immature technologies**, avoiding market distortion
- ✓ Need for **back-up capacity** and **storage** as support for **renewables**

Need for stable and predictable regulatory frameworks to make investments possible

The latest progress worldwide is aimed in that direction

European Union

- **Energy Union:** interconnections, market redesign, Emissions Trading System reform (ETS) and implementation of Market Stability Reserve (MSR) in 2019
- **CO₂ emission reduction objective:** -40% in 2030 vs.1990

USA

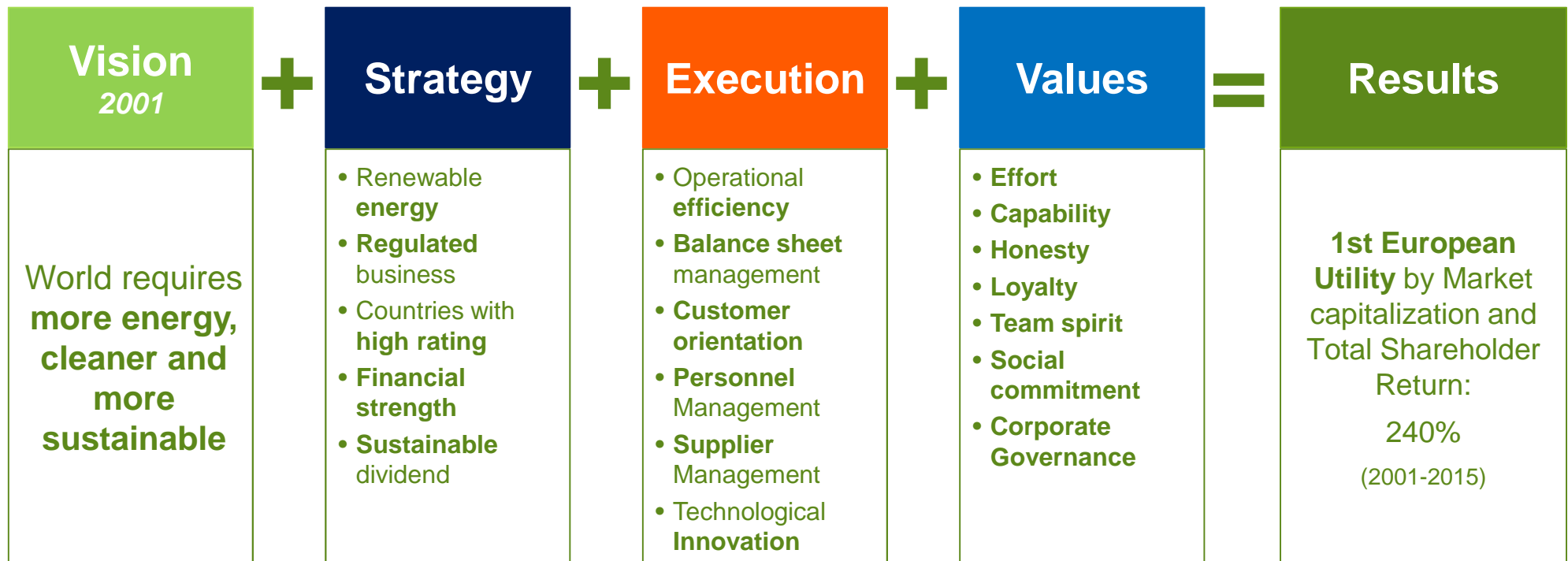
- Extension of **tax exemption credits** for renewable investments
- **CO₂ pricing** (California, RGGI in East Coast...)
- **CO₂ emissions reduction** proposal: -27% in 2025 vs. 2005
- **Oil Tax** proposal

Global

- **COP 21:** limit temperature increase below 2°C; **emission reduction** commitments from 195 countries
- **CO₂ Pricing**
- **Lower subsidies** to fossil fuels

Strategic Pillars

Based on the following model, Iberdrola has anticipated the Energy Transition over the past 15 years



... fivefold increase the value of our assets: clean energy, networks and digitization...

Leaders in clean energy

66% of installed capacity is **emission free**

Only **2%** of installed capacity is coal¹

Over **25 GW** of renewable energy installed

Number one wind energy producer in the world

Hydro pumped storage: **4.4 GW** operating and **1.1 GW** under construction

Pioneering the deployment of Smart networks in Europe

100% digitized substations

35.000 digitized secondary substations

Over **30%** of our customers have smart meters

Over **20%** of our customers online

¹ After Longannet closure in March 2016

² Average of 5 main European competitors

... allowing us to be **30%²** more efficient than the European sector average

In the years to come, we maintain a sustainable growth strategy, financial strength and shareholder remuneration...



... with high long-term visibility

Geographic Diversification focused on four areas

US

- Networks
- Renewables with PPAs



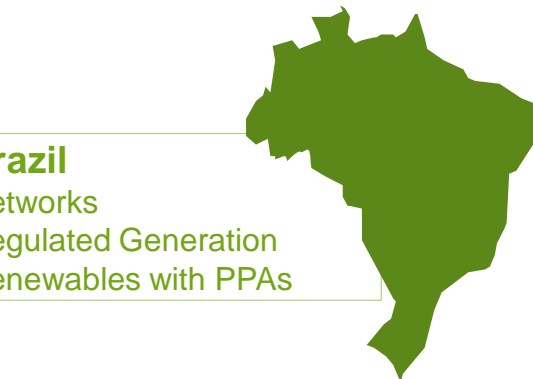
UK

- Networks
- Onshore wind
- Offshore wind
- Retail



Mexico

- Regulated Generation with PPAs
- Renewables with PPAs



Brazil

- Networks
- Regulated Generation
- Renewables with PPAs



Iberia

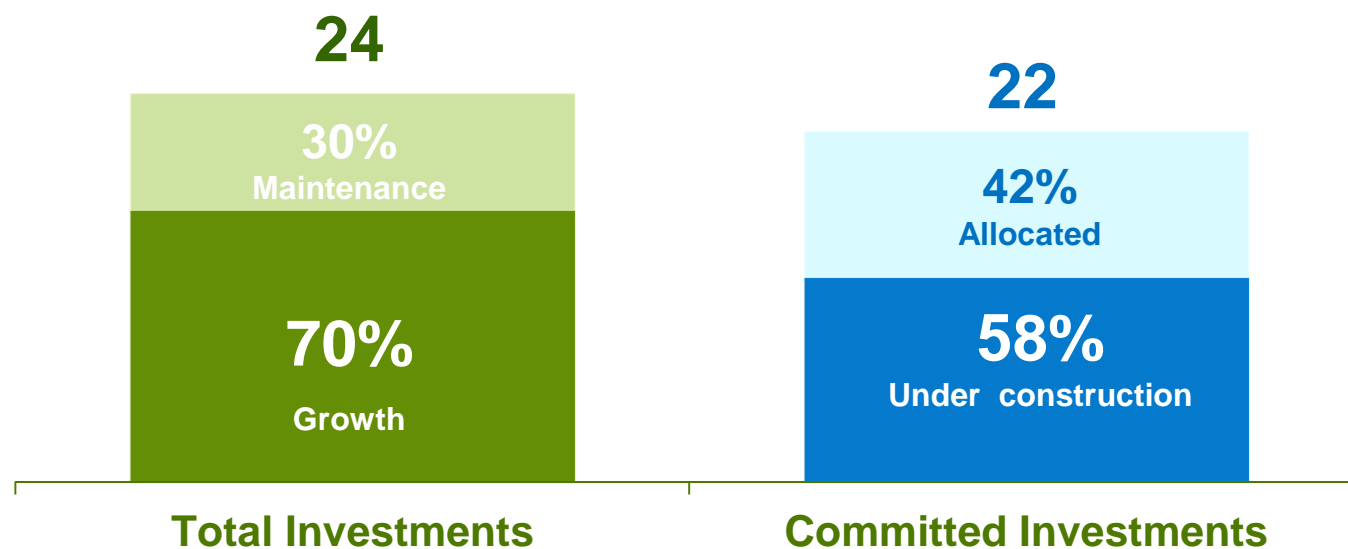
- Networks
- Storage
- Retail

Projections 2016 – 2020

Net investments of over Eur 24 Bn during the period with approximately Eur 22 Bn already committed ...

Eur Bn

Investments 2016 – 2020



... and Eur 17 Bn assigned to growth

Main allocated investments

UK

- Already approved **Rate Cases** for **networks** infrastructure:
 - ✓ **RIIO-T1** transmission (until 2021)
 - ✓ **RIIO-ED1** distribution (until 2023)
- **Renewables under construction:**
 - ✓ **Onshore: +450 MW**
 - ✓ **Offshore: +1,070 MW**

USA

- Through **Avangrid:**
- **Rate cases approved:** New York, Maine, Connecticut and Massachusetts
 - **Transmission projects:** NY Transco ...
 - **Renewables projects: +750 MW**

Iberia

- **Rate Cases** Spain until 2019
- **Hydro pumped storage** under construction: **+1,160 MW**

Mexico

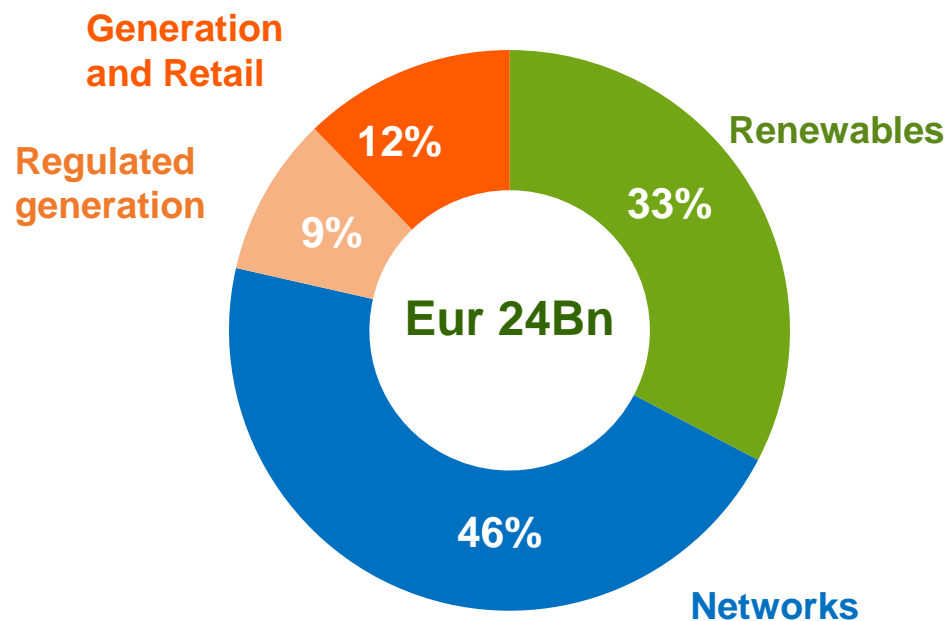
- **CCGTs and Cogeneration with PPAs** under construction: **+1,600 MW**

Brazil

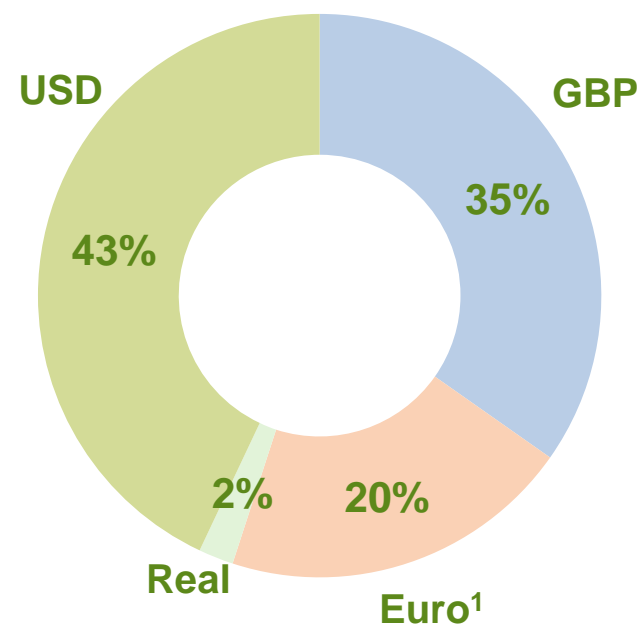
- **Rate cases approved:** **Elektro** (until 2019), **Celpe** (until 2017), **Coelba** and **Cosern** (until 2018)
- **Renewables** under construction **+180 MW**
- **Hydro power** through **Neoenergía**

88% of investment:
regulated or long-term contracted activities

Investment by business



Invest by currency

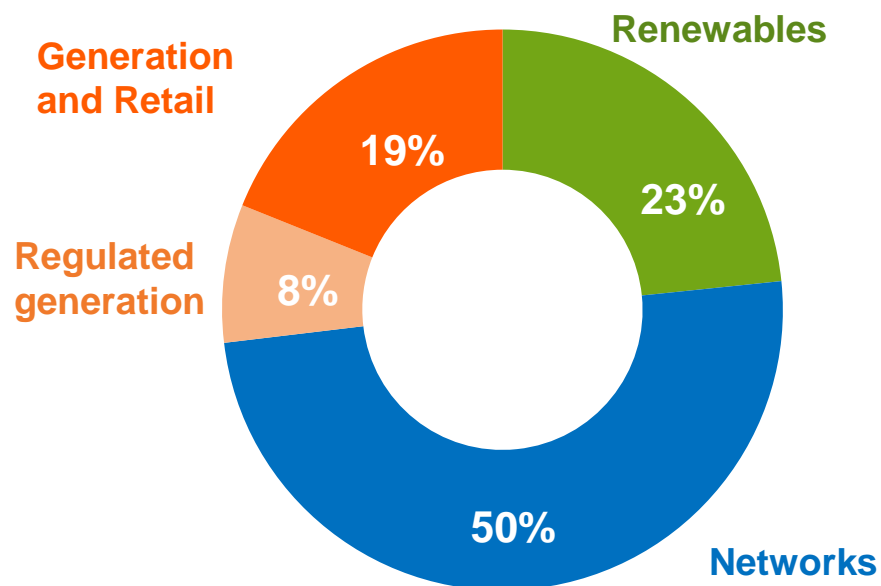


¹ Including German offshore windfarm: Wikinger

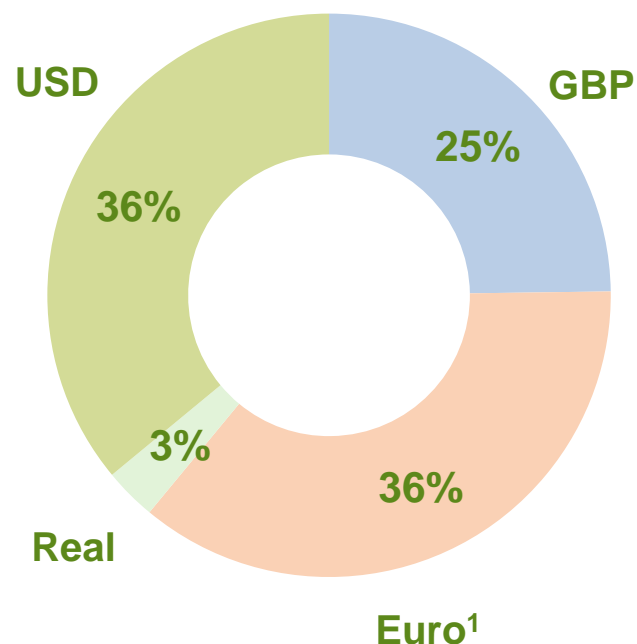
78% in dollars and sterling

2020: 81% of EBITDA coming from regulated or long-term contracted activities

EBITDA by business



EBITDA by currency

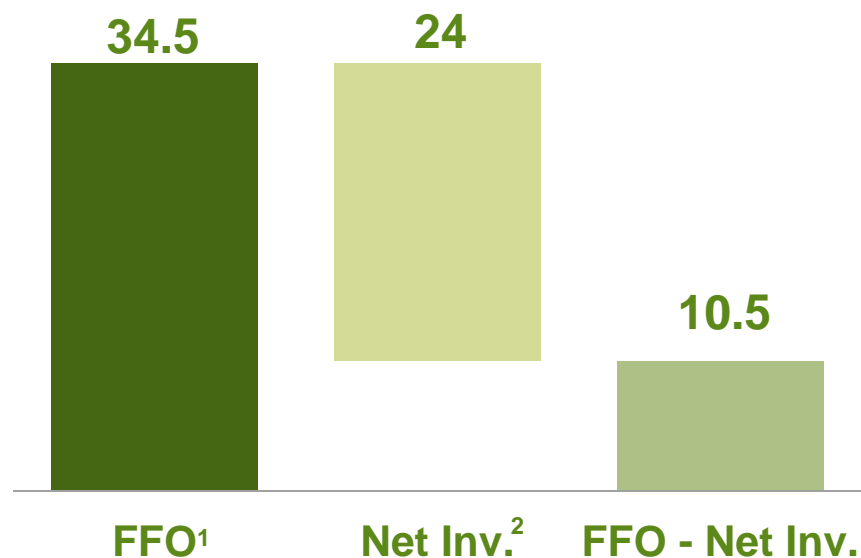


¹ Including German offshore windfarm: Wikinger

Geographically balanced contribution:
dollar and sterling will represent over 60% of EBITDA

Operating Cash Flow (FFO) of over Eur 34 Bn Exceeding investment levels across all businesses

Eur Bn



Global figures include Corporation and Other Businesses

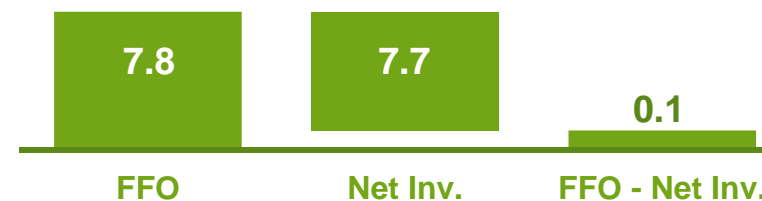
¹ FFO = Net Profit + Minority Results + Amortiz.&Prov. – Equity Income – Net Non-Recurring Results + Fin. Prov.+ Goodwill deduction + Dividends from companies accounted via equity - /+ reversion of extraordinary tax provision

² Investment net of grants and excluding capitalised costs.

Networks



Renewables

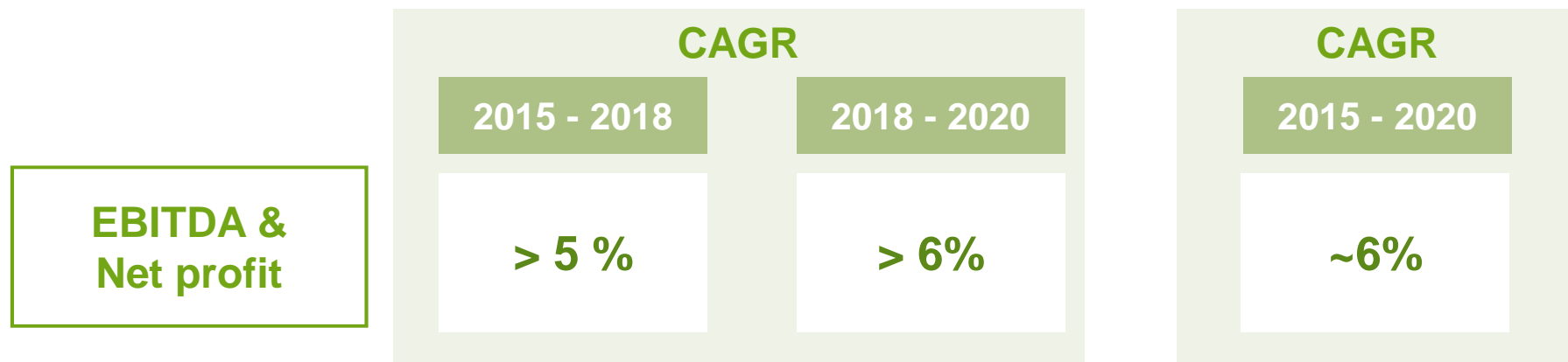


Generation and Retail

(Liberalized and Regulated Generation)



Annual average results growth of around 6% until 2020...



... with accelerated growth during the second half of the period, due to contribution from new investments

Financial strength improvement during the period

	2018 Target
Net Debt / EBITDA	$\leq 3.6x$
FFO / Net Debt	$\geq 22\%$

Expected Net Debt/EBITDA ratio of 3.1x in 2020

Increasing shareholder remuneration in line with growth in results

Shareholder
remuneration

Growing, with pay-out between 65% and 75%

Scrip Dividend
& Share buy-
back

Maintaining scrip dividend
Share buy-back to avoid dilution

Number of
shares

Maintaining current number of shares at 6,240 million

**Proposed shareholder remuneration for the year 2015:
+4% increase (Eur 0.28 per share)**

Conclusions

Iberdrola anticipated the Energy Transition with a **sustainable model that provides long-term visibility...**

Growth in regulated businesses **and clean energy**

Geographic diversification focused in countries with a **high rating**

Operating efficiency thanks to **automation and digitization**

Financial strength to seize **growth opportunities in our markets**

Increasing shareholder remuneration

... and allows us to maintain our **Social Commitment**

Investments of more than Eur 24 Bn during the period 2016-2020...

Investments	Over Eur 17 Bn allocated to growth 88% to regulated or long-term contracted activities
EBITDA and Profit	6% average annual growth until 2020 Generated mainly in dollars and sterling
Financial strength	Improving financial ratios
Shareholder remuneration	Growing, in line with results increase
Social Contribution	Environment: 50% reduction in emissions by 2030 and carbon neutral by 2050 Extending supply and addressing 'energy poverty' Generating employment through business activity, investments and procurements Commitment to innovation and training,...

... to reaffirm our commitment to **value creation** and **sustainable shareholder remuneration**