



IBERDROLA

June 2017

Neoenergia incorporates Elektro Holdings' businesses

Iberdrola, “utility of the future”

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Transaction overview

Note: The references included in this document related to Iberdrola or Iberdrola Group refer to Iberdrola Energia

Neoenergia incorporates Elektro Holdings' businesses¹

Leading utility in Brazil/Latam

- Service area with more than 43 million people along 836,000 Km²
- Leading utility in Brazil in terms of number of customers and distributed energy
- Total points of supply of 13.4 M and above 54,000 GWh distributed energy in 2016

Regulated business

- Four distribution companies, operating in the states of Bahia, Pernambuco, Rio Grande do Norte, São Paulo and Mato Grosso do Sul
- 2016 Regulatory Asset Base (RAB) over BRL 14 Bn

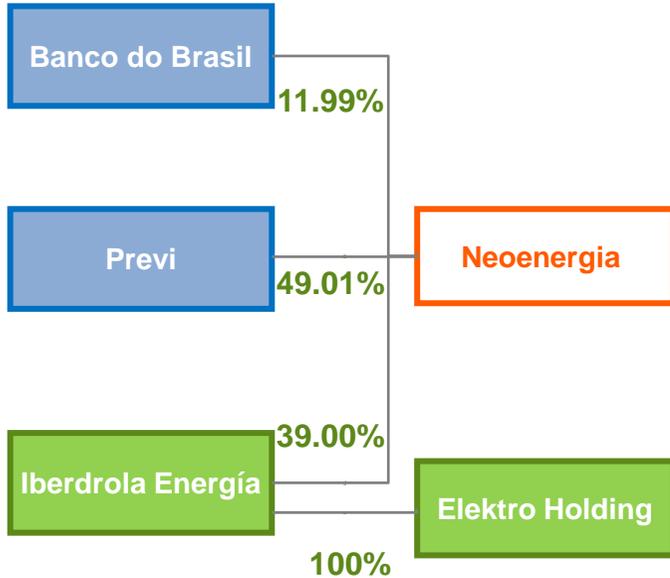
Financial

- Contribution consistent with EBITDA and Net Income estimates
- Aggregate 2016 Revenues of BRL 30 Bn and EBITDA of BRL 3.6 Bn
- The transaction opens the path to an IPO after the closing of the deal
- *For Iberdrola: Transaction with no cash component. No capital increase*

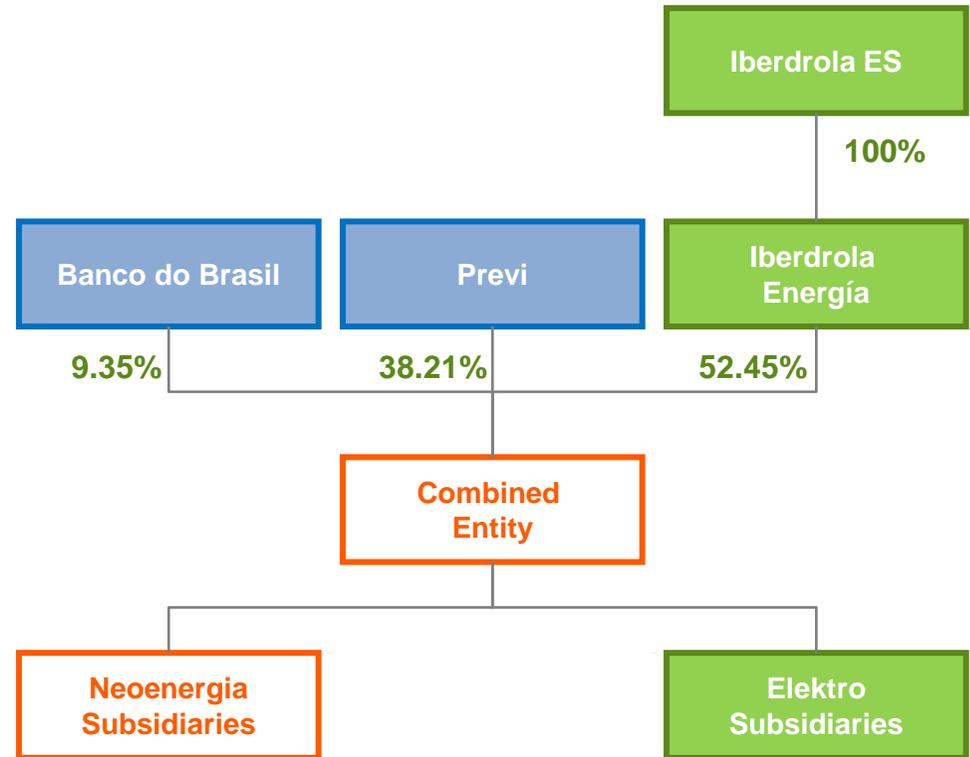
1. A shareholders agreement has been signed in order to regulate actions in relation to Neoenergia as long as Previ and Banco do Brasil keep, at least, 5% of the combined company individually. Additionally, an association agreement has been signed by the shareholders jointly with an incorporation protocol regulating the terms of Neoenergia's incorporation of Elektro Holding's businesses and implementing the incorporation respectively.

Transaction Terms and Structure

Pre-transaction structure

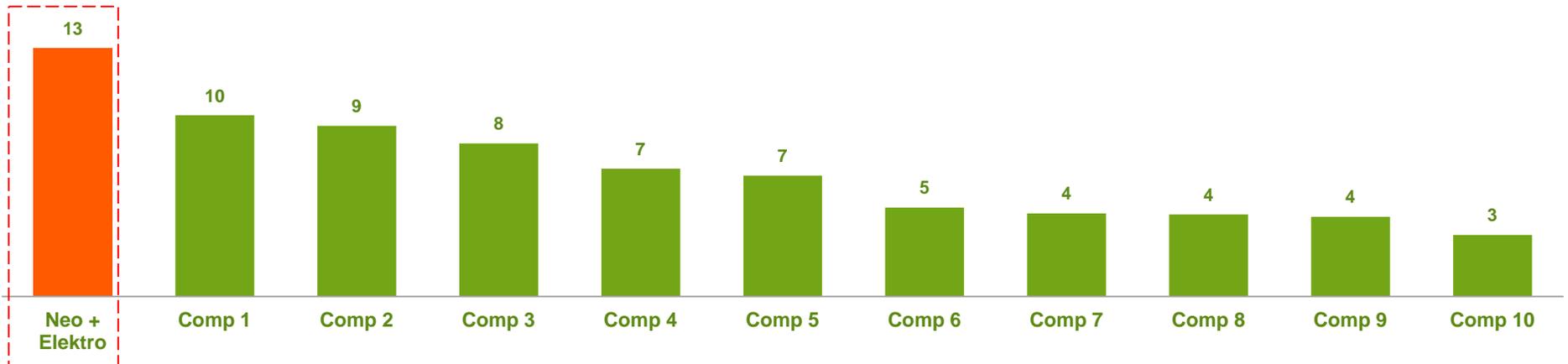


Post-transaction structure



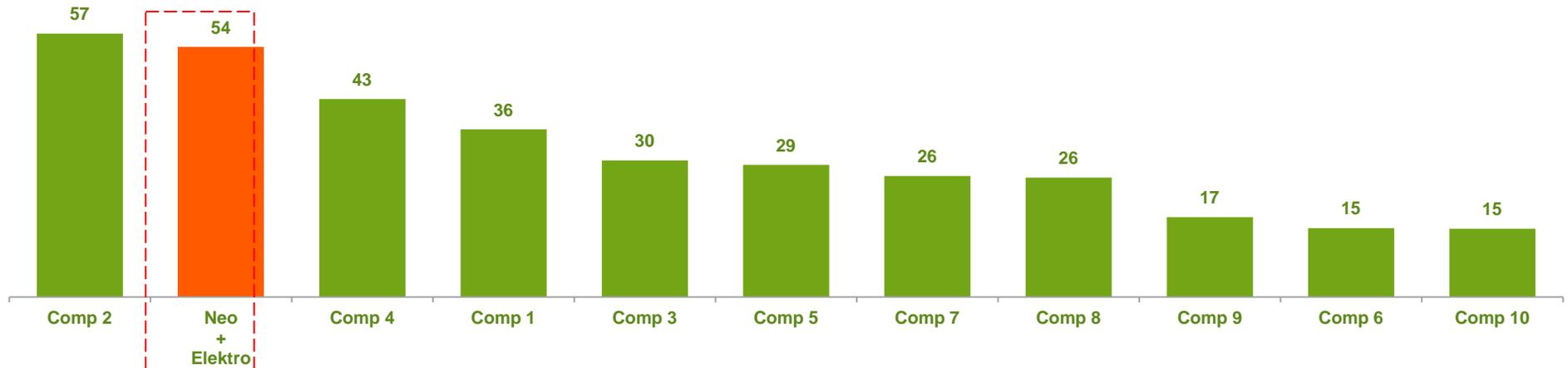
Creation of a leading utility in Brazil and LatAm

Top Brazilian companies by customers (M)¹



Source: Aneel and company reports

Top Brazilian companies by distributed energy (TWh)¹



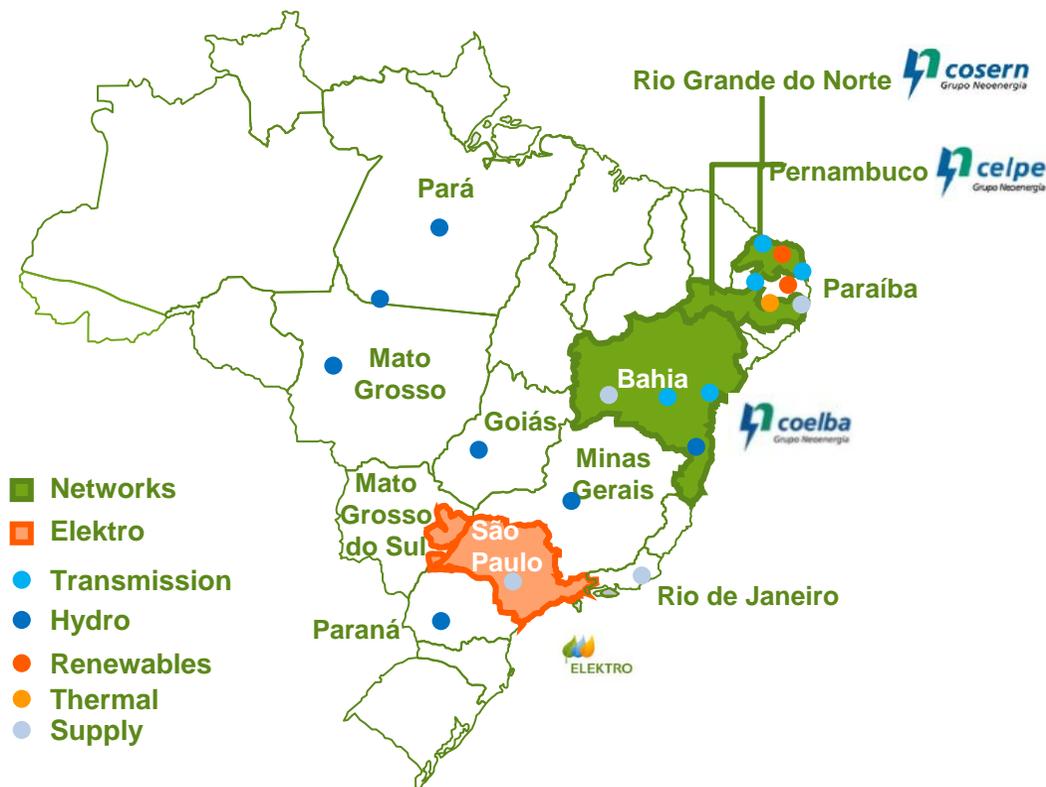
Source: Aneel and company reports

1. Figures of Distribution and customers 31/12/2016

Creation of a leading utility in Brazil and LatAm

A company with 13.4 million of points of supply...

	Aggregate Neo + Elektro
Service area – population (M)	c.43
Iberdrola Spain (M)	c.18
Concession area (Km ²)	836,000
Iberdrola Spain (Km ²)	190,000
Distribution network (Km)	585,000
Iberdrola Spain (Km)	268,000

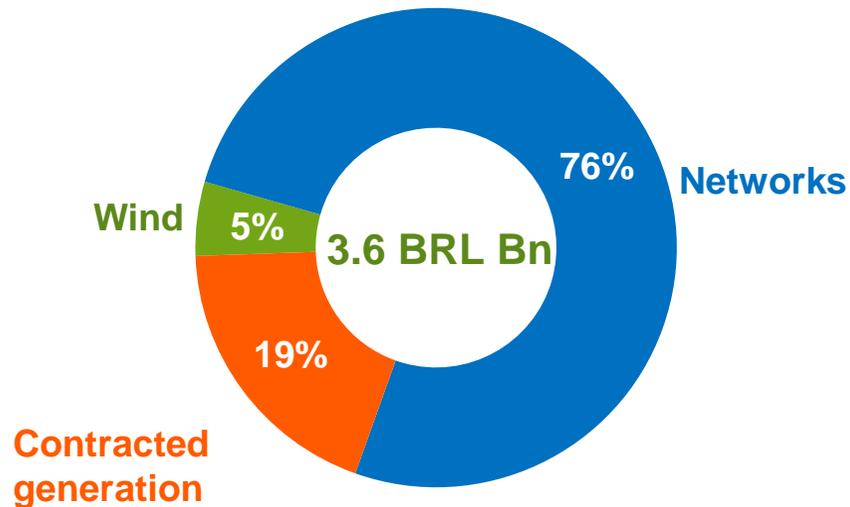


...and 3,546 MW net capacity in operation/under construction
(Renewable: wind and hydroelectric)

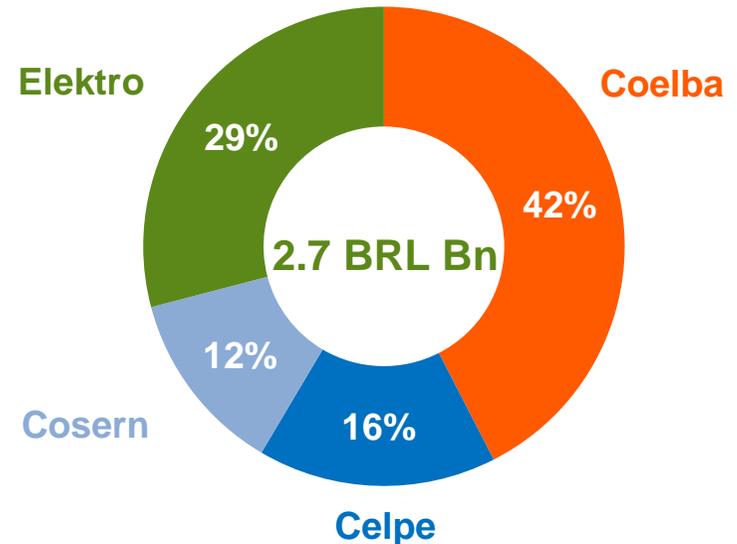
Regulated Business Increase

The transaction increases the contribution of regulated business to Neoenergia results...

New Neoenergia
2016 Proforma EBITDA



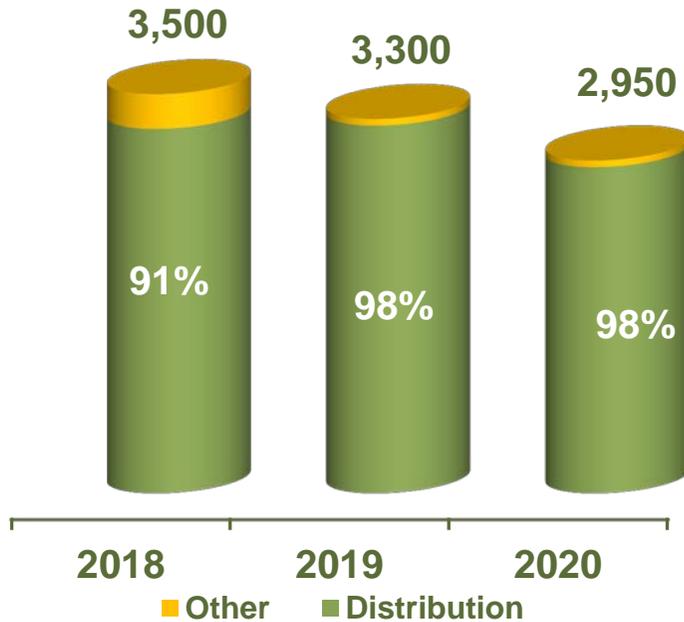
New Neoenergia
2016 Networks EBITDA



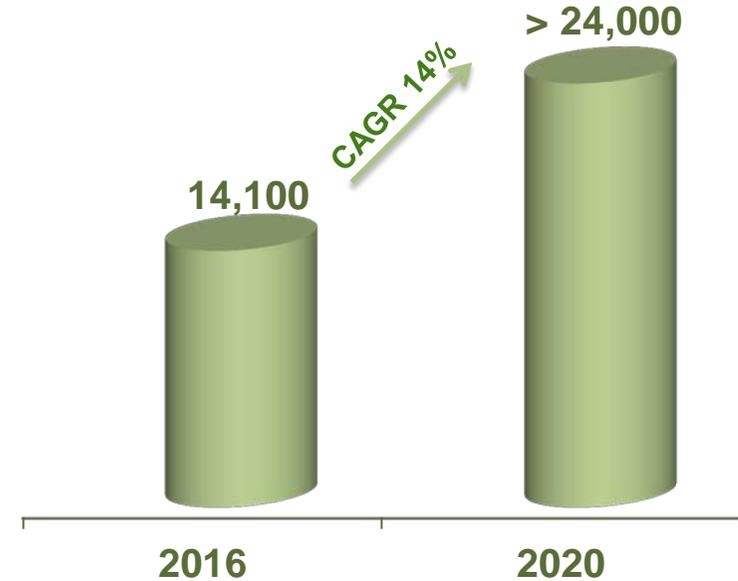
...as well as its geographical diversification (Northeast and South)

Capex Plan and RAB(e)

Capex (BRL M)



RAB (BRL M)



Tariff reviews

Coelba	April 2018 (5 years)
Cosern	April 2018 (5 years)
Celpe	April 2021 (last 2017/04)
Elektro	Aug 2019 (last 2015/08)

Latest tariff review (Celpe 2017)

- 8.09% real post-tax WACC
- 16.6% increase in revenues related to Parcela B
- RAB inflation adjustment
- Risk mitigation (drought, overcontracting)

Financial Figures 2016

BRL M	Elektro	Neoenergia	Aggregate Neo + Elektro
Revenues	8,391	22,203	30,594
EBITDA	796	2,762	3,558
Net debt	1,707	9,885	11,592
Net debt / EBITDA	2.1x	3.6x	3.3x
Capex	416	2,876	3,292

Shareholders' Agreement

Board of Directors

- Iberdrola Energía to retain majority of the board's members

Directory

- Composed of a minimum of 5 members (officers)
- The shareholders appoint the CFO (responsible of the Investor Relations) up to 12 months after IPO or 4 years from the execution of the agreement

Reserved Matters

- Minority protection veto rights over usual reserved matters on this kind of transactions

Committees

- Iberdrola Energía to retain majority of the committee members
- Iberdrola Energía entitled to appoint the Chairman of the committees

Restrictions on shares' assignment

- Mutual rights between shareholders in case of transmission of shares

Initial Public Offering

- Shareholders' commitment to support the IPO but Iberdrola not to buy shares in the IPO

Additional obligations

- The company to be the exclusive vehicle used by Iberdrola Energía to carry out investments in Brazil

The closing of the transaction is estimated for July-August

Entities

Conselho Administrativo de Defesa
Econômica (CADE)¹

Agência Nacional de Energia Elétrica
(ANEEL)

Banco Nacional de Desenvolvimento
Econômico e Social (BNDES)

Calendar

**2-3
months**

1. Assuming “Fast Track” hypothesis

Approval of the transaction by Neoenergia and Elektro General Shareholders' Meetings one month after the signing of the agreement

Iberdrola Group

strategic fit

Strengthened role in a known company

Increasing Regulated activities contribution from a high growth market

Enhance operational management by implementing best practices

Economic ownership of Iberdrola over assets same after deal but additional value creation to be captured by integrating both companies

Impact of the Transaction on the Financial Statements of Iberdrola

Transaction meets the financial criteria in the short term

Impact on EBITDA	Positive over €900M due to consolidation of 100% of Neoenergia
Impact on cash earnings ¹	Accretive from year 1 ~ +4%
Impact on earnings per share	Positive “one-off” impact in 2017 and slightly dilutive effect in 2018 (~ 1%) due to Goodwill amortization.
Synergies	Initially, 5% of NOE

The deal improves the cash-flow generated by Iberdrola Group

¹ Net Profit adjusted by capital gains, amortizations and provisions

Impact of the Transaction other

Transaction meets the financial criteria in the short term

Capex

~ €0.8 Bn/year increase due to consolidation of 100% of Neoenergia

Impact on Net Debt

~ €2.9 Bn increase due to consolidation of 100% of Neoenergia

Impact on Net Debt / EBITDA

Improving by 0.1x

Impact on FFO / Net Debt

Reduction of aprox. 1 p.p.

The deal maintains the financial solidity of Iberdrola

The new Brazilian entity will be financed independently from IBE holding

**No intercompany loans,
no recourse to Iberdrola holding....**

**... suited to the high proportion of minorities
($\approx 48\%$) in the capital structure**

**The entity will use, when needed, its access to local
and international capital markets**

Neoenergia incorporates Elektro Holdings' businesses

Creation of a leading utility in Brazil and LatAm

Enhanced operational management by implementing best practices

New company focused in Regulated and Renewables activities
in a high growth market

For Iberdrola

- Transaction with no cash component
- No capital increase
- Improvement in CF generation
- Maintaining financial solidity
- 2017 Positive “one-off” will be used to optimise the Group business profile