



IBERDROLA

OUTLOOK 2016/2020 **Update**

London / 22nd February

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Business CEO

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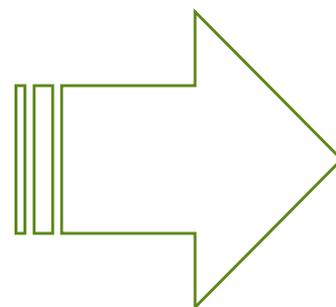
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After one year, capacity growth expectations increase,
with installation now of +8,200 MW by 2020

 **OUTLOOK** 2016 / 20
LONDON / 24th February

 **IBERDROLA** **2016**



OUTLOOK 2016/2020 **Update**
London / 22nd February

 **IBERDROLA** **2017**

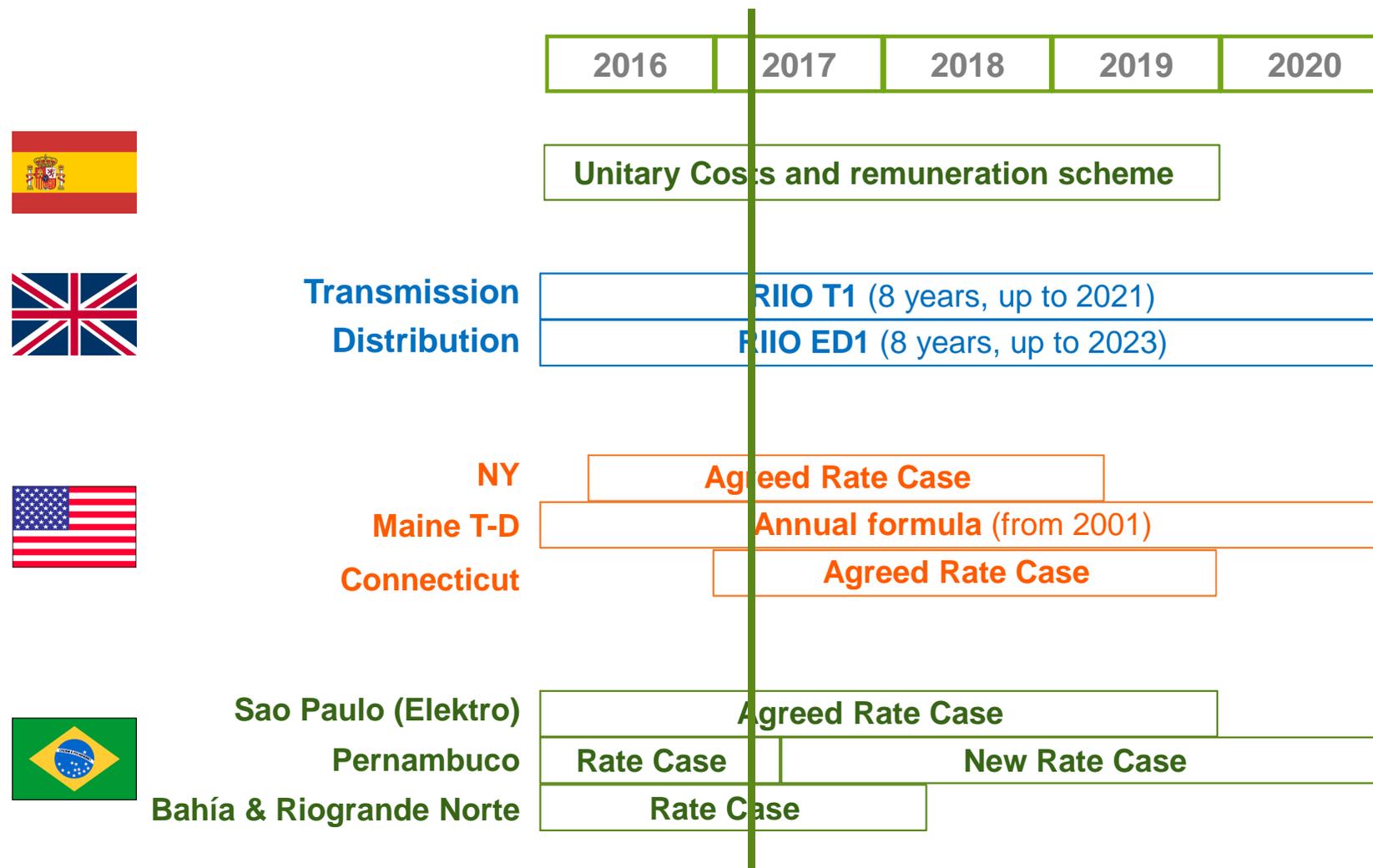
+6,900 MW in 2020

>7,000 MW in 2019

+8,200 MW in 2020

Global outlook

Increased visibility and stability, new rate cases in NY and Connecticut



No significant changes in the markets vs the outlook

2016-2020



Electricity demand

+1.2% annual

0% annual

+2.7% annual

Constant wholesale prices

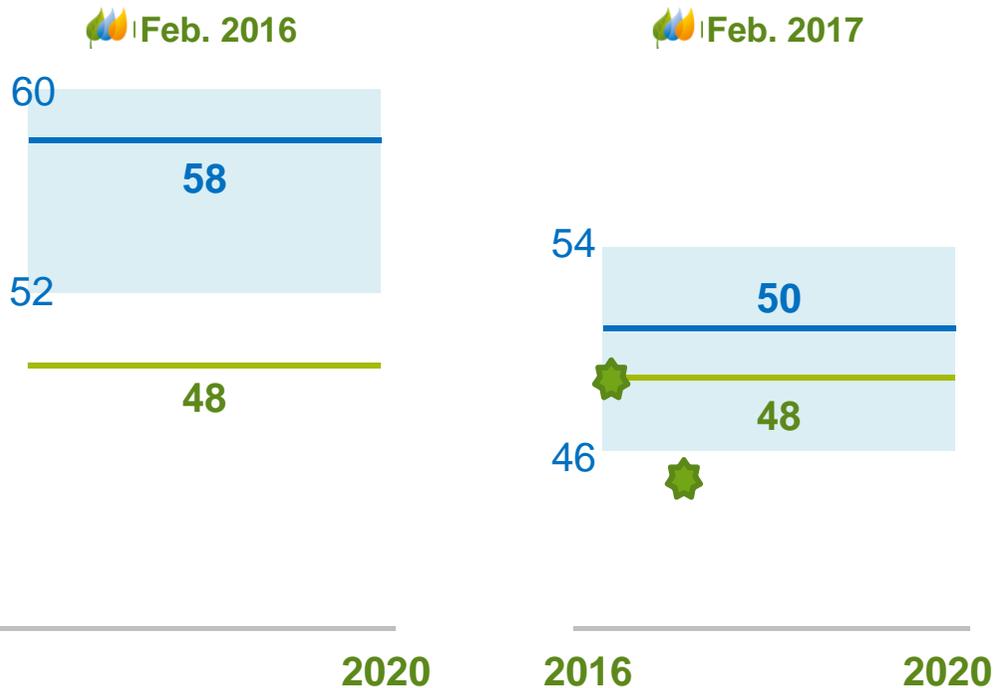
≈48 €/MWh ↔

≈45 £/MWh ↑

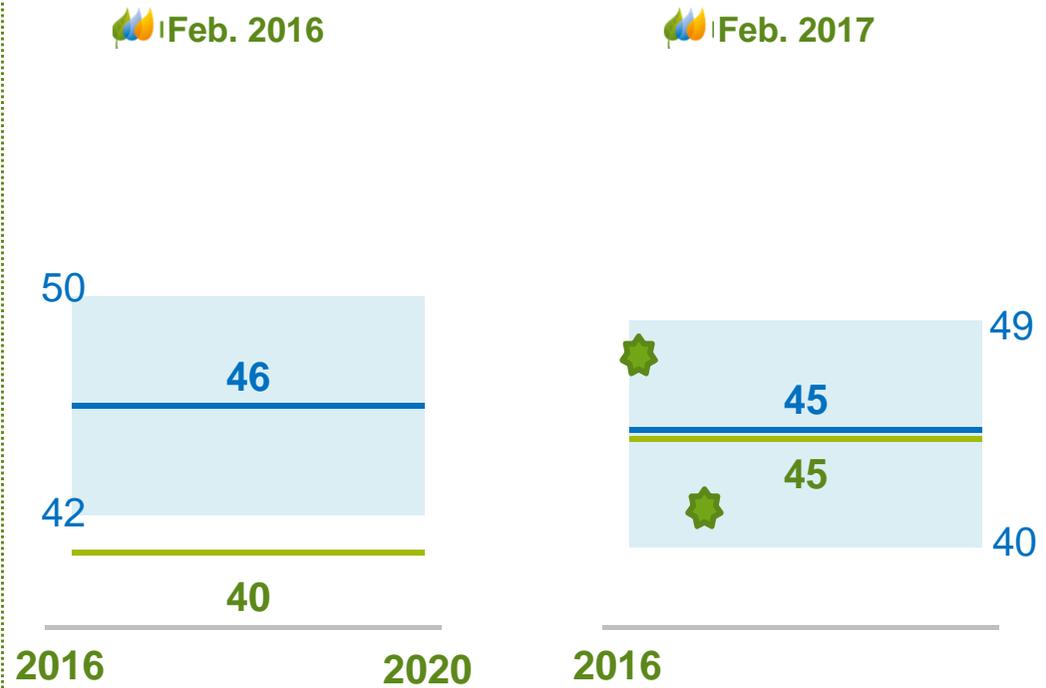
≈65 \$/MWh ↑

No major changes, in line with analysts forecasts

Average Forward (€/MWh)



Average Forward (£/MWh)



Iberdrola
Average Forward

Range and average prices derived from analyst's estimations of commodities (PIRA, WoodMac, Aurora, CERA-IHS, Pointcarbon)

Customized products, service and price are still essential to compete and to build customer's loyalty

			
Increase in competition	Small suppliers / Massive auctions		Market opening
New customer's needs	Customized products / Distributed generation		Activity boost
Higher regulatory scrutiny	Stress on margins / Protection of vulnerable customers		New rules implementation

High sensitivity to vulnerable customers

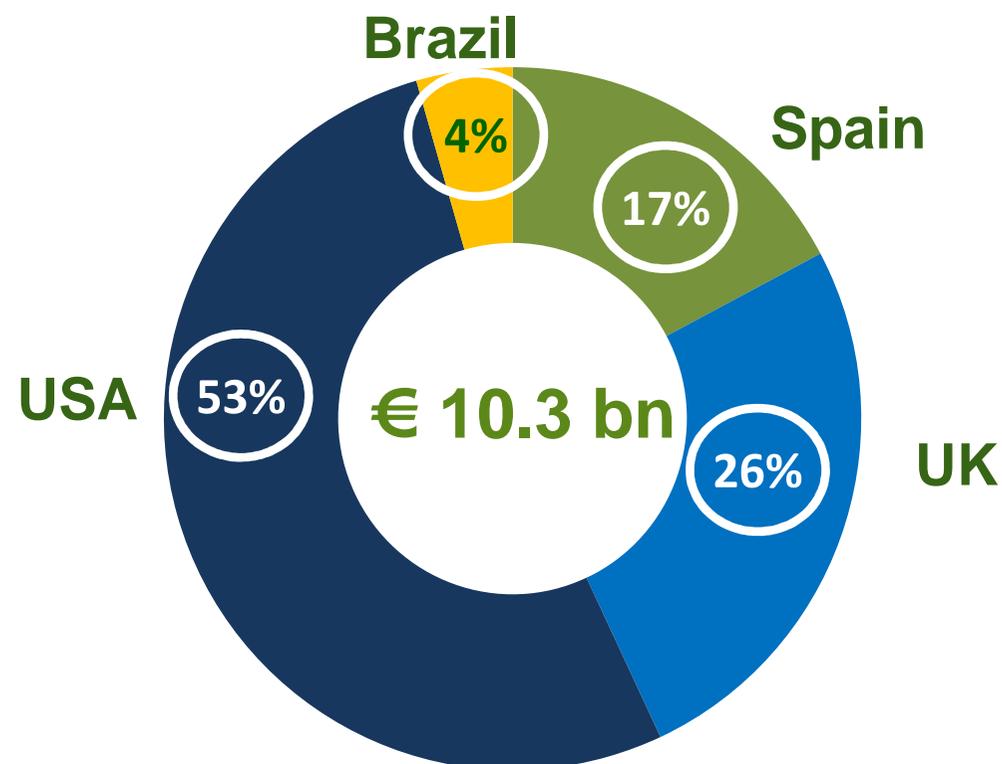
No major changes: new capacity through auctions or PPAs

	2016	2017	2018	2019	2020
		RO removal from 2017 CfDs auctions, pending for onshore			
		Market or PPAs Production Tax Credits up to 2020			
		Market + Investment Incentive (RINV) Auctions (% discount on RINV)			
		Energy & green certificates (CELs) auctions			
		Auctions			

Additionally, in Mexico Iberdrola is developing private solar and windfarms to provide CELs to costumers

Outlook 2016-2020 update

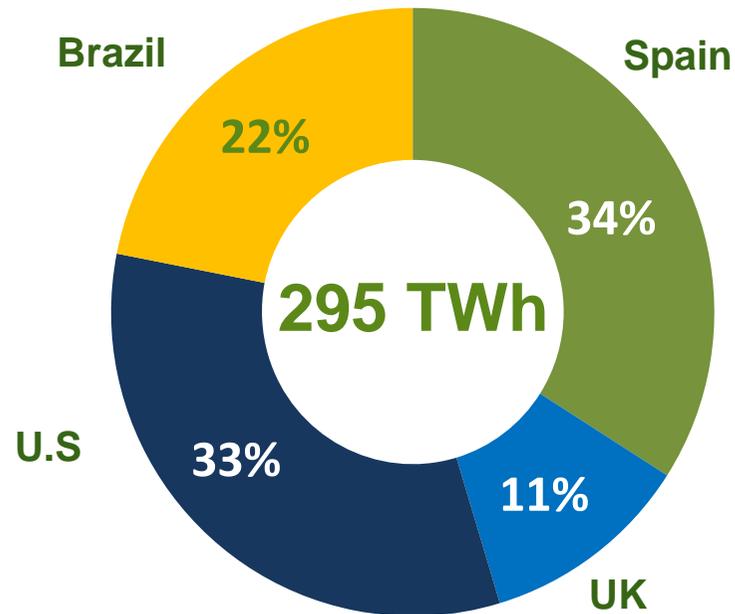
Net investment of EUR 10,300 M over the period 2016-2020,
more than half in USA



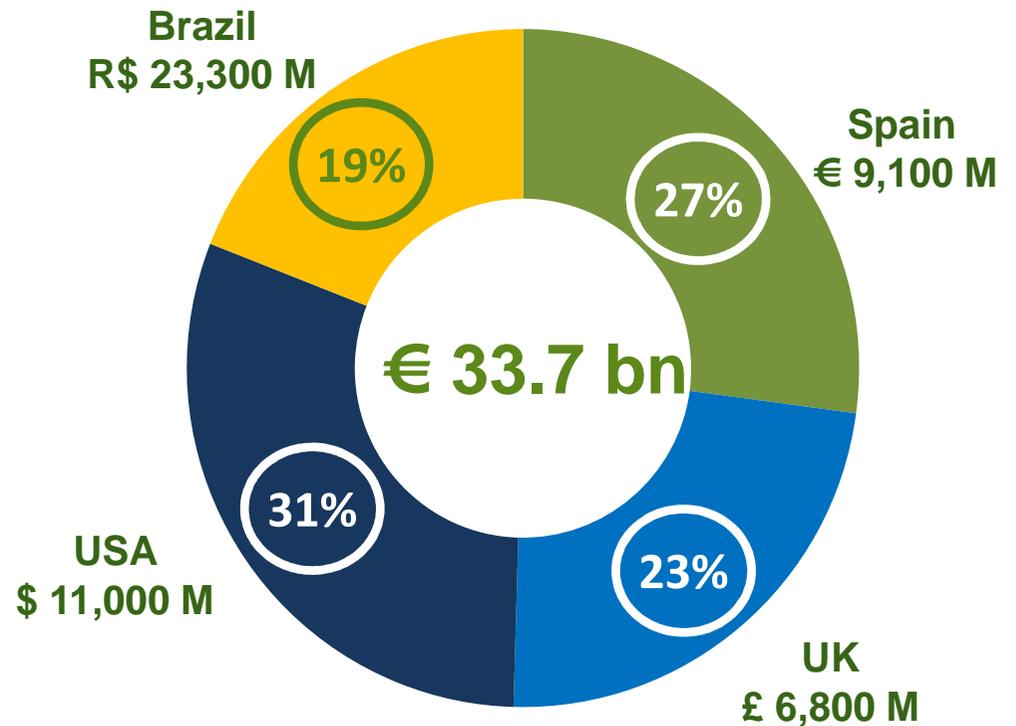
79% in A rating countries

RAV reaches EUR 33.6 bn, increasing EUR 6,100 M (+22%) despite sterling devaluation

Distributed energy 2020*



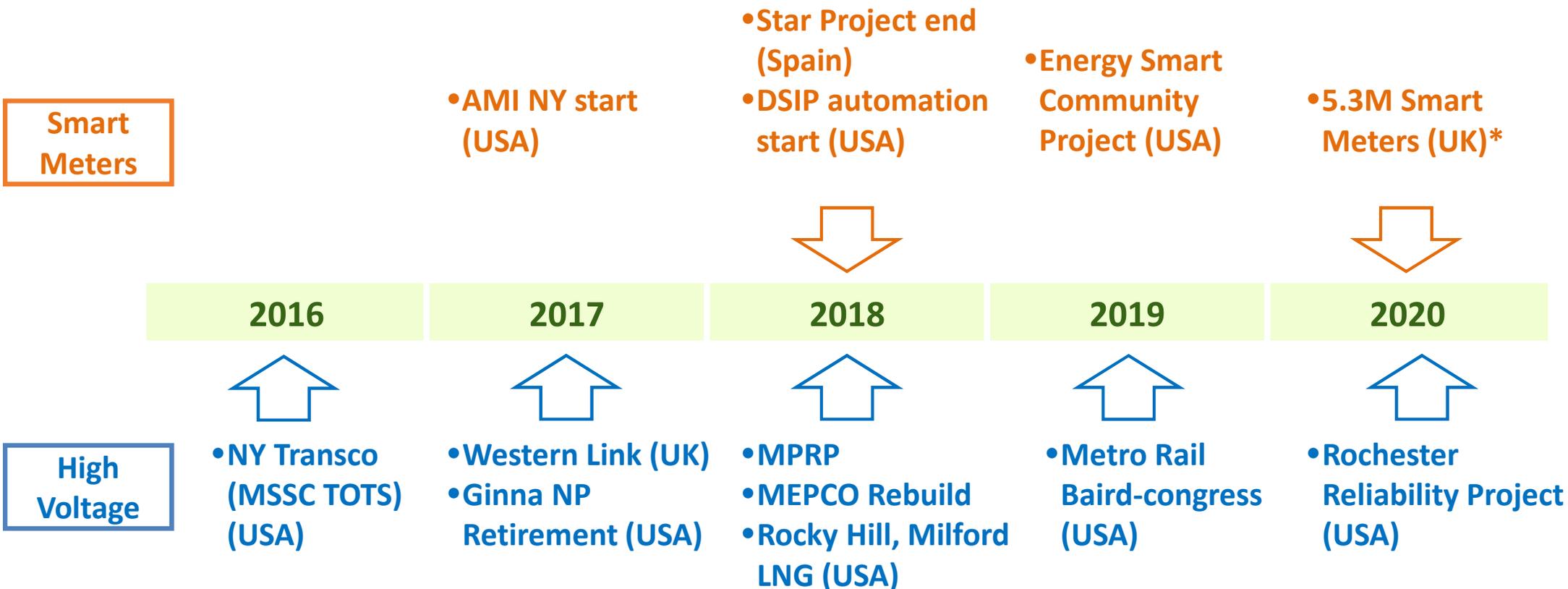
RAV 2020*



* 100% Neoenergia

Additional growth to the rate cases through high voltage (HV) projects and smart meters (SM) rollout

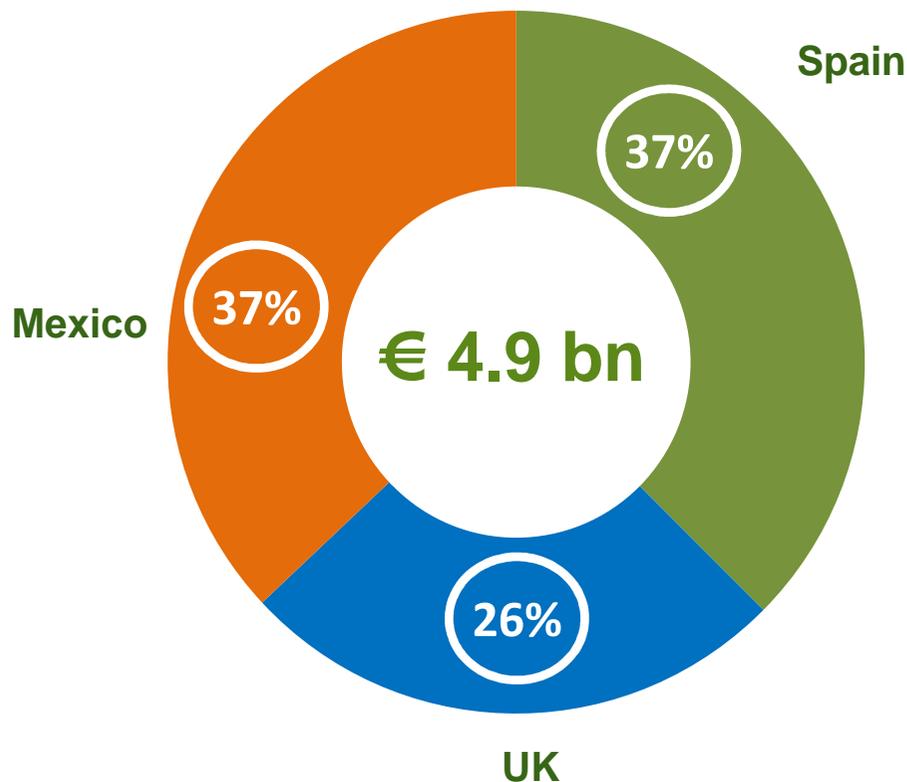
Commissioning of new projects in progress



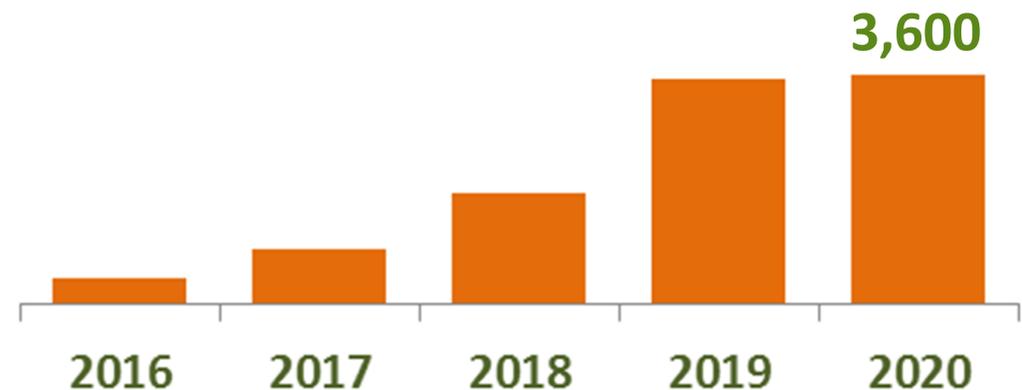
* Installed by supply business UK

Net investment of EUR 4,900 M over the period 2016-2020:
3,600 MW increase in Mexico, Smart Meters in UK and Tâmega

Net investment

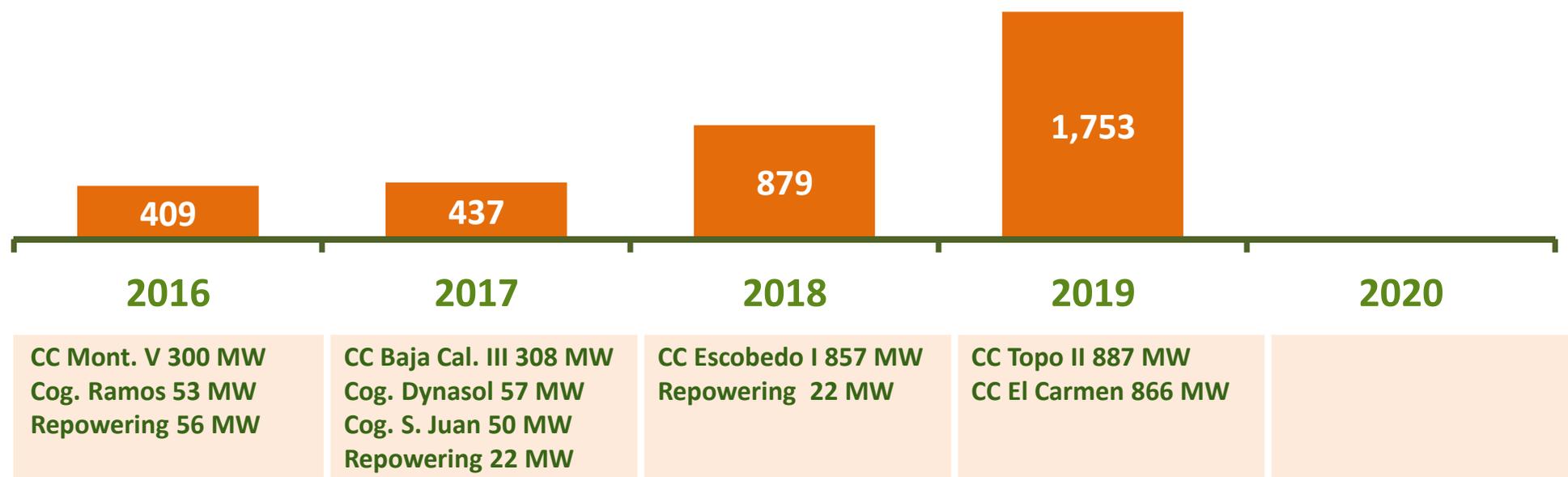


New thermal capacity accum. (MW)



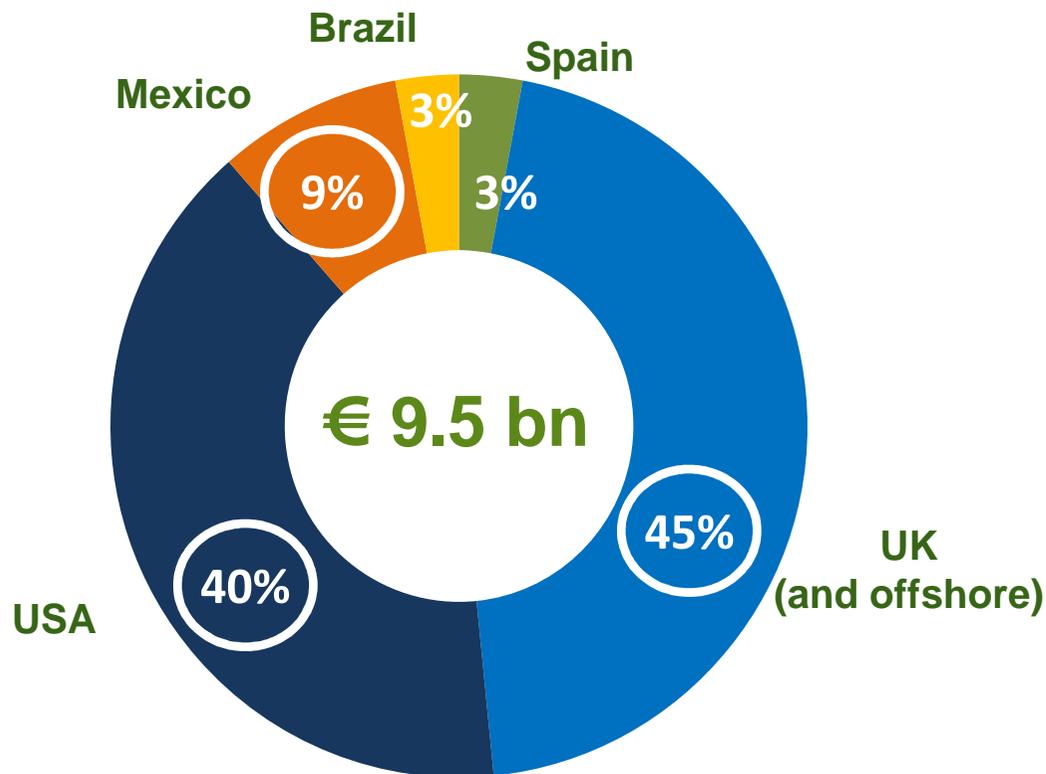
**Close to 3,500 MW of projects in progress,
717 MW already commissioned**

Commissioning of new thermal capacity in progress (MW)

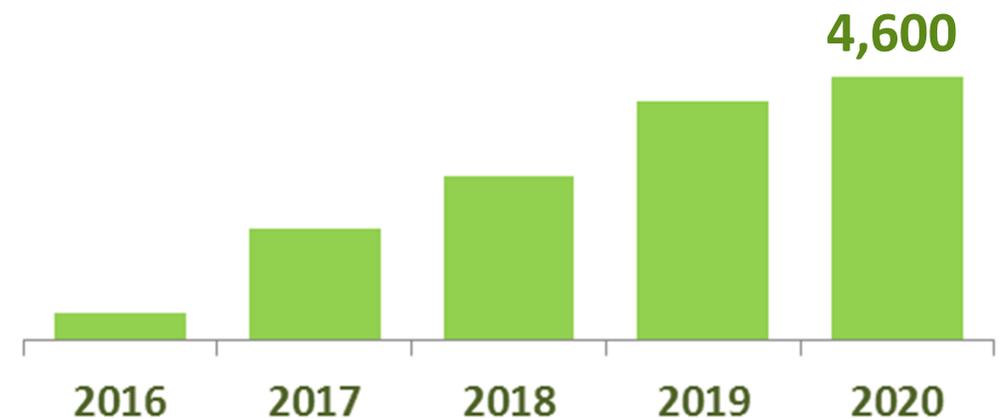


Net investment of EUR 9,500 M over the period 2016-2020,
increasing installed capacity by 4,600 MW

Net investment

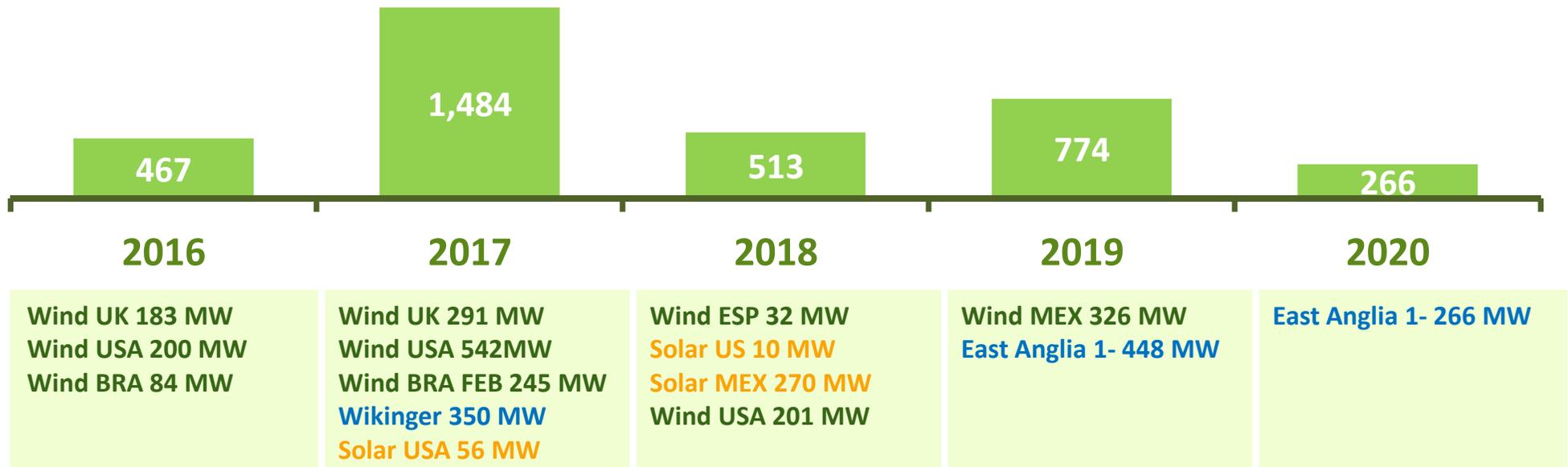


New capacity accum. (MW)



**3,500 MW of projects in progress*,
467 already commissioned**

Commissioning of new capacity in progress (MW)

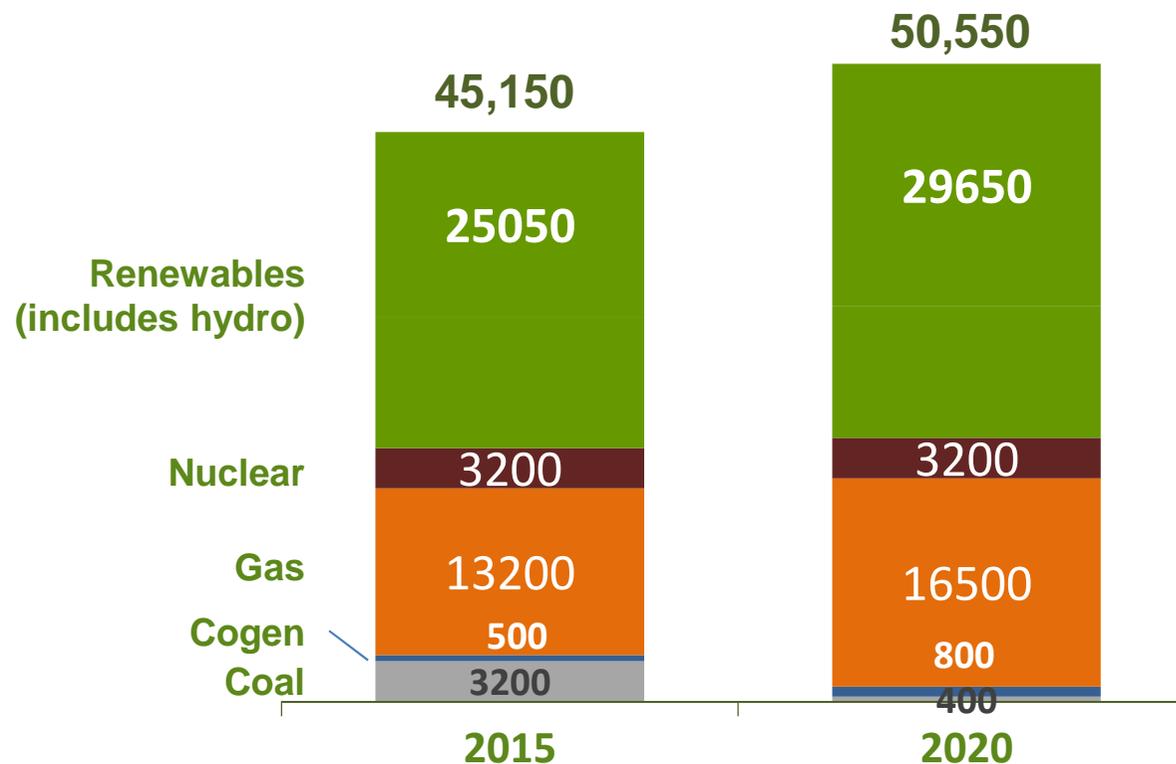


* Includes 200 MW project in the final stages of PPA execution

**1,655 MW of capacity in construction (Tâmega and St. Briec)
to be commissioned after 2020**

Commissioning 8,200 MW during the period (+1,300 MW vs February 2016). 65% of the mix is emission free

Technology mix (MW) *

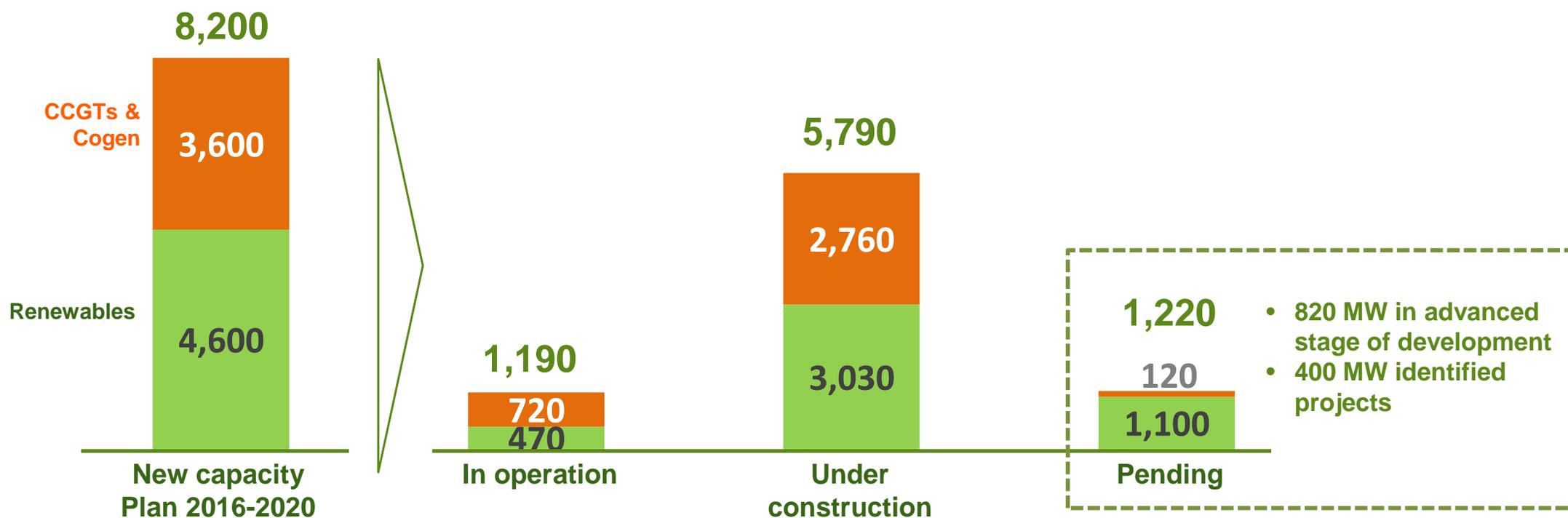


Production increases 33% by 2020, up to 175 TWh

* Including 100% Neoenergia, managed capacity would increase from 47,800 MW in 2015 to 55,200 MW in 2020

7,000 MW already commissioned or in construction (85% of the Plan)
 Strong visibility on the 1,200 MW pending

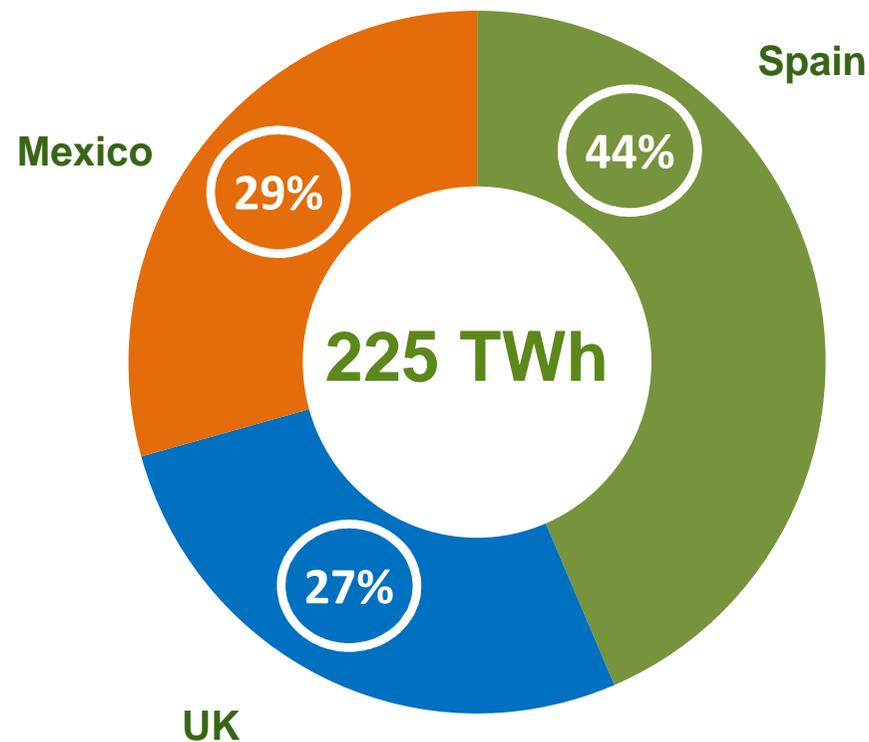
Capacity under development (MW)



Additionally, 1,655 MW in construction and to be commissioned after 2020 (Tâmega and St. Brieuc)

Strong growth in sales, supplying close to 25 M customers

Sales 2020



Business drivers

	Regulated business	Generation & customers	Renewables
	RD 1048/2013 Capex € 1.8 bn	Customers growth Capex € 1.8 bn	+30 MW Capex € 0.3 bn
	RIIO T1 / ED1 Capex £ 2.3 bn	Business as usual Capex £ 1.0 bn	+1,540 MW Capex £ 3.7 bn
	Rates cases Capex \$ 5.8 bn		+2,000 MW Capex \$ 4.1 bn
		+3,600 MW Capex \$ 2.0 bn	+700 MW Capex \$ 0.9 bn
	Tariff periods Capex R\$ 1.7 bn		+330 MW Capex R\$ 1.0 bn
CAGR EBITDA*	between 5% & 7%	between 2% & 4%	between 8.5% & 10.5%

* Corporation and other business not included

**Capex
2016-2020**

EUR 1.8 bn

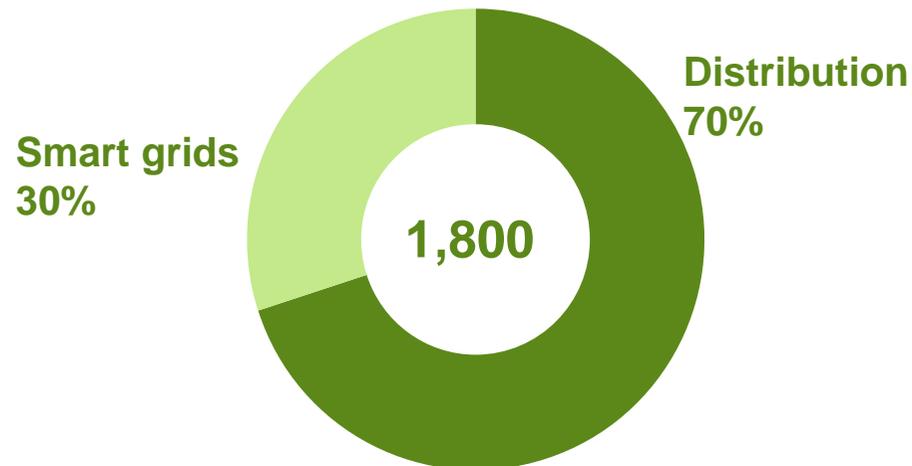
Regulation

**Management
drivers**

- Efficiency Plan 2020
- Smart meters rollout (STAR) end by 2018
- Opportunities:
 - STAR+ project: LV network digitalization
 - Active network manag. (DSO)

- RD 1048/2013: unitary costs
- IET/980/2016: remuneration 2016-2019: 6.5% nominal pre-tax
- Review from January 2020 and then in 6 years periods

Net investment (EUR M)



RAV evolution (EUR M)



**Capex
2016-2020**

GBP 2.3 bn

Regulation

**Management
drivers**

- Investment plan and fulfilling agreed quality outputs
- Opportunities: Network active management (DSO)

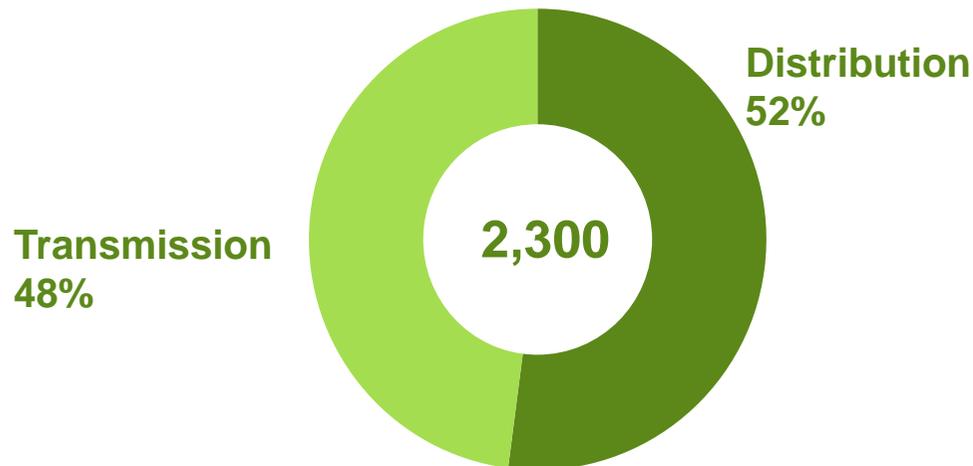
RIIO-ED1 2015-2023:

- 6.0% real post-tax CoE
- 54% Efficiency incentive

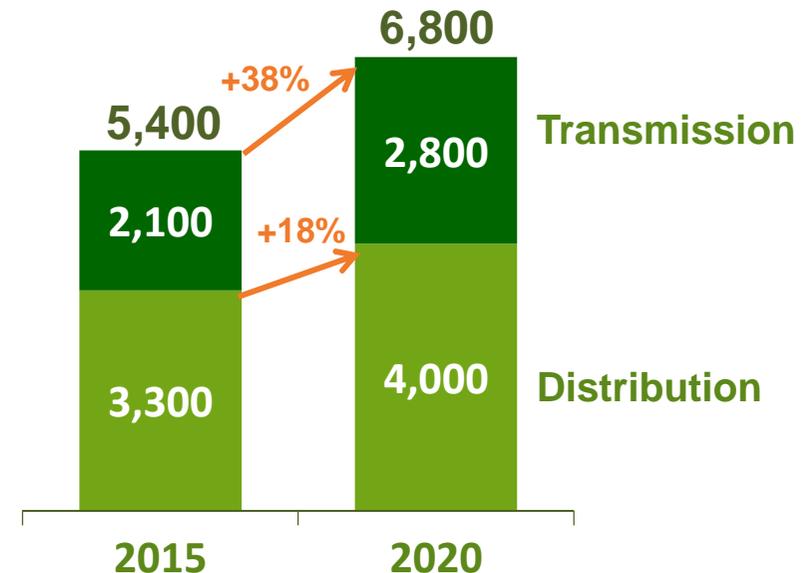
RIIO-ET1 2013-2021:

- 7.0% real post-tax CoE
- 50% Efficiency incentive
- 1st review without changes

Net investment (M GBP)



RAV evolution (M GBP)



**Capex
2016-2020**

EUR 5.8 bn

Regulation

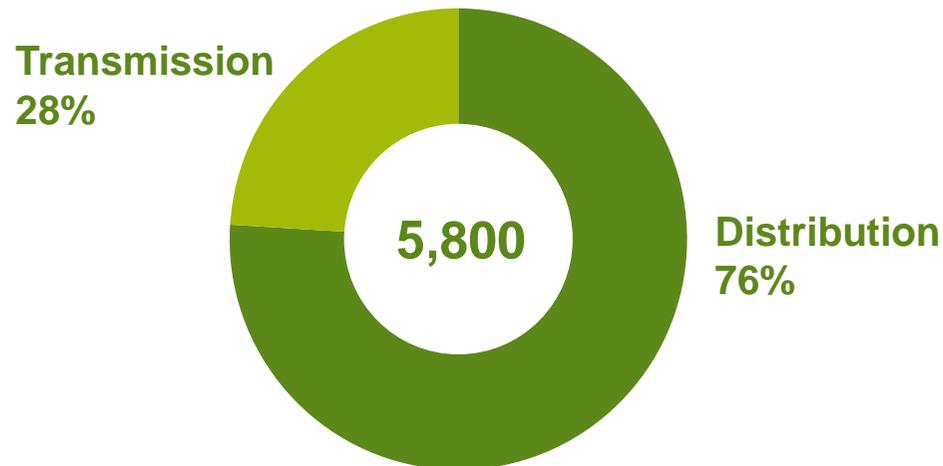
**Management
drivers**

- Investment plan and fulfilling agreed quality outputs
- Opportunities:
 - Efficiency Plan 2020
 - High voltage projects
 - REV: AMI NY, DSIP and Energy Smart Community

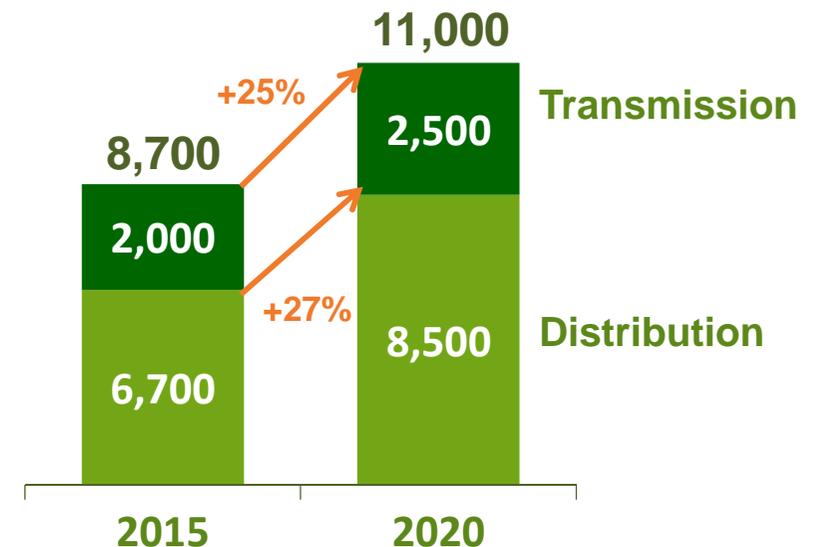
Distribution NY, ME & CT:

- Average ROE 9%
 - Efficiency incentives
- High voltage projects:**
- ROE 11%

Net investment (USD M)



RAV evolution (USD M)



**Capex
2016-2020**

BRL 1.7 bn

Regulation

Remuneration scheme:

- 8.09% real post-tax WACC
- RAV inflation adjustment
- Risk reduction (drought, overcontracting)

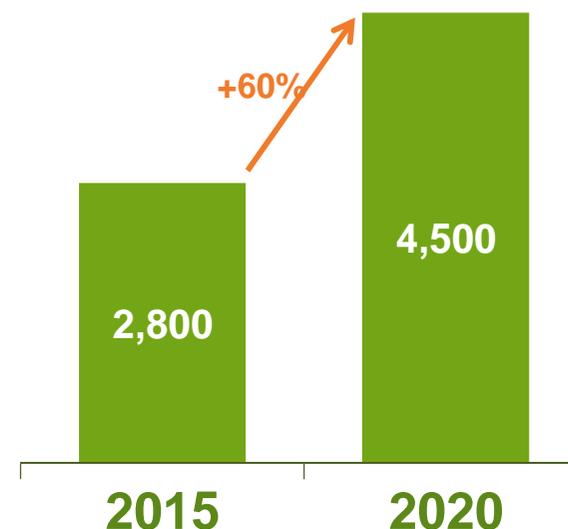
**Management
drivers**

- Quality and fraud parameters
- Opportunities:
 - Efficiency Plan 2020
 - High voltage projects

Net investment (MR\$)



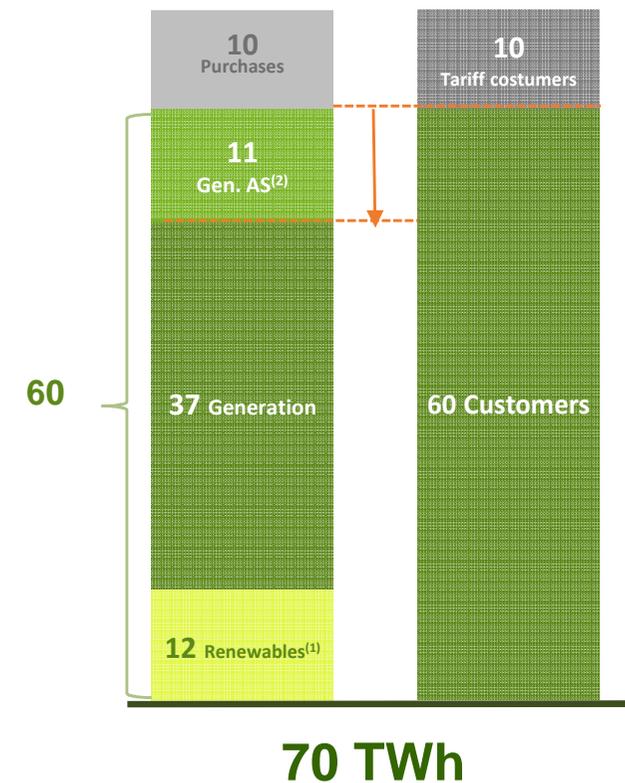
RAV evolution (MR\$)



Short position due to commercial activity increase Flexible and competitive mix

Capex 2016-2020	EUR 1.8 bn
Capacity by 2020	19,230 MW
Market	<ul style="list-style-type: none"> • Marginal price market • Generation taxes • Gas conversion due to emission limits
Management drivers	<ul style="list-style-type: none"> • Flexible mix to seize opportunities • Efficiency

Average Electricity Balance



(1) Renewables production is managed as an additional technology of the Generation mix.
 (2) Includes Ancillary Services production and position reduction due to taxes indexed to income

Leader in free market contracts

Contracts

16 M Contracts

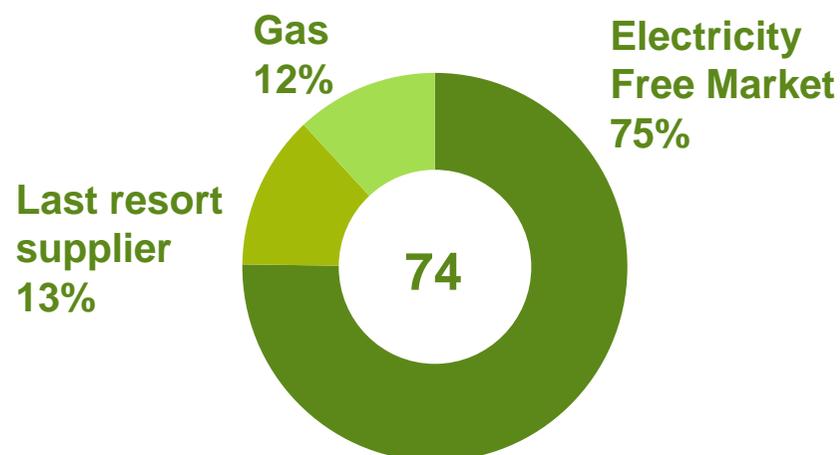
Market

Management drivers

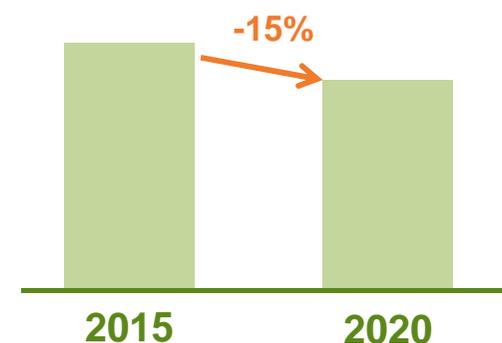
- Customers' loyalty
- Customized products
- Customer service
- Cost efficiency

- Regulated tariff and last resort supplier
- Tariffs affected by non energy costs
- Strong competition
- Vulnerable customers

Sales 2016 (TWh)



Cost to serve (€/MWh)

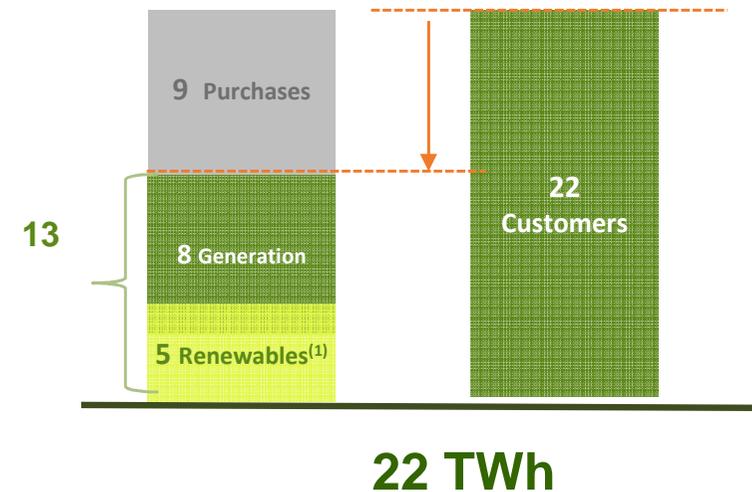


-10 €/contract vs industry average

Short position, which will decrease with the entry of renewable capacity

Capex 2016-2020	GBP 0.1 bn
Capacity by 2020	2,530 MW
Market	<ul style="list-style-type: none"> • Marginal price market • Gas switch due to carbon tax • Capacity auctions 1 and 15 years • Capacity payments >2018
Management drivers	<ul style="list-style-type: none"> • Efficiency • Spreads capture • Ancillary services opportunities for National Grid contracts

Electricity balance



(1) Renewables production is managed as an additional technology of the Generation mix.

Operating improvement

228k smart meters installed (180k at end 2016)

**Capex
2016-2020**

Contracts

**Management
drivers**

0.9 bn GBP

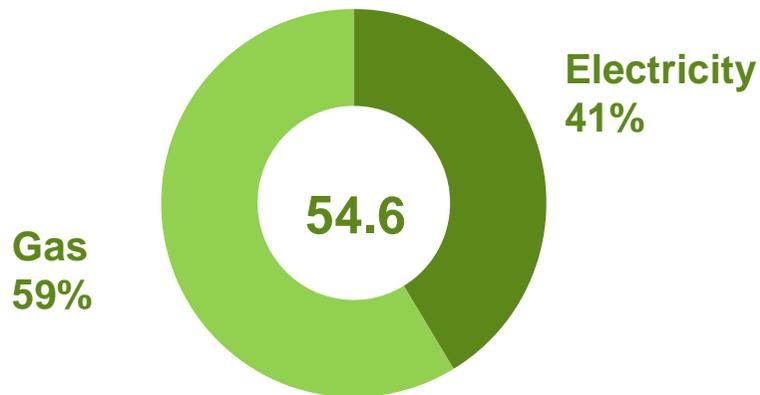
5.4 M Contracts

- Build customers loyalty
- Customized products
- Customer Service
- Cost efficiency

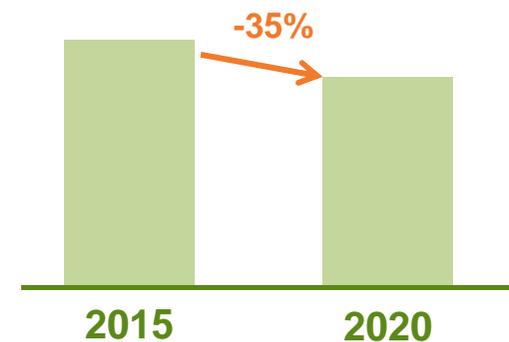
Market

- Strong competition
- Non energy costs increase
- Efficiency obligations
- Smart meters rollout

Sales 2016 (TWh)



Cost to serve (£/MWh)



**-13 £/contract
industry average**

Short position policy

Flexible and diversified portfolio of contracts

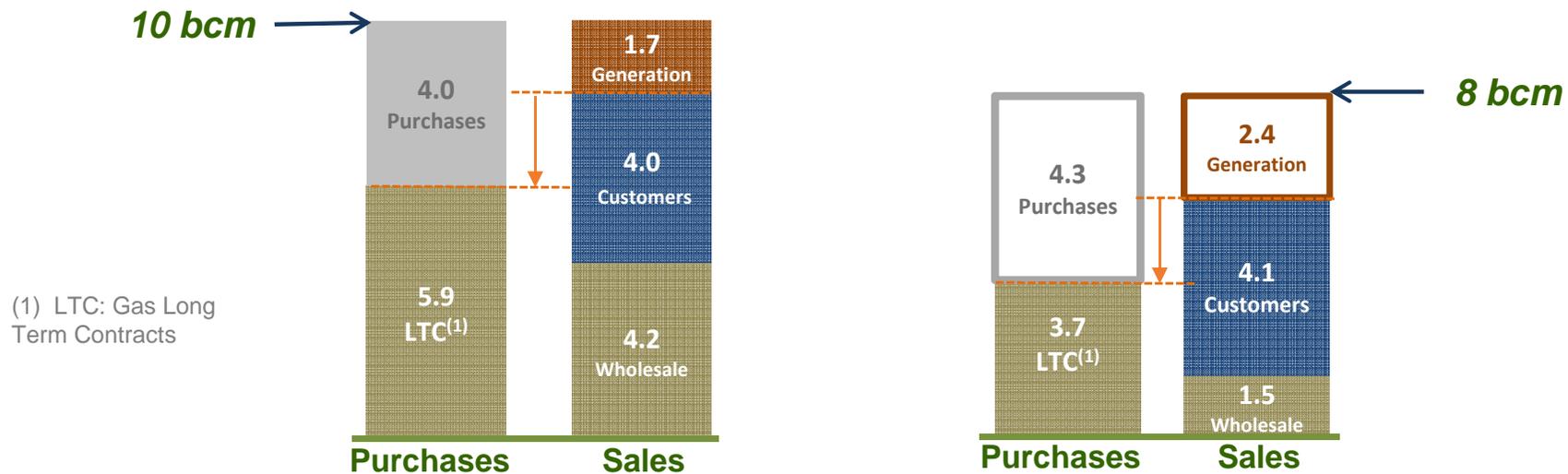
Current contracts origin

- North Europe
- Africa

2020 contracts origin

- North Europe
- Africa
- USA

Europe gas balance (bcm)



Progressive reduction to 3.7 bcm by 2020

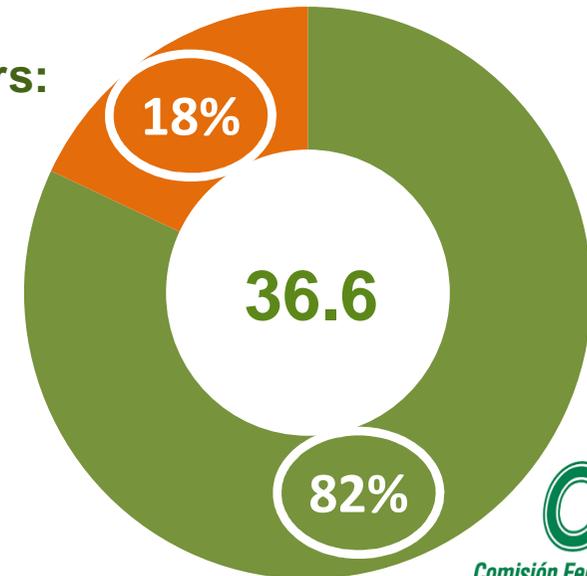
Strong development since 2001: First private producer with a strong commercial position

Capex 2016-2020	USD 2.0 bn
New Capacity 2016-2020	3,600 MW
New Capacity Oper./Const.	3,480 MW (97%)
Total Capacity by 2020	8,690 MW
Market until 2016	<ul style="list-style-type: none"> • CFE tenders (PIE) • Renewables auctions • Customers sales
Management drivers	<ul style="list-style-type: none"> • Availability • Fleet performance

Sales 2016 (TWh)

Customers:

Energy
Green mix
Security of
supply
Cogen



Business dollarized

Selective growth to maximize profitability

Market from 2017

- Tenders end after Topo 3
- Capacity, energy and CELs auctions
- Customer sales
- Wholesale market

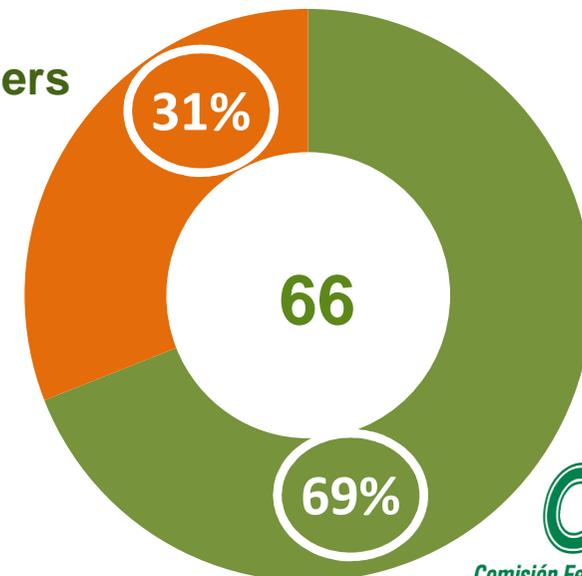
Business dollarized



- Auctions: according to returns
- Own renewables development to provide CELs
- More stable portfolio: smaller size and greater aggregated value
- Short term contracts, fixed price or cap&floor to ensure profitability

Sales 2020 (TWh)

Costumers



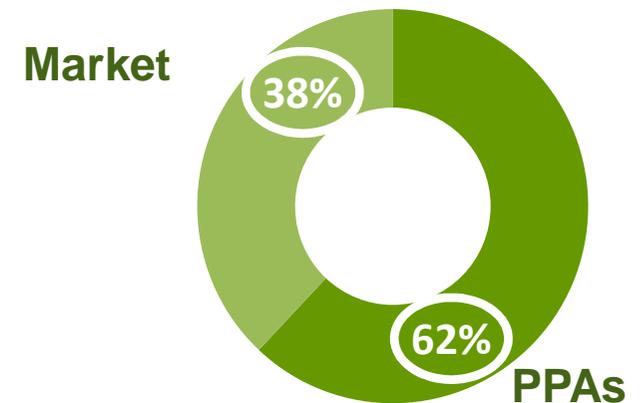
Second renewables operator, adding 2,000 MW in the period through PPAs (1,000 MW already commissioned or in construction)

Capex 2016-2020	USD 4.1 bn
New Capacity 2016-2020	2,000 MW
New Capacity Oper./Const.	1,010 MW (50%) *
Total Capacity by 2020	7,700 MW **
Remuneration	<ul style="list-style-type: none"> • PTCs until 2020 • PPAs

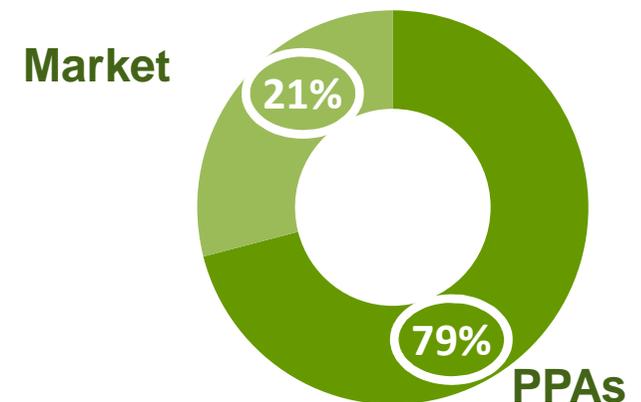


- Safe Harbour to ensure PTCs for 2,000 MW
- Repowering up to 350 MW
- PPAs with adjustment index
- PPAs average expiration date 15-20 years
- 500 MW in advanced stage of development

Capacity 2016



Capacity 2020



* Includes 200 MW project in the final stages of PPA execution

** Includes 50% of JVs

Commissioning of projects in progress during 2017

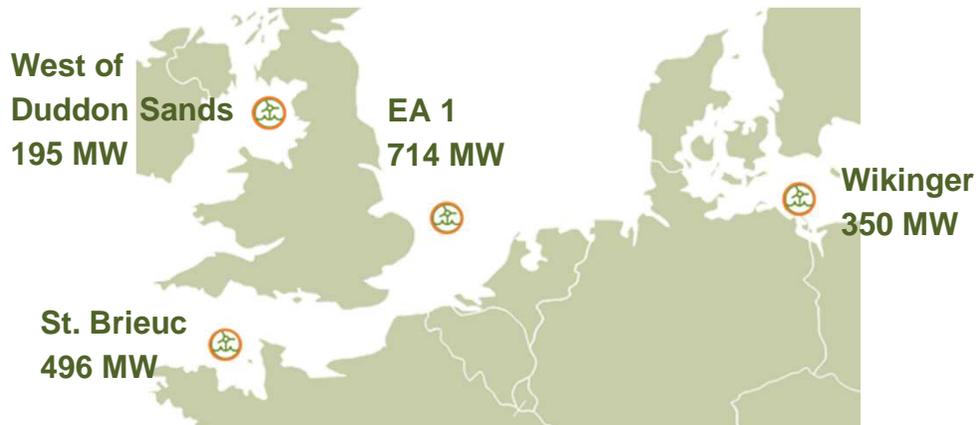
Capex 2016-2020	GBP 0.5 bn
New Capacity 2016-2020	475 MW
New Capacity Oper./Const.	475 MW (100%)
Total Capacity by 2020	2,075 MW
Remuneration	<ul style="list-style-type: none">• ROCs capacity 31 Mar 2017• Future windfarms: CfDs to be defined

Expecting new remuneration mechanism for future windfarms

Projects concentrated in hubs 1,565 MW in construction, 1,065 MW commissioned by 2020

Capex 2016-2020	GBP 3.2 bn
New Capacity 2016-2020	1,065 MW
New Capacity Oper./Const.	1,565 MW (100%)

Remuneration	<ul style="list-style-type: none"> • ROCs (WoDS) • CfD auctions (EA1 and future) • Fixed rate (Wikingen, St. Brieuc)
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Total Capacity by 2020	1,260 MW
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Project pipeline
Baltic hub: 830 MW
East Anglia hub: 2,800 MW
U.S. under analysis

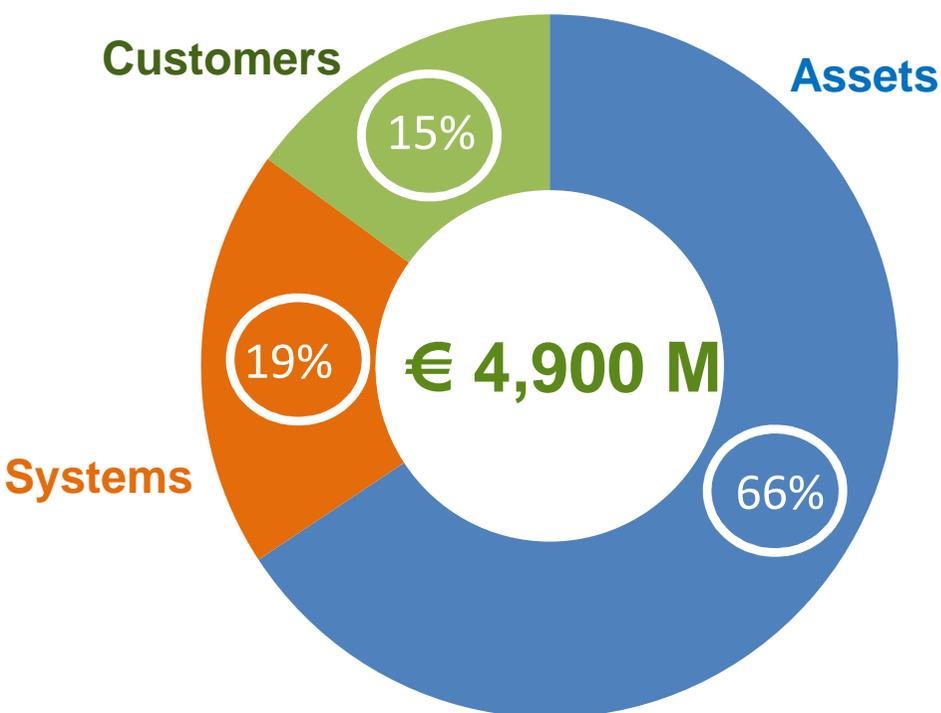
Selective growth in wind and PV based on returns



Capex 2016-2020	USD 0.9 bn	Capex 2016-2020	BRL 1.0 bn
New Capacity 2016-2020	700 MW	New Capacity 2016-2020	330 MW
New Capacity Oper. / Const.	600 MW (86%)	New Capacity Oper. / Const.	330 MW (100%)
Total Capacity by 2020	1,065 MW	Total Capacity by 2020	515 MW
Remuneration	<ul style="list-style-type: none"> • Auctions • Sales to customers 	Remuneration	<ul style="list-style-type: none"> • Auctions

Iberdrola has been a pioneer in using digital transformation to improve competitiveness, customers loyalty, quality of supply and operating efficiency

Digitalization investment
up to 2016



Assets

- Digitalization of the management of Generation assets
- High and low voltage network digitalization
- Smart meters rollout

Systems

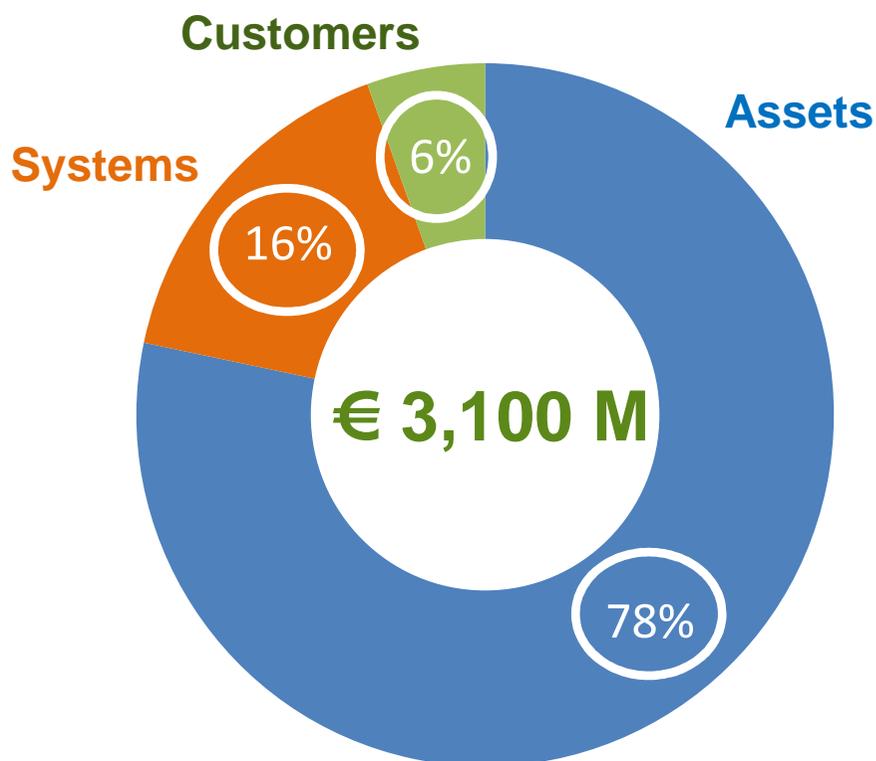
- Energy dispatch and operation
- Cybersecurity

Customers

- Billing and pricing systems, call center automation
- Customized products and solutions
- Web, app, social media

By 2020, EUR 3,100 M digitalization investment focused on offering new services and more control to the customer in order to build loyalty and improve competitiveness

Digitalization investment 2017-2020



Assets

- Low Voltage network digitalization
- Smart meters rollout
- Big data to optimize O&M and life extension

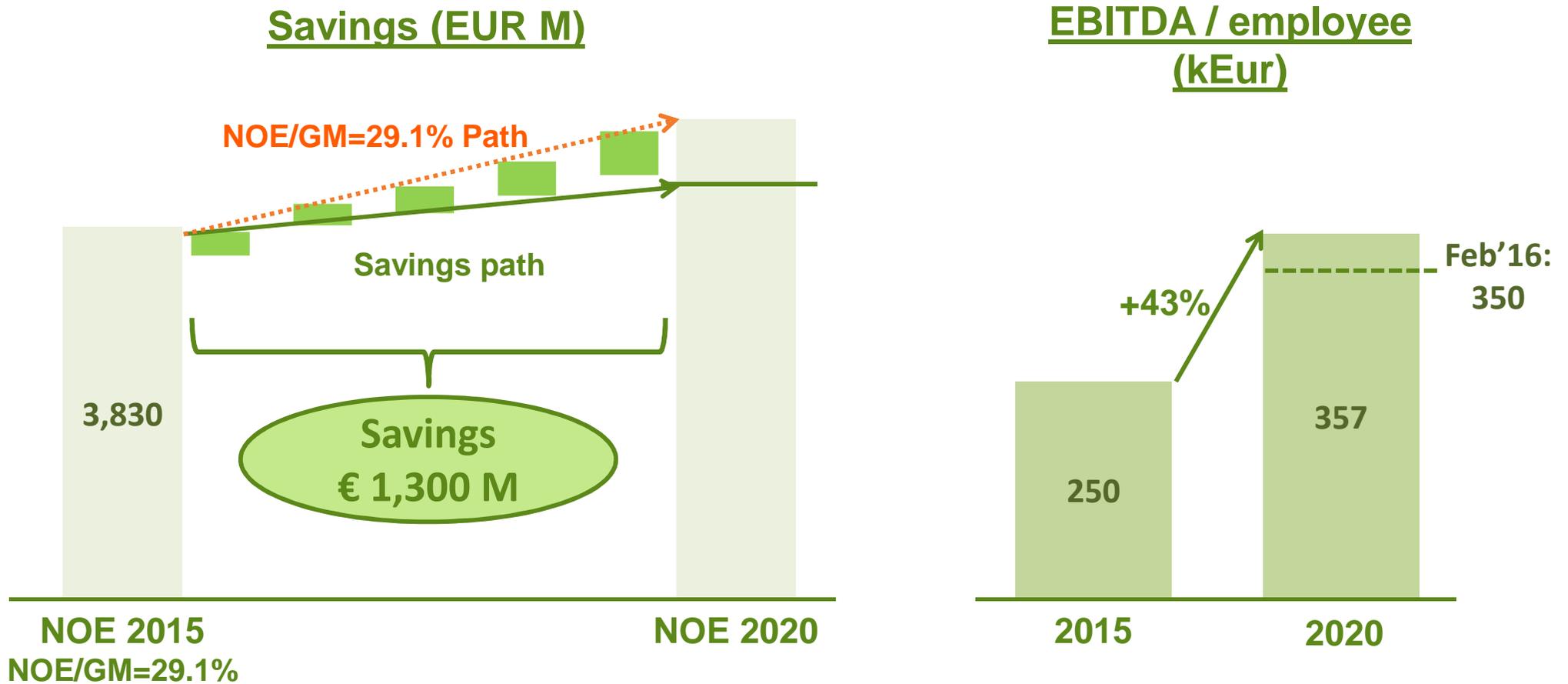
Systems

- Energy dispatch and operation in Mexico
- Cybersecurity

Customers

- Billing and pricing systems, call center automation
- Product sophistication thanks to big data
- Multichannel improvements

EUR 1,300 M savings despite growth in activity, increasing the productivity improvement forecast last year



Conclusions

Strong growth in regulated business, green energy and retail

OUTLOOK 2016/2020 Update
London / 22nd February



2017
IBERDROLA

€ 25,000 M Investment

Smart Grids &
Smart Meters

+8,200 MW
(85% in progress)



IBERDROLA 2020

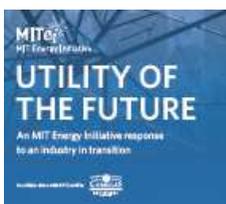
RAV*
€ 33,700 M

Capacity**
50,550 MW

Customers
≈25 M

* 100% Neoenergia
** 29,650 MW Renewables

Due to its vision, anticipation and delivery,
Iberdrola is already the utility of the future



Digitalization

100% SM by 2022 (without Brazil)
Big data sophistication



Decarbonization

65% free emission capacity
29,650 MW Renewables by 2020



**More value in the distributor:
flexibility and services**

DSO Services + NY REV, EPRI
Network Active Management UK

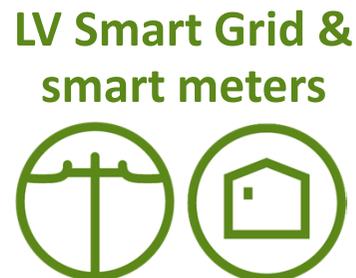
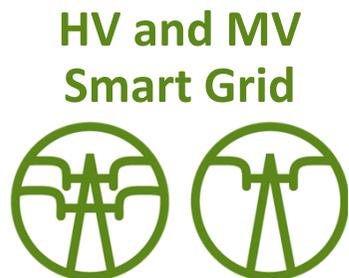


**More control, freedom and
options for customer**

More sophisticated Time of use tariff,
smart solar, smart home, banking



Appendix



100%



9 million (85%)
100% by 2018



Data analytics



STAR+
Smart solutions



100%



1 million by 2017 ¹
100% by 2021



DSO functions



Plan
2016-2021



650k in ME
250k in CT (+AMR)



AMI petition in NY
2.8 million by 2022



An intelligent
Distributed
System Platform
(energy + data)



100%



In regulatory
agenda



Customer digital
channels

(1) by Retail business

	Assets management process	Remote control	Advanced solutions
	  100%	  100%	  Optimization O&M
	 100%	 100%	 Interactive maintenance documentation O&M Optimization
	 100%	 ---	 O&M Optimization
	 100%	 100%	 O&M Optimization

Commercial processes



Billing and pricing



Customer Service

Multichannel and online management



Multichannel



Web improvement
Customer Private Area



Multichannel



High online penetration

Customized products (Big data)



Time of use tariff

Power up



Renewable solutions



Big Data



Operations optimization

