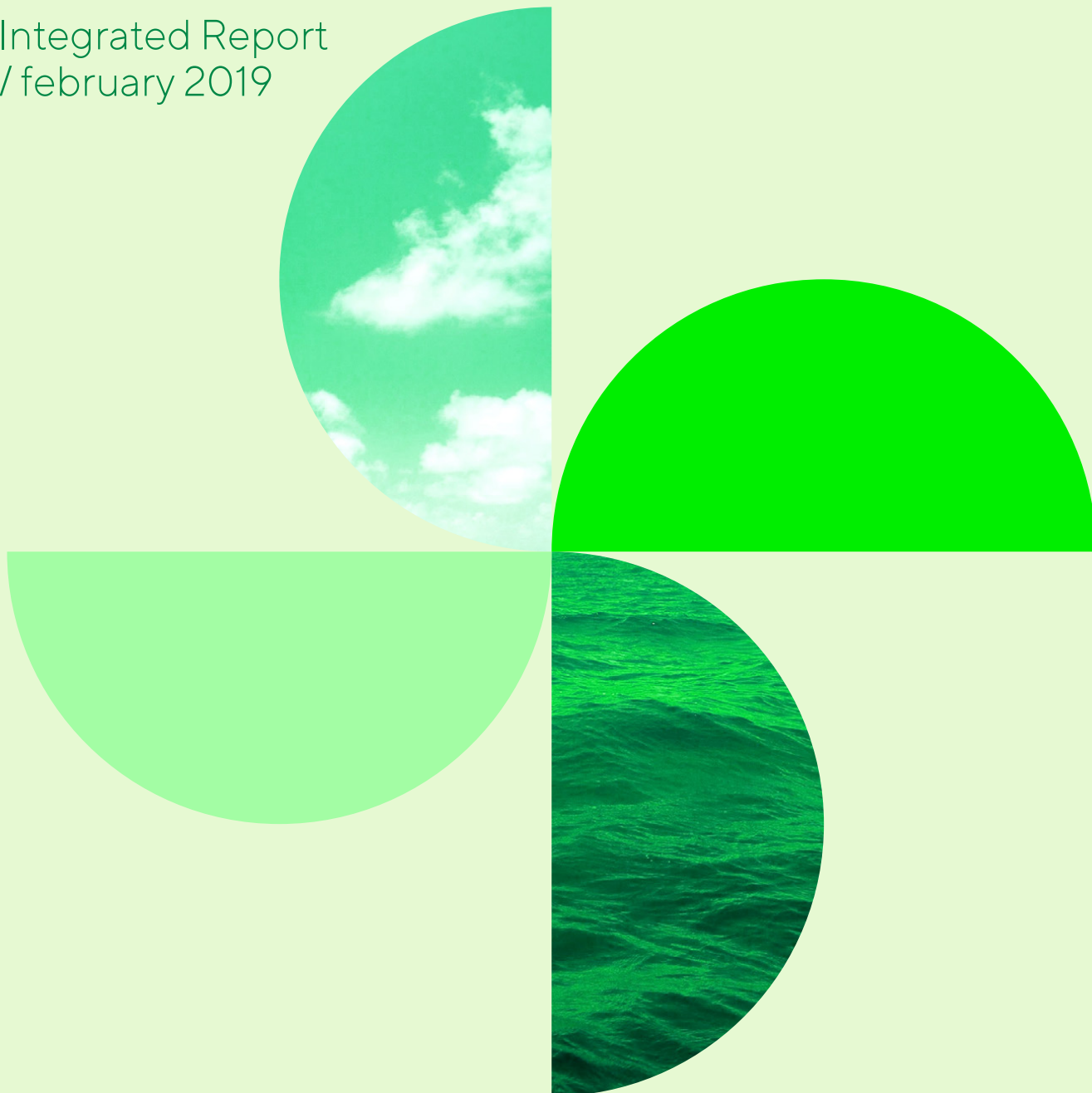


Integrated Report  
/ february 2019



Our Purpose is:

To continue building together each day a healthier, more accessible energy model, based on electricity

Based on our Values:

Sustainable energy

Integrating force

Driving force

# Integrated Report / february 2019

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## Letter from the Chairman & CEO



Ignacio S. Galán  
Chairman & CEO of Iberdrola

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Iberdrola is widely recognised for its responsible and sustainable business model, focused on the well-being of people, care for the environment and economic and social development in the territories in which it does business.

Being aware of this, we wish to continue advancing and extending this business philosophy, which is why we have engaged in a process of reflection to define a clear and long-term corporate purpose that, based on the extensive experience we have acquired, expresses the company's commitment to a new energy model that is better for the health of people and of the planet: "to continue building together each day a healthier, more accessible energy model, based on electricity".

Based on this purpose, we have updated our corporate values and developed them as three separate concepts - "Sustainable Energy", "Integrating Force" and "Driving Force" - which express the true essence of Iberdrola, integrating key elements like ethics, transparency, diversity, dialogue, innovation, diligence and foresight.

This purpose (which inspires us) and these values (which guide us) will enable us to continue to meet the great challenge of energy transition; a transition that must be based on the decarbonization and electrification of the energy sector and of the economy as a whole.

At Iberdrola, we are very aware that the electricity sector plays a key role in the achievement of the targets set in the Paris Agreement. We have therefore spent years focusing our efforts on progressively reducing the intensity of greenhouse gas emissions, promoting renewable energy and making a commitment to the most efficient technologies in order to reach a profound transformation from the current energy model into another more sustainable one.

Existing data support the claim that energy demand is going to experience significant growth. According to the International Energy Agency (IEA), there will be a 30% increase in the total consumption of energy in the next 25 years, and the only effective way to meet this demand while also fighting climate change is to boost the use of electricity produced from renewable sources. This situation makes the electricity sector in general, and Iberdrola in particular, leading actors in achieving decarbonisation, as they have the most suitable and competitive solutions and technologies to achieve it.

Our company has been demonstrating its clear commitment to this cause for years, always with an eye to complying with the Sustainable Development Goals (SDGs) established by the United Nations for 2030.

Iberdrola has shown that it is perfectly positioned to continue leading the transformation it started two decades ago toward a cleaner, smarter and more accessible energy system for all.

### Outlook 2018-2022

According to the strategy established for the 2018-2022 period and in line with our actions in recent years, we are going to implement a major investment effort (amounting to 34,000 million euros, increasing from the 5,300 million invested in 2018 to an average of more than 7,000 million euros per year until 2022), with a focus on renewable generation sources, storage, the installation of smarter grid infrastructures and significant growth in new solutions for our customers.

Specifically in Spain, Iberdrola's main efforts will revolve around strengthening renewable energies (wind and photovoltaic), grids and storage. In the United States and the United Kingdom (in the latter of which all our production is already emission-free), Iberdrola will continue to invest in grids and in progress on onshore and offshore wind power, confirming its position as a leader in new environmentally-friendly technologies. In Mexico, the company has major projects under way to continue increasing its combined cycle and renewable energy installed capacity. And in Brazil, Neoenergia will continue to progress on developing transmission



and distribution infrastructures for electricity and clean energy (hydroelectric and wind).

Iberdrola will also boost its activities in other countries such as Portugal, Italy and France, where it already has renewable generation projects and a significant customer portfolio that it hopes to continue expanding with the offer of new smart products and services.

As a result of all this investment, combined with an additional effort to improve operational efficiency, the group expects to improve its results to between 3,700 and 3,900 million euros of net profit by 2022, a 30% increase over the 2018 results. And maintaining our commitment to improving shareholder remuneration, the dividend would be increased in line with net results, while also including an annual floor that will gradually grow to 0.4 euro per share by 2022.

### Social dividend to meet the Sustainable Development Goals

Iberdrola has designed the foundations of its 2018–2022 plan with an eye on building a sustainable future for everyone, with the absolute conviction that the only way to achieve this is to collaborate in the achievement of the SDGs.

We have therefore incorporated these 17 Goals into our business strategy and into our By-Laws as part of our Social Dividend. We are focusing our efforts on supplying affordable and clean energy (goal 7) and on climate action (goal 13), but through our activities we also contribute to securing clean water and sanitation (goal 6), innovation (goal 9), the protection of life on land (goal 15) and the strengthening of partnerships for the goals (goal 17).

Iberdrola's businesses also generate high-quality employment for 425,000 people<sup>1</sup> worldwide and foster an industrial fabric in all the countries in which the company does business, thereby helping to meet goal 8 (decent work and economic growth).

The group thus acts as an engine for growth in these countries, in which it will continue to increase its procurement (which amounted to approximately 8,000 million euros in 2018) and its tax contribution (7,939 million euros). In fact, for every euro that the company invests, it generates 10.3 euros in the GDP of the regions in which it does business<sup>1</sup>.

All in all, our main asset is and will be people, and we therefore firmly uphold our commitment to training (SDG 4, quality education), both for employees –who each received 47 hours of training per year in 2018– and for the young people who will be the leaders of change in the future. Initiatives such as the 2019 Iberdrola Scholarships for training and research, which will facilitate postgraduate studies at prestigious international universities, are aimed at these young people.

(1) PwC report (January 2019) with 2017 figures.

At our company, technological development and continuous material progress will always be linked to solidarity and progress in knowledge and research, providing all possible support to young talent in order for these goals to become a reality.

A wager on women's empowerment (SDG 5, gender equality) will be at the centre of the company's priorities. Iberdrola will continue to promote effective equality between men and women as it has done in the past, ensuring that there is no gender pay gap within the group, and also making it the Ibex-35 company with the highest number of women on its Board of Directors, with women representing 50% of its non-executive directors. As a result of this commitment, Iberdrola has been included for the second consecutive year in the Bloomberg Gender Equality Index, and is the only Spanish electricity company to be so included.

Furthermore, our firm, unanimous and resolute support for the fight against climate change will lead us to continue to strengthen the development of new environmentally-friendly technologies and of innovation, an area to which we allocated close to 270 million euros during the last financial year. Thanks to this, we will further reduce our CO<sub>2</sub> emissions, which were 82 grams per kilowatt-hour in Spain, far below those recorded by other Spanish companies and around 75% less than the European average (SDG 3, good health and well-being).

And as we in the past, we will continue to expand the activities of our foundations in the various countries in which we do business, particularly in areas such as safeguarding cultural heritage (SDG 11, sustainable cities), conservation of biodiversity (SDG 14, life below water) and education and cooperation (SDG 10, reduced inequalities). All of this is with a focus on the progress and well-being of society. Our company has always been and will continue to be committed to a combination between technological progress and the progress of people, insofar as we believe that one without the other would hinder the achievement of a balance that is vital to the global and complex world in which we act.

Iberdrola will not relent in its commitment to showing that it is possible to reconcile a successful business enterprise with sustainable development. Today more than ever, companies must focus on creating a positive footprint for everyone and for their environment through their businesses. We will therefore continue to work so that our actions improve the world in which we live, making it more cohesive, cleaner and fairer. And we are convinced that through determined, enthusiastic and courageous teamwork, all this and much more will be possible.

# Iberdrola's public information

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Iberdrola makes available to its Stakeholders complete, reliable and relevant information regarding the performance of the company and its strategic lines for the coming years.

## Annual information

### *Annual Financial Report*

Prepared according to international financial reporting standards and externally audited.

### *Statement of Non-Financial Information. Sustainability Report*

Prepared according to the Global Reporting Initiative (GRI) guidelines and externally assured.

### *Integrated Report*

Prepared following the recommendations of the International Integrated Reporting Council (IIRC).

### *Annual Corporate Governance Report*

Prepared according to the form provided by the National Securities Market Commission of Spain.

### *Annual Director Remuneration Report*

Prepared according to the form provided by the National Securities Market Commission of Spain.

### *Annual Activities Report of the Board of Directors and of the Committees thereof*

Prepared according to Iberdrola internal standards.

### *Report on the Independence of the Statutory Auditor*

Prepared according to Iberdrola internal standards.

### *Report on tax transparency of the Iberdrola group*

Prepared according to Iberdrola internal standards.

### *Gender Equality Report in Iberdrola*

Prepared according to Iberdrola internal standards.

## Additional information

Quarterly Results Report

IBE Watch Fact Sheet

Quarterly Shareholder Bulletin

Innovation Report

Corporate Environmental Footprint Report

Biodiversity Report

Greenhouse Gas Report

## Information on the corporate website [www.iberdrola.com](http://www.iberdrola.com)

Top Stories

About Us

Corporate Governance

Sustainability

Shareholders and Investors

People and Talent



Access the annual reports for financial year 2018 and supplementary documentation regarding the Iberdrola group by scanning the corresponding QR code using your smart phone or tablet.

📍 This icon refers to related information. It also gives information on other specific reports where more information of interest can be accessed.

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## Notes:

- The company Iberdrola, S.A., parent company of the Iberdrola group, is referred to as "Iberdrola", the "Company" or the "company" in this report.
- Iberdrola (as parent company) and the group of subsidiaries over which Iberdrola has the power of control or joint control is also referred to as the "Iberdrola group" or the "group".
- The figures included in this translation follow the customary English convention, with figures in thousands separated by a comma (,) and decimals indicated by a full stop (.).
- €M: millions of euros; \$M: millions of dollars.
- IFRS-11 is not being applied for operational purposes (installed capacity, output, etc.).

Wikinger wind farm  
/ Germany



# 1. Iberdrola Today



## 1.1 Iberdrola Today

### Our activities

- Transmission and distribution of electricity.
- Production of electricity from renewable and conventional sources.
- Purchase/sale of electricity and gas on wholesale markets.
- Distribution of gas.
- Other activities, mainly linked to the energy sector.

### What we are

Iberdrola is today one of the leading electric companies in the world by stock market capitalisation.

The corporate and governance structure is described in chapter 5.1 of this report and consists of:

- Iberdrola, as a holding company.
- Country subholding companies in the 5 main geographic areas of activity.
- Head of business companies reporting to the country subholding companies.

### Presence focused on the Atlantic area

The Iberdrola group does business in multiple countries, but mainly in the five countries of the Atlantic area: Spain, United Kingdom, United States of America, Brazil and Mexico. Other significant countries are Germany, Portugal, France and Italy.

**Iberdrola is one of the leading electric utilities in the world.**

### Iberdrola group 2018 Key figures

**47,448**

MW Installed capacity

**29,177**

MW Renewable installed capacity

**145,597**

GWh Net output

**1,173,672**

Km / Power lines

**233,435**

GWh Electric power distributed

**34.7**

Millions of Customers<sup>1</sup>

**34,078**

People Direct employment

**5,320**

€M Investments

**7,939**

€M Direct tax contribution

**425,000**

People<sup>2</sup> Direct, indirect and induced employment

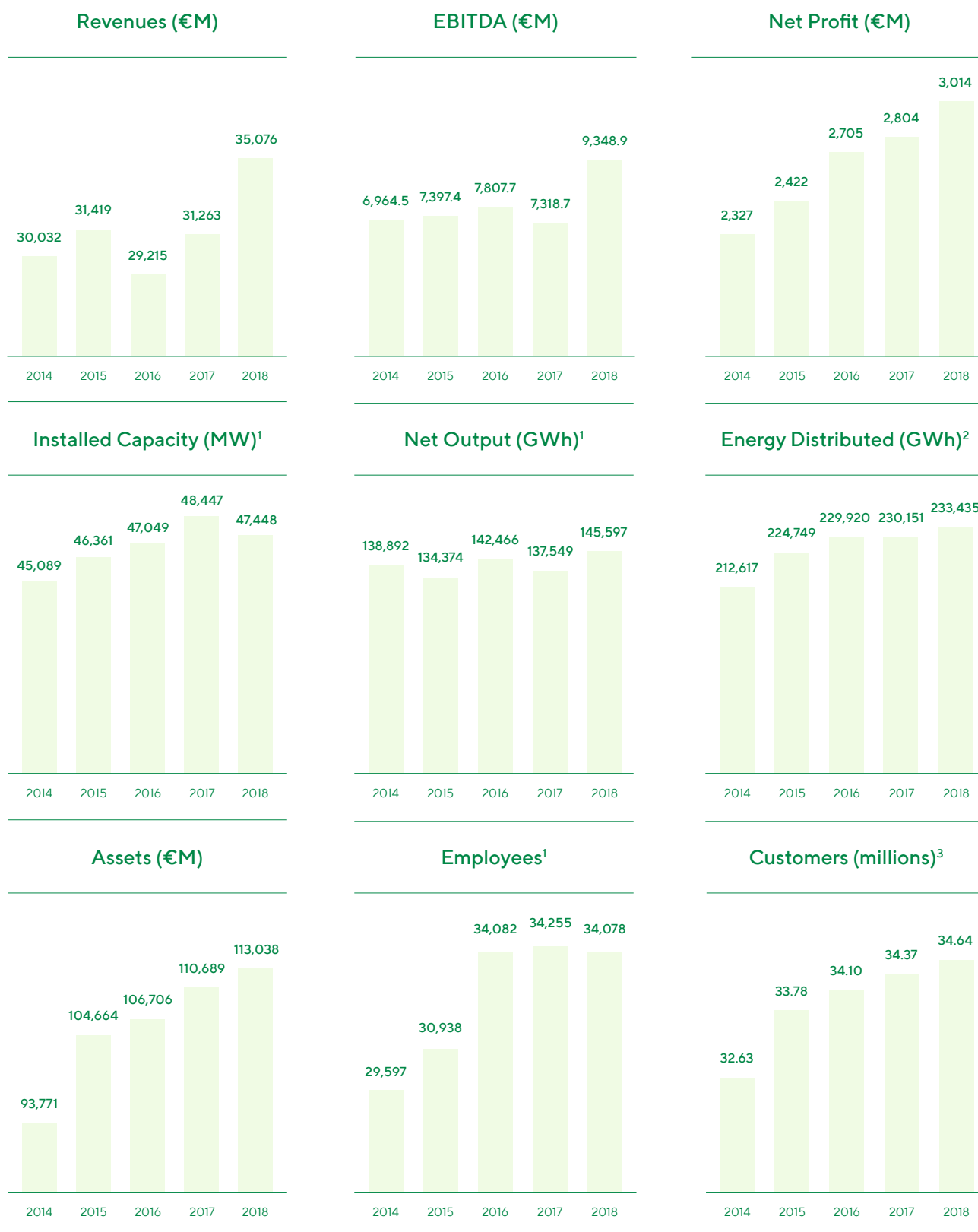
**7,753**

€M Procurement

(1) In countries where there is retail and distribution activity, distribution customers are taken into account.

(2) Data from a Study of Iberdrola's Impact, prepared by PwC, for financial year 2017.

## 1.2 Company Performance



(1) Takes into account 100% of Neoenergia since 2016 in order to improve the comparability of the data.

(2) Takes into account 100% of Neoenergia during all periods reported.

(3) In countries where there is retail and distribution activity, distribution customers are taken into account.

## 1.3 Key Figures

Financial performance (€M)	2014	2015	2016 <sup>1</sup>	2017	2018	Δ Annual average 2014-18 (%)	Δ 2017-2018 (%)
Revenues	30,032.3	31,418.7	29,215.4	31,263.3	35,075.9	4.0	12.2
Consolidated gross margin	12,179.5	12,842.7	12,916.2	13,363.8	15,435.1	6.1	15.5
Consolidated EBITDA	6,964.5	7,397.4	7,807.7	7,318.7	9,348.9	7.6	27.7
<b>Networks (Regulated) EBITDA</b>							
Spain	1,438.5	1,456.8	1,603.1	1,519.5	1,709.4	4.4	12.5
United Kingdom	1,024.8	1,138.0	976.2	886.0	919.4	(2.7)	3.8
United States	772.0	780.5	1,269.6	1,334.0	1,331.2	14.6	(0.2)
Brazil	299.4	252.7	232.8	488.5	955.0	33.6	95.5
<b>Wholesale and Retail (Liberalised) EBITDA<sup>2</sup></b>							
Spain	1,517.6	1,504.6	1,520.5	779.4	1,000.7	(9.9)	28.4
United Kingdom	456.6	421.7	293.6	108.1	307.2	(9.4)	184.2
Brazil	-	-	(3.1)	50.9	92.0	-	80.7
Mexico	350.0	455.0	436.2	525.4	638.4	16.2	21.5
<b>Renewables EBITDA<sup>2</sup></b>							
Spain	420.6	473.2	497.4	615.6	918.5	21.6	49.2
United Kingdom	265.2	438.1	267.0	391.7	517.5	18.2	32.1
United States	495.3	570.9	563.6	529.7	573.1	3.7	8.2
Brazil	33	26.9	24.9	66.0	129.4	40.7	96.1
Mexico	38.2	43.1	52.0	52.5	65.4	14.4	24.6
Other countries	73.7	95.0	95.3	99.3	241.6	34.6	143.3
<b>Other businesses EBITDA</b>							
Corporation EBITDA and adjustments	(171.4)	(190.4)	83.8	(140.9)	(78.2)	17.8	44.5
Amortisation, depreciation, provisions and other	(3,023.6)	(3,568.1)	(3,253.7)	(4,606.1)	(3,909.5)	(6.6)	15.1
Operating profit (EBIT)	3,940.9	3,829.3	4,554.0	2,712.6	5,439.4	8.4	100.5
Financial results	(1,122.4)	(1,023.1)	(903.4)	(937.1)	(1,156.1)	(0.7)	(23.4)
<b>Results from companies consolidated by the equity method (net of taxes)</b>							
Results from non-current assets	135.4	55.3	48.7	(28.7)	55.9	-19.8	-
Pre-tax profit (EBT)	3,201.8	2,986.6	3,747.5	2,025.9	4,348.0	8.0	114.6
Corporate income tax	(837.1)	(527.1)	(904.6)	1,397.1	(959.4)	(3.5)	-
Minority interests	(38.2)	(38.0)	(137.9)	(365.9)	(323.3)	(70.6)	(11.6)
<b>Net attributable profit</b>							
Total assets	2,326.5	2,421.6	2,705.0	2,804.0	3,014.0	6.7	7.5
Shareholders' equity	93,771.4	104,664.1	106,706.2	110,688.6	113,037.9	4.8	2.1
Net investments	35,790.5	40,956.1	40,687.4	42,733.2	43,976.6	5.3	2.9
Net investments	2,848.0	3,223.0	4,264.3	5,890.9	5,320.4	16.9	(9.7)
<b>Funds from Operations (FFO)</b>							
Bank borrowings, net	5,459.0	5,906.7	6,310.8	6,479.4	7,328.4	7.6	13.1
Bank borrowings, net	25,618	28,067	29,414	32,884	34,199	7.5	4.0

Financial ratios	2014	2015	2016	2017	2018	Δ Annual average 2014-18 (%)	Δ 2017-2018 (%)
Non-Eurozone EBITDA (%)	54.0	56.0	54.0	61.6	60.9	3.1	(1.1)
EBITDA margin (EBITDA/revenues) (%)	23.2	23.5	26.7	23.4	26.7	3.5	13.8
Net profit margin (Net profit/Revenues) (%)	7.7	7.7	9.3	9.0	8.6	2.8	(4.1)
NOE/Gross margin (%)	29.8	29.8	27.7	31.2	26.9	(2.5)	(13.7)
Net financial debt / EBITDA (multiple)	3.68	3.79	3.77	4.49	3.65 <sup>3</sup>	(0.2)	(18.7)
Financial leveraging (%)	41.7	40.7	42.0	43.4	43.7 <sup>3</sup>	1.2	0.6
Funds from Operations (FFO)/ Net financial debt (NFD)	21.3	21.0	21.5	19.7	21.5 <sup>3</sup>	0.2	9.1
Retained cash flow (RCF/NFD) (%)	17.4	18.7	19.1	17.2	20.2 <sup>3</sup>	3.8	17.7
Return on equity (ROE) (%)	6.7	6.3	7.3	7.8	8.4 <sup>3</sup>	5.7	7.2

Stock market performance	2014	2015	2016	2017	2018	Δ Annual average 2014-18 (%)	Δ 2017-2018 (%)
Stock market capitalisation (€M)	35,756	41,506	39,661	40,811	44,898	5.9	10.0
Number of shares at end of period (millions)	6,388	6,337	6,362	6,318	6,398	0.0	1.3
Share price (€)	5.60	6.55	6.23	6.46	7.02	5.8	8.7
Earnings per share (EPS)	0.36	0.37	0.42	0.44	0.47	7.0	6.1
Dividend per share (DPS)	0.275	0.276	0.286	0.317	0.331	4.7	4.4
Dividend yield (%)	4.91	4.21	4.59	4.91	4.72	(1.0)	(3.8)
Total dividend (including cash payments) (€M)	1,716	1,732	1,966	1,996	2,077	4.9	4.1
Payout ratio (%)	73.8	71.5	72.7	71.2	68.9	(1.7)	(3.2)
Share price / net earnings per share (PER)	15.37	17.17	14.66	14.55	14.90	(0.8)	2.4

- Sustainability Report
- Quarterly Results Report
- Consolidated Annual Financial Statements

(1) For purposes of this report, 2016 is not re-stated due to the discontinuation of the engineering business, which only appears as beginning in 2017.  
(2) During financial years 2017 and 2018, hydroelectric production activity is classified within the Renewables business.  
(3) Data adjusted due to effect of derivatives-treasury shares accumulators (potential) (€50 million at 31/12/2018).



Operating performance	2014 <sup>1</sup>	2015 <sup>1</sup>	2016 <sup>2</sup>	2017 <sup>2</sup>	2018 <sup>2</sup>	Δ Annual average 2014-18 (%)	Δ 2017-2018 (%)
Installed capacity (MW)	45,089	46,361	47,049	48,447	47,448	1.3	(2.1)
Net output (GWh)	138,892	134,374	142,466	137,549	145,597	1.2	5.9
Electric power distributed (GWh) <sup>3</sup>	212,617	224,749	229,920	230,151	233,435	2.4	1.4
<b>Environmental performance</b>	<b>2014<sup>1</sup></b>	<b>2015<sup>1</sup></b>	<b>2016<sup>2</sup></b>	<b>2017<sup>2</sup></b>	<b>2018<sup>2</sup></b>	<b>Δ Annual average 2014-18 (%)</b>	<b>Δ 2017-2018 (%)</b>
Emission-free installed capacity (%)	61.9	63.0	66.4	66.7	68.2	2.4	2.2
Emission-free output (%)	56.8	52.5	56.7	53.8	58.6	0.8	8.9
Specific CO <sub>2</sub> emissions (t/GWh)	212	225	177	187	163	(6.4)	(12.8)
Fuel consumption (Mtep)	18,849	19,001	11,668	12,055	10,505	(13.6)	(12.9)
Environmental investments (€M)	1,100.9	1,014.2	2,262.2	2,239.9	2,132.6	18.0	(4.8)
Environmental expenses (€M)	635.7	669.2	527.1	513.2	549.7	(3.6)	7.1
Energy produced under certified environmental management systems (%)	87.0	84.2	82.4	79.8	80.0	(2.1)	0.3
Water use/overall production (m <sup>3</sup> /GWh)	509	533	573	597	610	4.6	2.2
Direct emissions of CO <sub>2</sub> Scope 1 (kt)	30,217	31,752	26,541	26,721	24,645	(5.0)	(7.8)
Indirect emissions of CO <sub>2</sub> Scope 2 (kt)	1,544	963	4,504	3,415	2,480	12.6	(27.4)
CO <sub>2</sub> avoided due to efficiency initiatives (kt)	21,459	19,269	16,853	23,460	19,485	(2.4)	(16.9)
SO <sub>x</sub> emissions (t/GWh)	0.154	0.125	0.047	0.038	0.023	(37.8)	(39.5)
NO <sub>x</sub> emissions (t/GWh)	0.236	0.230	0.140	0.113	0.085	(22.5)	(24.8)

- 📄 Sustainability Report
- 📄 Quarterly Results Report
- 📄 Consolidated Annual Financial Statements

Social performance	2014 <sup>1</sup>	2015 <sup>1</sup>	2016 <sup>2</sup>	2017 <sup>2</sup>	2018 <sup>2</sup>	Δ Annual average 2014-18 (%)	Δ 2017-2018 (%)
Customers (millions) <sup>4</sup>	32.6	33.8	34.1	34.4	34.7	1.5	1.0
Electric power	29.0	29.7	30.0	30.3	30.7	1.4	1.0
Spain	10.9	10.9	10.9	11.0	11.1	0.3	0.5
United Kingdom	3.5	3.5	3.5	3.5	3.5	0.2	0.1
United States	1.8	2.2	2.2	2.2	2.3	5.8	0.7
Brazil	12.8	13.1	13.4	13.6	13.8	1.9	1.6
Gas	3.6	4.1	4.1	4.0	4.0	4.0	0.8
Spain	0.8	0.9	0.9	1.0	1.0	6.4	3.8
United Kingdom	2.2	2.2	2.1	2.0	2.0	(2.2)	(0.9)
United States	0.6	1.0	1.0	1.0	1.0	13.9	1.5
Number of employees	29,597	30,938	34,082	34,255	34,078	3.6	(0.5)
Permanent contracts (%)	98.5	98.4	98.4	99.4	99.0	0.1	(0.4)
Employees with collective bargaining agreement (%)	79.0	76.6	79.3	77.8	78.9	0.0	2.2
Employee turnover	8.6	7.0	7.3	7.9	10.7	5.6	36.1
Diversity (men/women)	77/23	76/24	76/24	77/23	77/23	-	-
Injury rate (IR)	0.39	0.28	0.36	0.35	0.28	(8.0)	(20.0)
Hours of training (millions of hours)	1.0	1.0	1.4	1.5	1.6	11.5	5.3
Hours of training per employee trained (h)	38.7	38.6	45.3	41.8	45.2	4.0	8.1
Funds for social development (€M)	65.0	46.0	106.7	341.2	243.1	39.1	(28.8)
Contributions to society (€M)	34.0	38.0	57.7	63.0	53.5	12.0	(15.1)
Rural electrification programmes (€M)	31.0	8.0	49.0	278.2	189.6	57.3	(31.8)
Investments in R&D (€M)	170	200	211	246	267	11.9	8.4
General procurement (€M billed)	4,599	5,093	7,508	8,648	7,753	13.9	(10.3)
Procurement from CSR classified suppliers (%)	92	94	89	87	89	(0.8)	2.1
Number of suppliers evaluated with social responsibility standards	1,326	1,536	1,667	1,787	2,014	11.0	12.7
Procurement in sensitive countries per ILO (%)	10.7	10.8	21.4	25.0	25.8	24.6	3.2
Procurement from local suppliers (%)	87	85	84	88	85	(0.6)	(3.4)

- (1) Takes into account 39% of Neoenergia in 2014 and 2015 (unless otherwise noted).  
(2) Takes into account 100% of Neoenergia in 2016 in order to improve the comparability of the data.  
(3) Takes into account 100% of Neoenergia for all periods.  
(4) In countries where there is retail and distribution activity, distribution customers are taken into account.

## 1.4 Presence by Areas of Activity

### Iberdrola in Spain

Largest energy company.

Δ 2018 / 2017

GDP +2.4%<sup>1</sup>

Electricity demand +0.4%<sup>2</sup>

### Key figures 2018

**25,887**

MW Installed capacity

**15,789**

MW Renewable installed capacity

**57,711**

GWh Net output

**269,639**

Km Power lines

**93,897**

GWh Electric power distributed

**12.0**

Millions of customers<sup>3</sup>

**9,822**

Employees

**1,009**

€M Investments

**3,642**

€M Direct tax contribution

### Primary brands

Local subholding brand



Operating brands









(1) Source: National Institute of Statistics.

(2) Source: Iberdrola.

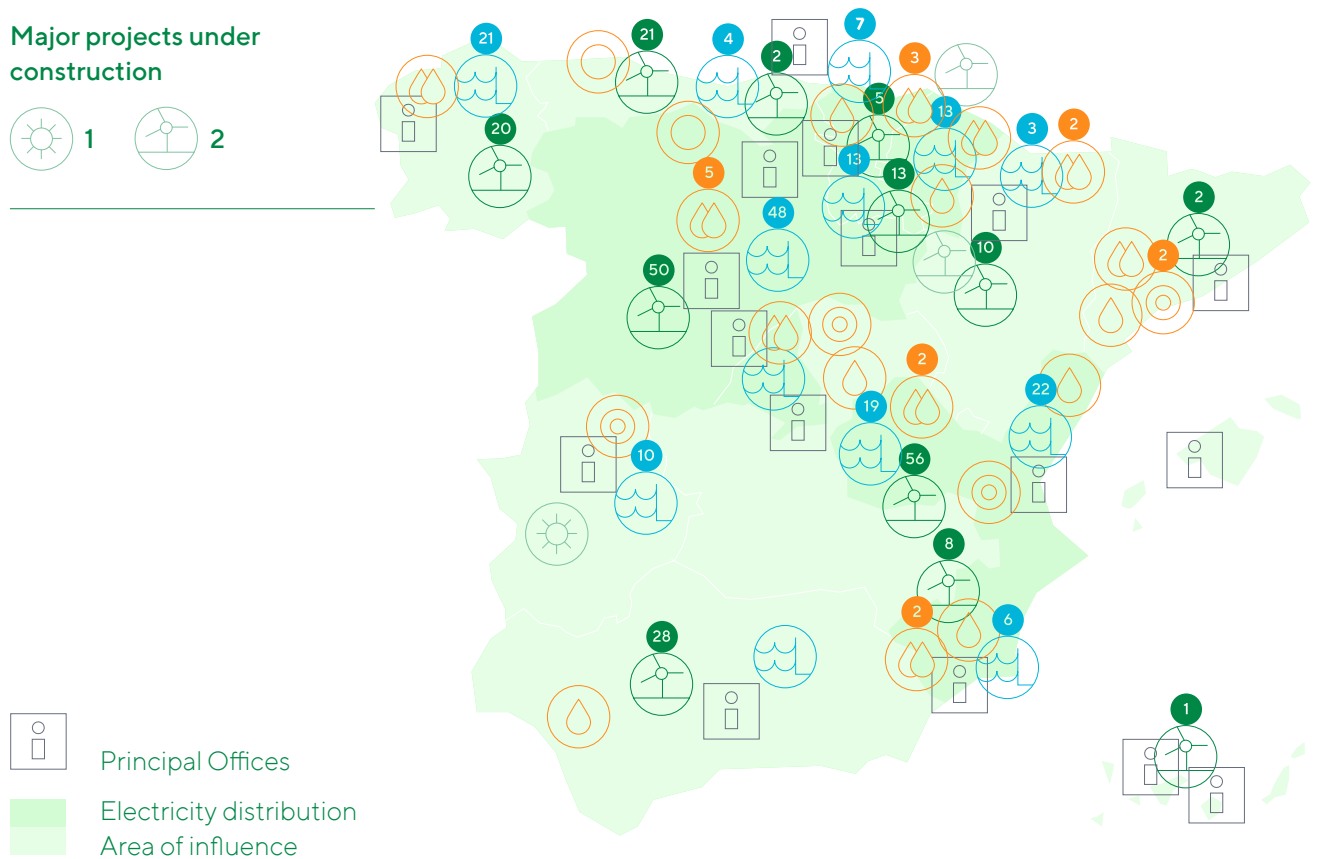
(3) Electricity supply points and gas customers.

## Primary facilities

- 
**197**  
 Wind farms  
 5,770 MW
- 
**164**  
 Hydroelectric plants  
 10,018 MW
- 
**7**  
 Combined cycle gas plants  
 5,695 MW
- 
**18**  
 Cogeneration plants  
 353 MW
- 
**5**  
 Nuclear plants  
 3,177 MW
- 
**2**  
 Thermal plants  
 874 MW<sup>(1)</sup>

## Major projects under construction

-  **1**
-  **2**



(1) Closure of coal plants requested.

## Iberdrola in the United Kingdom

100% of electricity from renewable sources.  
Transmission and distribution networks in Scotland,  
Wales and England.

Δ 2018 / 2017

GDP +1.4%<sup>1</sup>

Electricity demand -0.3%<sup>2</sup>

### Key figures 2018

**2,100**

MW Installed capacity

**2,100**

MW Renewable installed capacity

**10,675**

GWh Net output

**109,957**

Km Power lines

**34,677**

GWh Electric power distributed

**5.5**

Millions of customer<sup>3</sup>

**5,611**

Employees

**1,083**

€M Investments

**612**

€M / Direct tax contribution

### Primary brands

Local subholding brand



Operating brands



(1) Source: Office for National Statistics.

(2) Source: Iberdrola.

(3) Electricity supply points and gas customers.

**Primary facilities**



**39**  
Wind farms  
1,906 MW



**1**  
Offshore wind farm  
194 MW

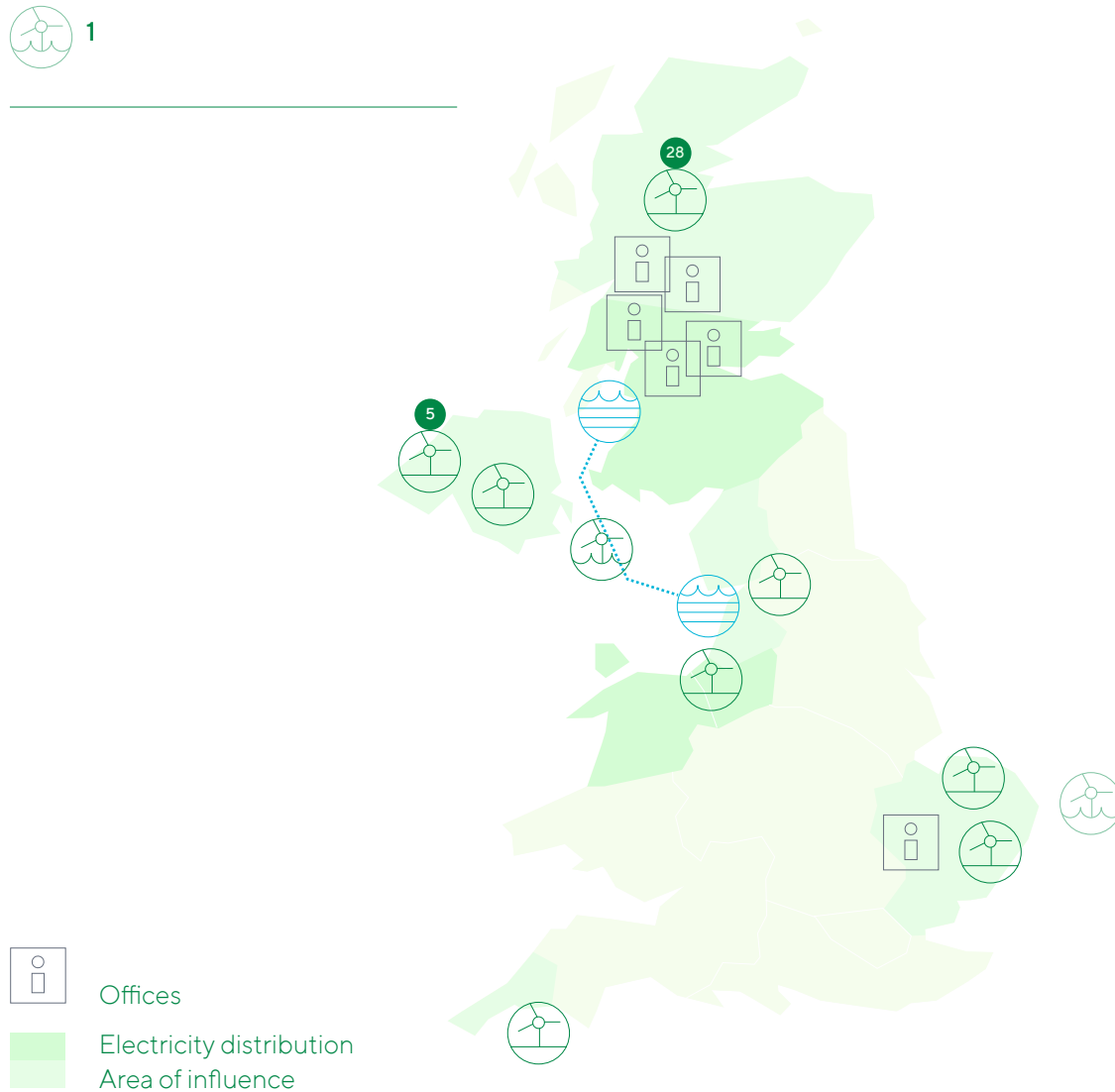


**1**  
Underwater power line  
425 km

**Major project under construction**



**1**



Offices



Electricity distribution  
Area of influence

## Iberdrola in the United States

Presence in 24 states.

Electricity and gas distributor in New York, Maine, Connecticut and Massachusetts.

86.4% of output from renewable sources.

Δ 2018 / 2017

GDP +2.9%<sup>1</sup>

Electricity demand 2.1%<sup>2</sup>

## Key figures 2018

**7,561**

MW Installed capacity

**6,713**

MW Renewable installed capacity

**19,983**

GWh Net output

**170,083**

Km Power lines

**39,579**

GWh Electric power distributed

**3.2**

Millions of customers<sup>3</sup>

**6,449**

Employees

**1,298**

€M Investments

**904**

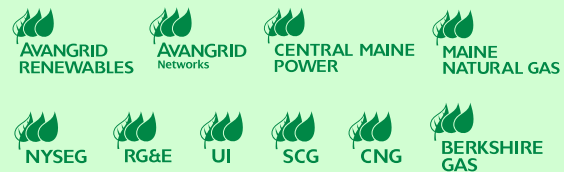
€M Direct tax contribution

## Primary brands

Local subholding brand



Operating brands



(1) Source: *Bureau of Economic Analysis (U.S. Department of Commerce - 28 February)*.

(2) Source: *US Energy Information Administration*.

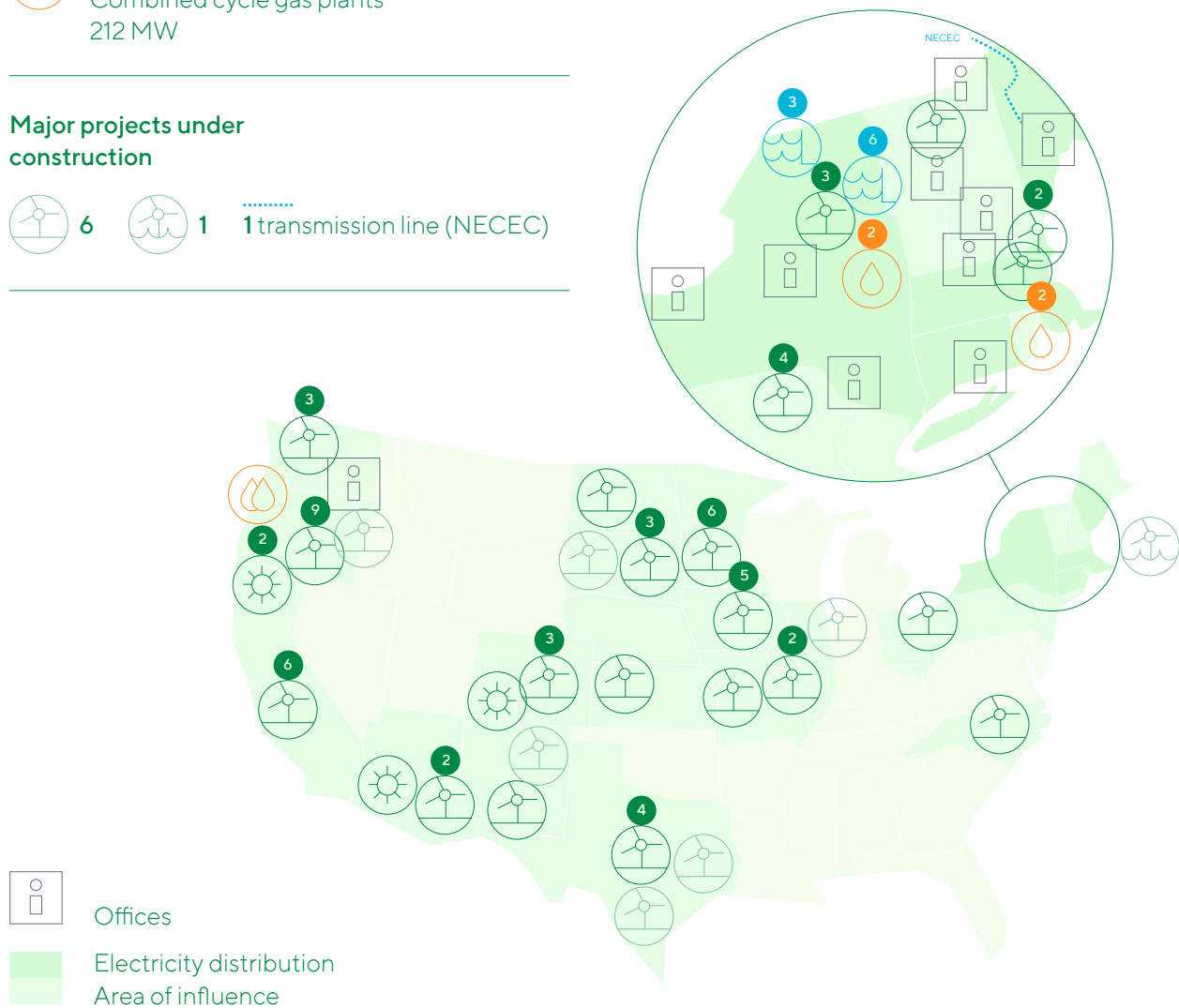
(3) Electricity and gas supply points.

## Primary facilities

- 
**60**  
 Wind farms  
 6,466 MW
- 
**4**  
 Photovoltaic plants  
 116 MW
- 
**9**  
 Hydroelectric plants  
 118 MW
- 
**1**  
 Cogeneration plant  
 636 MW
- 
**4**  
 Combined cycle gas plants  
 212 MW

## Major projects under construction

- 
**6**
- 
**1**
- 
**1** transmission line (NECEC)



## Iberdrola in Brazil

Energy leader in Brazil and Latin America

Δ 2018 / 2017

GDP +1.1%<sup>1</sup>

Electricity demand +1.9%<sup>2</sup>

### Key figures 2018

**3,467**

MW Installed capacity

**2,935**

MW Renewable installed capacity

**13,652**

GWh Net output

**623,993**

Km Power lines

**65,283**

GWh Electric power distributed

**13.8**

Millions of customers<sup>3</sup>

**10,749**

Employees

**898**

€M Investments

**2,433**

€M Direct tax contribution

### Primary brands

Local subholding brand



Operating brands






(1) Source: *Brazilian Institute of Geography and Statistics*.

(2) Source: Iberdrola.

(3) Electricity supply points.

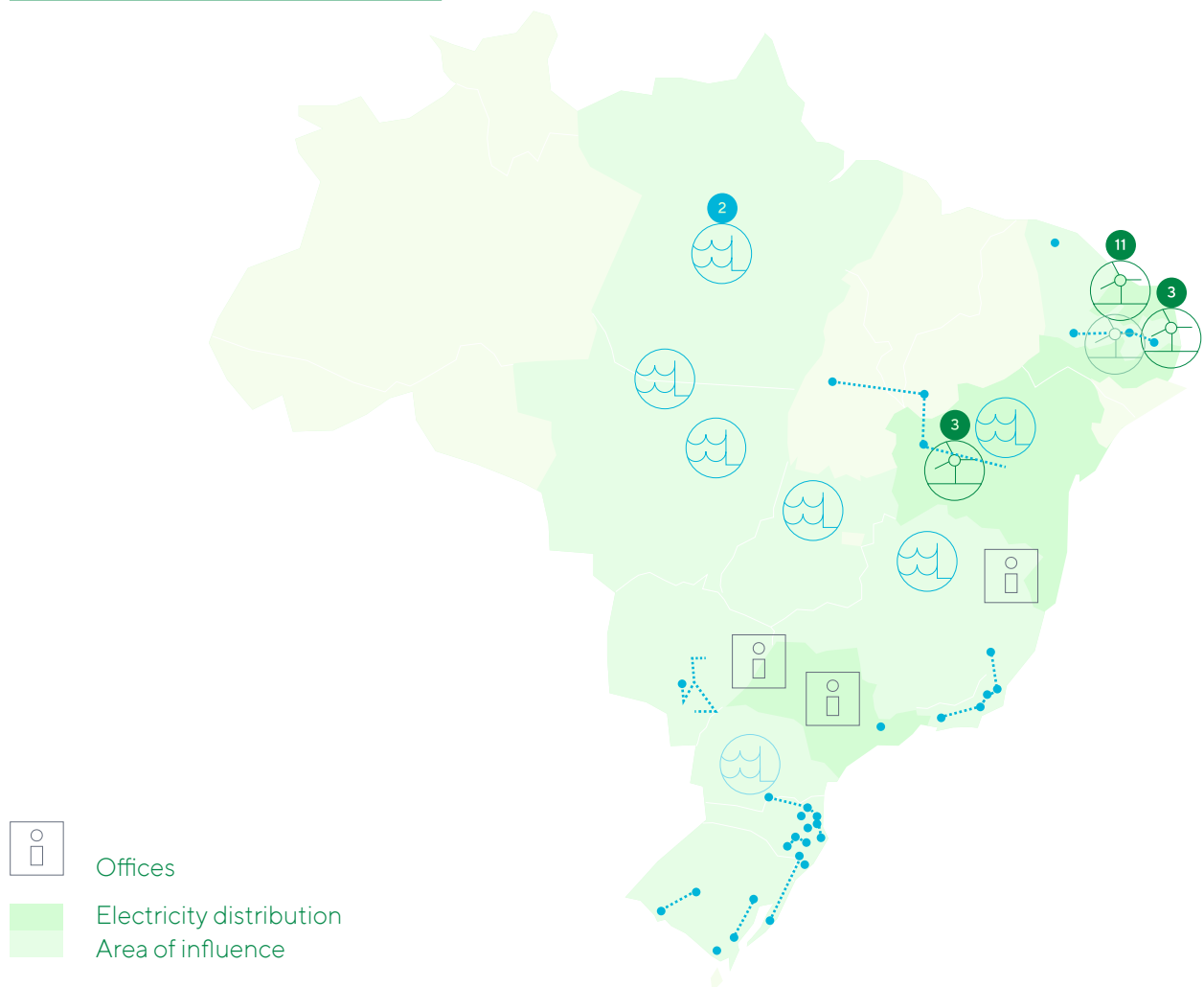


**Primary facilities**

- 
**17**  
 Wind farms  
 516 MW
- 
**7**  
 Hydroelectric plants  
 2,419 MW
- 
**1**  
 Combined cycle gas plant  
 533 MW

**Major projects under construction**

-  **2**
-  **15**
-  **10**



-  Offices
-  Electricity distribution
-  Area of influence

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## Iberdrola in Mexico

Largest private electricity producer

Δ 2018 / 2017

GDP +1.9%<sup>1</sup>

Electricity demand +2.8%<sup>2</sup>

---

### Key figures 2018

**7,471**

MW Installed capacity

**679**

MW Renewable installed capacity

**41,396**

GWh Net output

**1,112**

Employees

**899**

€M Investments

**159**

€M Direct tax contribution

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(1) Source: National Institute of Statistics and Geography.

(2) Source: Iberdrola.

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### Primary brands

Local subholding brand







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Operating brands

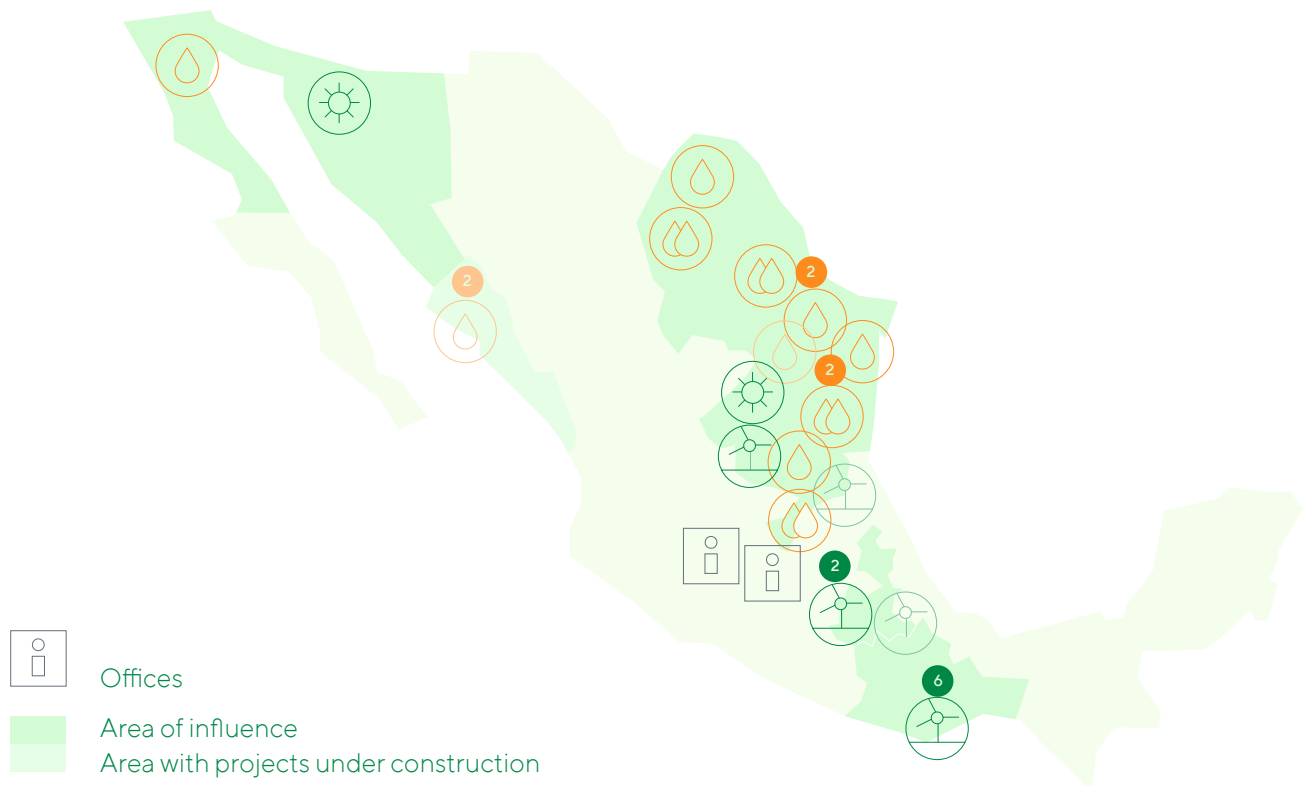


### Primary facilities

- 
**9**  
 Wind farms  
 409 MW
- 
**2**  
 Photovoltaic plants  
 270 MW
- 
**8**  
 Combined cycle gas plants  
 6,446 MW
- 
**5**  
 Cogeneration plants  
 346 MW

### Major projects under construction

-  **2**
-  **3**



## Iberdrola in Continental Europe

### Key figures and facilities 2018

**961**  
MW  
Renewable installed capacity

**2,180**  
GWh  
Net renewable output

**335**  
Employees

**134**  
€M / Investments

**189**  
€M / Direct tax contribution

 **27**  
Wind farms  
605 MW

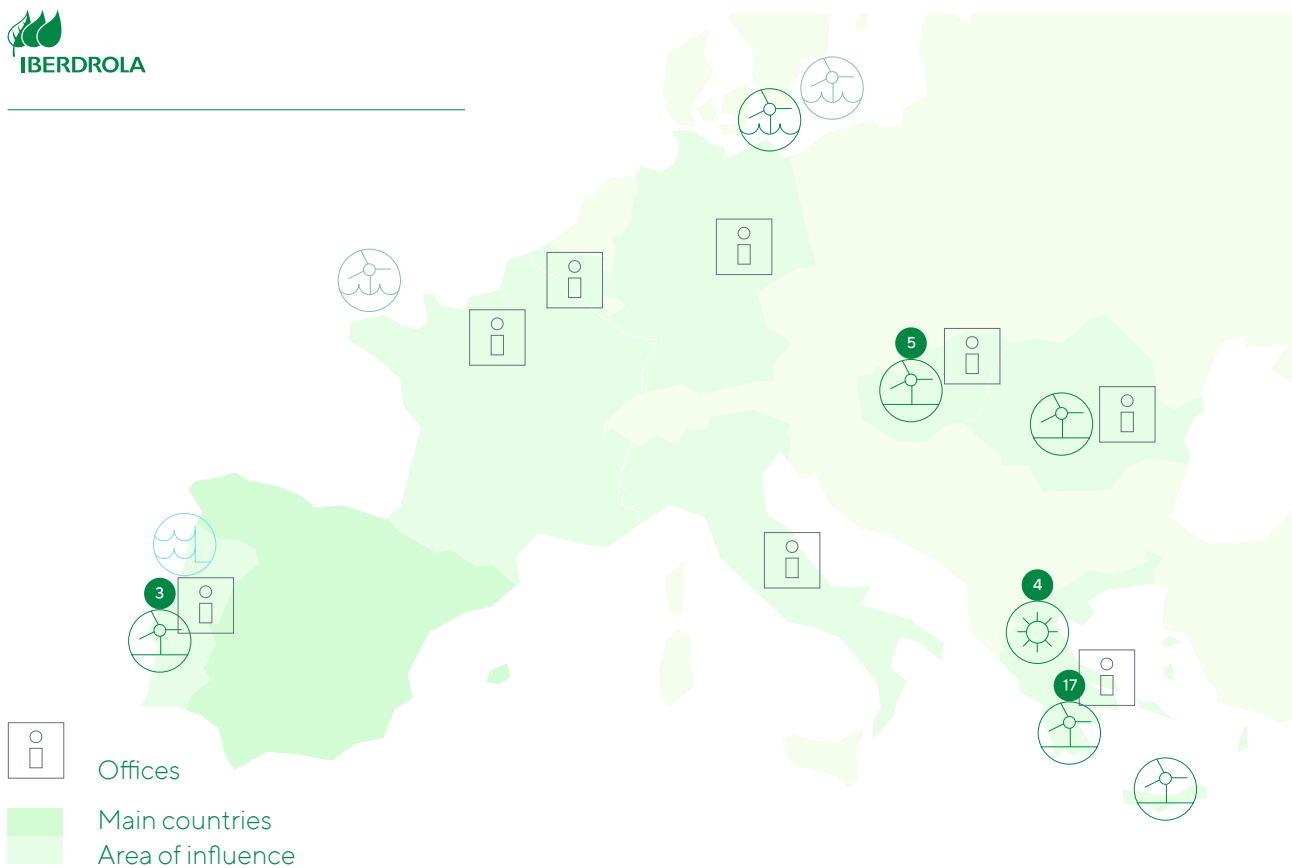
 **1**  
Offshore wind farm  
350 MW

 **4**  
Photovoltaic plants  
6 MW

### Major projects under construction

 **2**  **1**

### Operating brand



## Installed capacity and output by country and technology

Installed capacity (MW) <sup>1</sup>	Spain		United Kingdom		United States		Brazil		Mexico		Other countries		Total	
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
<b>Renewables</b>	15,821	15,789	2,666	2,100	6,625	6,713	2,629	2,935	410	679	961	961	29,113	29,177
Onshore wind	5,752	5,770	1,906	1,906	6,387	6,466	516	516	367	409	605	605	15,533	15,671
Offshore wind	-	-	194	194	-	-	-	-	-	-	350	350	544	544
Hydroelectric	9,715	9,715	566	0	118	118	2,113	2,419	-	-	-	-	12,513	12,252
Mini-hydro	303	303	-	-	-	-	-	-	-	-	-	-	303	303
Solar and others	50	0	-	-	119	129	-	-	43	270	6	6	219	406
<b>Nuclear</b>	3,177	3,177	-	-	-	-	-	-	-	-	-	-	3,177	3,177
<b>Combined cycle</b>	5,695	5,695	2,000	0	212	212	533	533	5,546	6,446	-	-	13,985	12,885
<b>Cogeneration</b>	368	353	1	0	636	636	-	-	294	346	-	-	1,299	1,335
<b>Coal</b>	874	874	-	-	-	-	-	-	-	-	-	-	874	874
<b>Total</b>	25,934	25,887	4,666	2,100	7,472	7,561	3,162	3,467	6,250	7,471	961	961	48,447	47,448

Electricity production (GWh) <sup>1</sup>	Spain		United Kingdom		United States		Brazil		Mexico		Other countries		Total	
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
<b>Renewables</b>	19,587	25,973	4,880	5,145	15,739	17,261	8,196	10,099	963	1,095	1,382	2,180	50,747	61,754
Onshore wind	11,216	11,654	3,358	3,812	15,103	16,650	1,865	2,120	963	1,084	1,373	1,284	33,878	36,605
Offshore wind	-	-	820	755	-	-	-	-	-	-	0	887	821	1,642
Hydroelectric	7,903	13,590	702	578	386	269	6,330	7,979	-	-	-	-	15,321	22,416
Mini-hydro	394	670	-	-	-	-	-	-	-	-	-	-	394	670
Solar and others	74	58	-	-	250	342	-	-	0	12	9	9	333	421
<b>Nuclear</b>	23,254	23,536	-	-	-	-	-	-	-	-	-	-	23,254	23,536
<b>Combined cycle</b>	3,812	4,092	7,259	5,530	12	8	3,956	3,553	39,013	37,470	-	-	54,053	50,654
<b>Cogeneration</b>	2,608	2,472	0	-	2,354	2,713	91	0	1,801	2,831	-	-	6,853	8,016
<b>Coal</b>	2,642	1,637	-	-	-	-	-	-	-	-	-	-	2,642	1,637
<b>Total</b>	51,903	57,711	12,140	10,675	18,105	19,983	12,242	13,652	41,777	41,396	1,382	2,180	137,549	145,597

(1) IFRS 11 is not being applied for operational purposes.



Serra do Burgo wind farm  
/ Spain



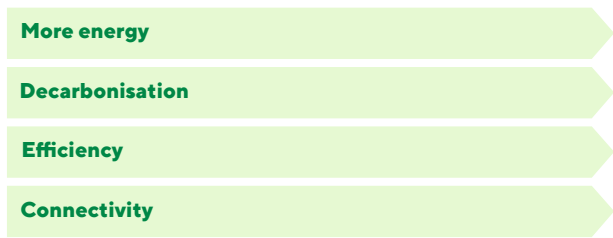
## 2. Business Model and Strategy



## 2.1 The Future of Energy

### Social Expectations and Needs

Social progress involves our expectations and needs, which affect the energy sector. There are four large associated trends: a sustained increase in demand for energy over time; the need for decarbonisation of energy and of the economy as a whole; greater attention to the efficiency of supply activities; and greater connectivity, which influences relations with all stakeholders, especially customers.



### More energy and more electrification

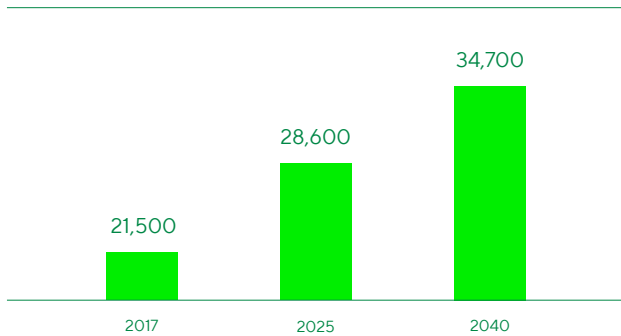
The process of decarbonisation of the economy has begun with the electric sector, and will be completed through a phase of electrification of the economy as a whole, especially industry and transport.

The *EU Roadmap*<sup>1</sup> forecasts that electricity will at least double its share in final energy demand to 36–39% by 2050, which would contribute to a reduction in carbon emissions from heating systems, industry and the transport sector. The main scenario of the *World Energy Outlook 2018*<sup>2</sup> also forecasts that electricity will play a more important role in the world energy system, exceeding the growth of all other sources, to become almost one fourth of total final energy consumption by 2040.

It is expected that policies promoting sustainable mobility, like the clean mobility package of the European Commission<sup>3</sup>, will cause the number of electric vehicles to increase from the current 3 million to approximately 300 million by 2040, representing approximately 720 TWh of annual consumption. In addition, policies to reduce emissions due to warming seek to reduce the use of fossil fuels, and will entail approximately 45% growth in demand for electricity to heat buildings by 2040. In industry, heat pumps will satisfy approximately 3% (some 240 TWh) of demand for additional low temperature heat by 2040.

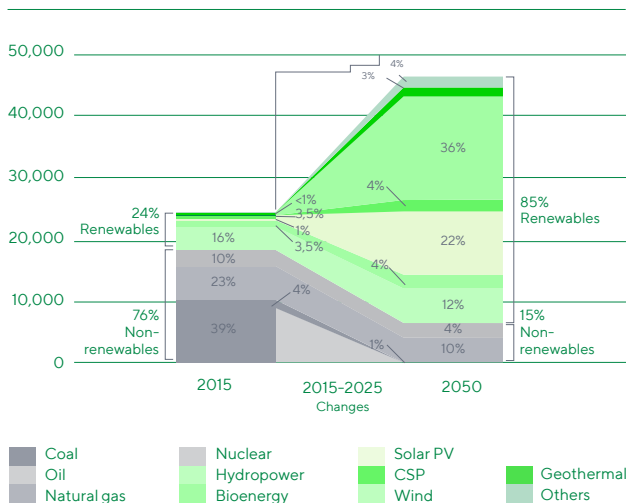
In developing economies, one must also factor in the demand associated with the almost one billion people throughout the world who currently lack access to electricity<sup>2</sup>.

Electricity demand in TWh



Source: World Energy Outlook 2018.

Electricity generation  
Breakdown of electricity generation, by source (TWh/year)



Source: Global Energy Transformation - IRENA.

(1) Energy Roadmap 2050 of the European Parliament.  
 (2) World Energy Outlook 2018 - International Energy Agency.  
 (3) 14% reduction in CO<sub>2</sub> emissions from new passenger cars and light industrial vehicles by 2030 and 30% reduction by 2050.



### Decarbonisation: Fight against climate change

The fight against climate change has driven the strategy of Iberdrola, which has been committed to a sustainable, safe and competitive energy model for the last two decades. Reaching a decarbonised energy model is currently feasible. The group is in an optimal position to take advantage of the opportunities that this economic transition offers thanks to its leadership in renewable energy, smart grids, storage and digitisation. The Board of Directors formalised Iberdrola's commitment to decarbonisation in the Policy against Climate Change, which deals with mitigation and adaptation activities, the company's active participation in the global climate agenda and the promotion of a corporate culture focused on promoting the awareness and engagement of all of its Stakeholders in this area.

#### Iberdrola's objectives

- Reduce the intensity of emissions of CO<sub>2</sub> 50% by 2030 compared to those in 2007 and be carbon neutral by 2050. Objectives recognised as Science Based Targets (SBTi).
- Support international climate change negotiation processes, private sector participation in the global agenda, the creation of partnerships and raising climate awareness.

#### Partnerships and actions

The company plays its role as an agent of transformation through its engagement in different platforms, coalitions and world organisations, including: *European Commission, UN Global Compact, We Mean Business, World Business Council for Sustainable Development* and *Corporate Leaders Group (CLG)*. It has also formally supported various initiatives, including the CLG declaration on net-zero emissions by 2050. For all of the foregoing reasons, Iberdrola has been recognised as a **UN Global Compact LEAD** company for its contribution to global sustainability.

2018 milestones include the following:

- Active participation in the main processes formally driven by the United Nations and other international bodies. These include those held for purposes of the Katowice Climate Change Conference (COP24), the California Global Climate Action Summit and the U.N. General Assembly. Iberdrola was also one of the few companies participating in all high-level phases of the Talanoa Dialogue.

- Progress on its commitment to implement the recommendations of the *Task Force on Climate-related Financial Disclosures* (TCFD) in its public reports by 2020.

- Iberdrola supports the goal of net-zero emissions by 2050 of the climate strategy of the European Union, convinced of the feasibility thereof and of the opportunities of this scenario and the central role of the electricity sector.

#### Efficiency

The growing use of renewable sources of energy is being driven by a rapid evolution of technology that is reducing the costs of production<sup>1</sup>. This trend makes a sustainable energy model compatible with a positive evolution of cost for the end user. It is expected that renewable energy will increase its weight in electricity production to 85% by 2050<sup>1</sup>. This growth especially includes wind and photovoltaic technologies.

#### Connectivity and customers

Urban/technological lifestyles require the establishment of on-line, immediate and simple channels. This greater connectivity in turn allows for more personalised and efficient products and services.

A greater presence of distributed generation and the growth of electric vehicles, together with the digitisation of relationship channels, will foster a more active role by customers.

(1) *Global Energy Transformation – IRENA 2018.*

## 2.2 Business Model

### Industry positioning

The strategy that Iberdrola has been implementing since the beginning of the 2000s, which wagered on decarbonisation and renewable energy, supported by the strong focus on innovation by all of the group’s businesses, has allowed for the rapid adoption of new generation technologies, as well as automation and remote control of the networks. As a result, Iberdrola is today positioned as a leader in renewable energy and smart grids, activities that constitute the backbone of the decarbonisation of the electricity sector.

Iberdrola responds to the expectations and needs described on the preceding page. The process of **electrification** is supported by all of the businesses of the group, and **decarbonisation** is promoted through investment in emissions-free installed capacity, which has already reached 68.2% of the total.

2018 saw the conclusion of the *Star* network digitisation project, the inauguration of the Wikingier offshore wind farm, the promotion of electric mobility through the *Smart Mobility* plan pursuant to which Iberdrola will install 25,000 electric vehicle charging points in Spain by 2021, and the development of **customer solutions** based on connectivity.

Industry Trends and Energy Transition	Iberdrola’s businesses			
	Generation without emissions	Efficient storage	Smart grids	Customer solutions
More Energy: Green Electrification	✓	✓	✓	✓
Efficiency: Technology and Innovation	✓	✓	✓	
Connectivity: Empowering the Customer	✓	✓		✓

### Economic/financial positioning

Economic/financial aspects are an essential part of Iberdrola’s business model, along with industrial and technological positioning. The company engages in a strategy that seeks to balance growth, financial strength and a sustainable dividend. To this end:

- Investment is concentrated in the regulated businesses or long-term contracts, which provide known and recurring cash flows.
- Country selection takes into account the quality of institutions and particularly the regulatory environment that applies to the sector.
- The commitment to the group’s level of financial strength is public and decisive in long-term planning and in the group’s leverage level.
- The dividend policy is focused on a strong and growing return in line with the increase in the company’s results.



Taking into account the positioning of the company, Iberdrola's business model is characterised by:

### Focus on regulated businesses

More than 86% of 2018 EBITDA comes from regulated businesses or long-term contracts.

### Commitment to clean and competitive energies

- Generation and production of largely emissions-free electricity.
- Large portfolio of wind and solar generation projects.
- Public and ambitious goals for reducing emissions.

### Operational efficiency

- A business culture highly focused on innovation and digitisation has allowed our company to be 40% more efficient than the average of the main competitors<sup>1</sup>.

### International diversification

The results obtained reflect the diversification of the group (2018 EBITDA by country):

- 38% in Spain.
- 19% in the United Kingdom.
- 21% in the United States.
- 13% in Brazil.
- 8% in Mexico.

### Financial strength and solidity of the group

- Growth in EBITDA and FFO allows for continued strength in solvency ratio levels, within the framework of strong organic growth.
- Liquidity position that covers financial needs for more than 18 months even in a stress scenario.

### Global, committed and qualified workforce

- Stable and high-quality jobs, with high level of training.
- Health and safety as priorities: "Zero accidents" programme.
- The companies of the group have been recognised: in Spain for their Reputation (*Merco*) and in Brazil as the best company to work for in Latin America (*Great Place to Work*).

**"The technologies to deliver this deep transformation, renewable energies, are already available and competitive".**

**Ignacio Galán, at the *World Economic Forum 2019***

① Iberdrola's Primary Businesses / page 45

② Natural Capital / page 70

③ Manufactured Capital / page 64

④ Presence by Areas of Activity / page 12

⑤ Financial Capital / page 62

⑥ Human Capital / page 68

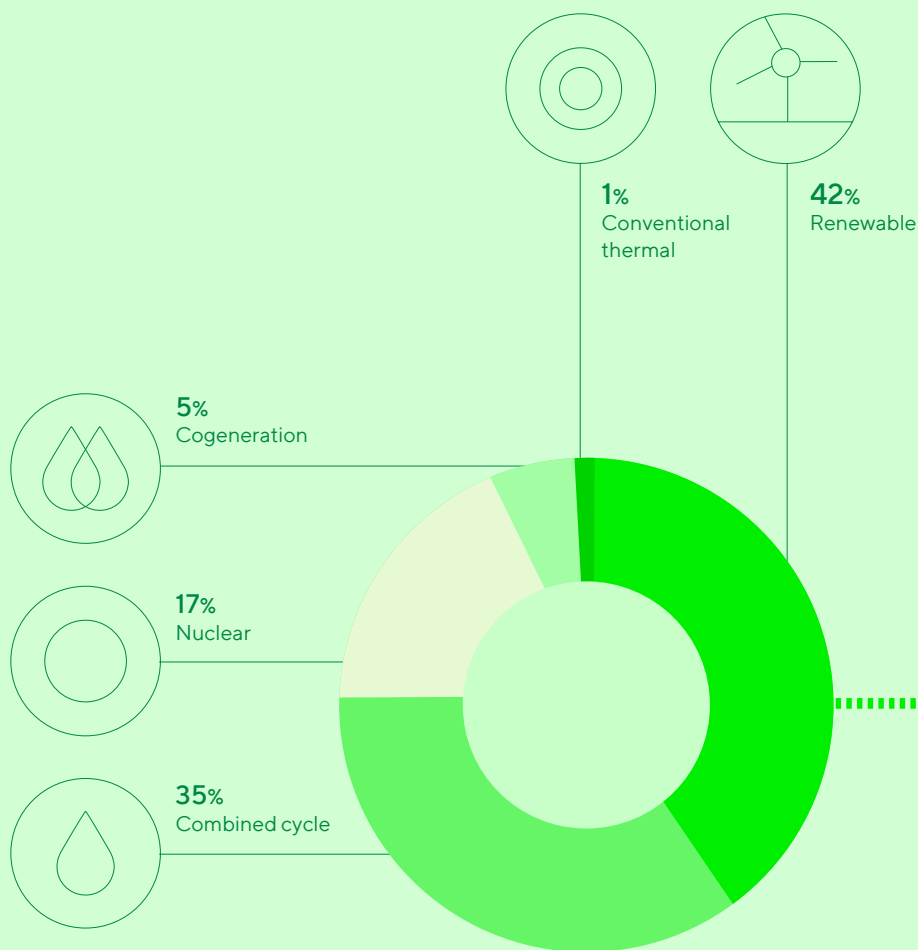
(1) Operating expenses by customer. Source: external reports.

## 2.3 Value Chain

### Electricity generation

Construction, operation and maintenance of generating plants, and purchase/sale of energy on wholesale markets.

### Generating plants \*



\*% of 2018 net output. \*\* At 31 December 2018. \*\*\*% by sector at 31 December 2018..

**Power transmission and distribution**

Construction, operation and maintenance of electrical lines, substations, transformer centres and other infrastructure, to bring electrical power from production centres to the end user.

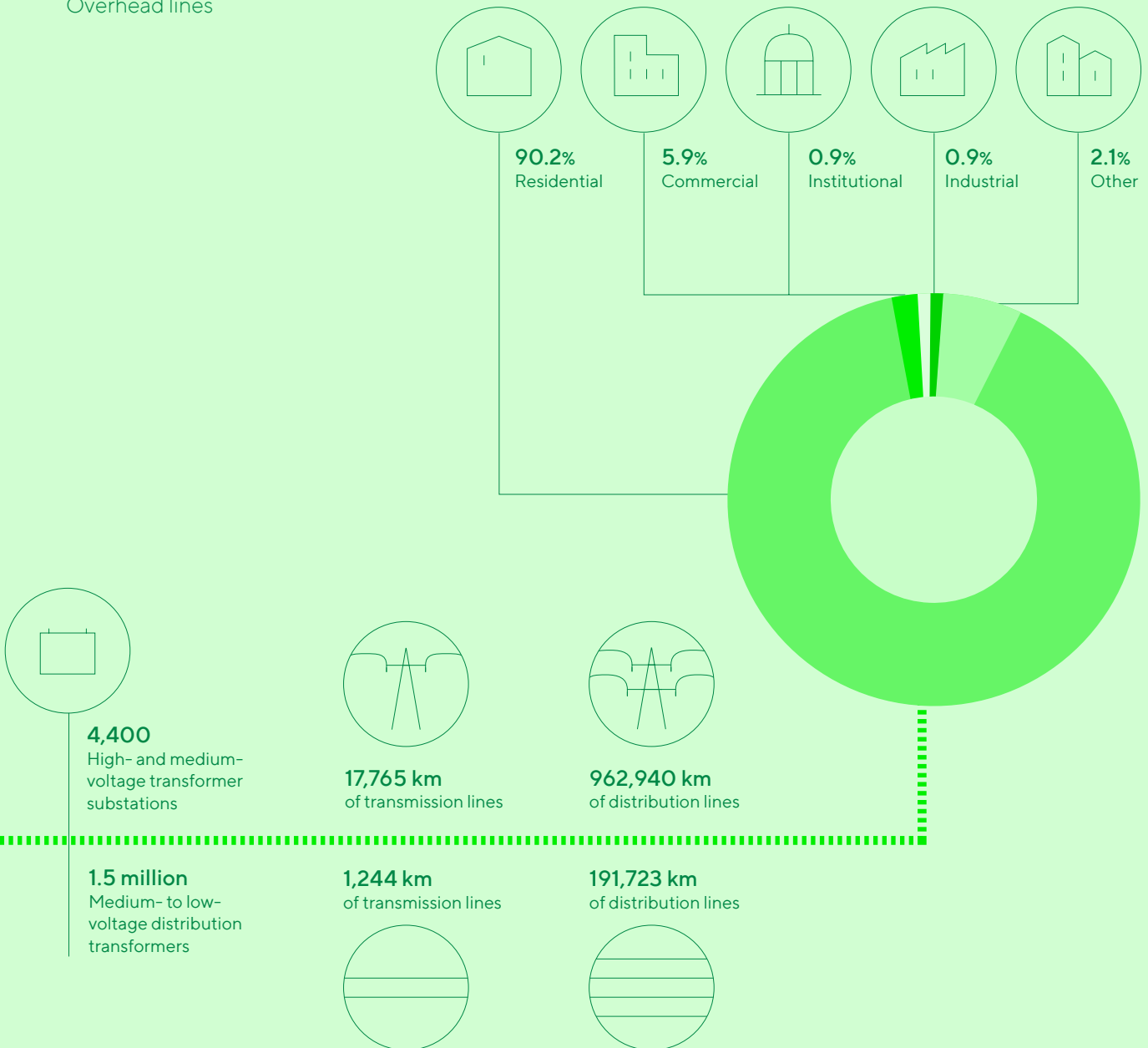
**Retail sale of energy**

Supply to end users of energy and additional products and services.

**Electric grids \*\***

**Customers \*\*\***

Overhead lines



Underground lines

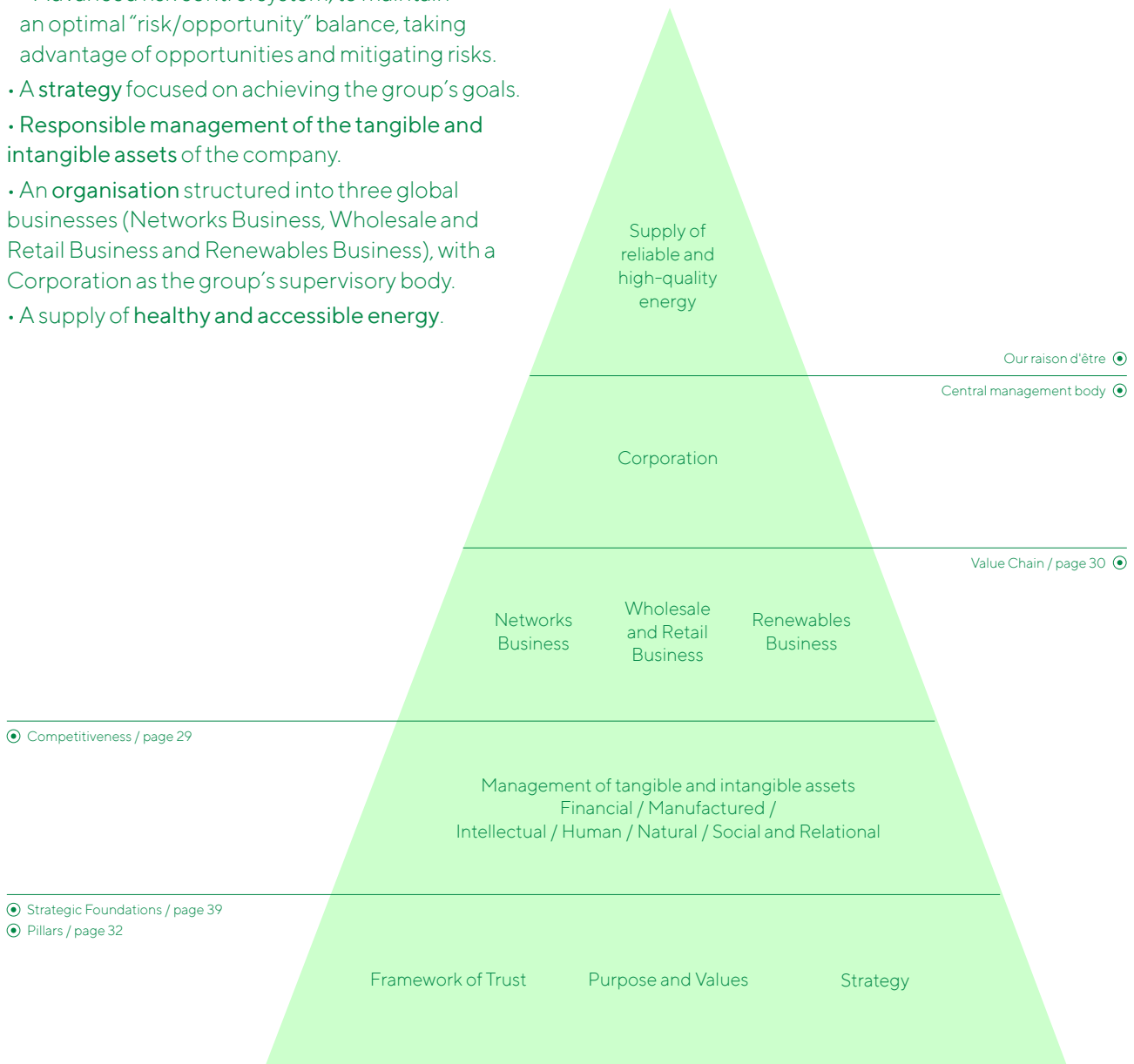
## 2.4 Iberdrola, a Different Company

### Differentiating elements of the company

- **The Purpose** as *raison d'être* and social contribution, and the **Values** as culture of the Iberdrola group, defined by the Board of Directors.
- **A framework of trust** that ensures the sustainability of the business model:
  - Corporate Governance System consistent with international best practices.
  - Corporate ethics, internalised by the management bodies and the organisation as a whole.
  - Sustainable development policies, which respond to the expectations of the Stakeholders.
  - Advanced risk control system, to maintain an optimal “risk/opportunity” balance, taking advantage of opportunities and mitigating risks.
- **A strategy** focused on achieving the group’s goals.
- **Responsible management of the tangible and intangible assets** of the company.
- **An organisation** structured into three global businesses (Networks Business, Wholesale and Retail Business and Renewables Business), with a Corporation as the group’s supervisory body.
- **A supply of healthy and accessible energy.**

Aware of the social changes that are occurring and of the large challenges resulting from the energy transition, Iberdrola has defined its **Corporate Purpose**, focused on the **well-being of people** and the **preservation of the planet**:

**“To continue building together each day a healthier, more accessible energy model, based on electricity”.**



This Purpose reflects the strategy that the company has been implementing for years and its commitment to continue fighting for:

- **A real and global energy transition**, based on the decarbonisation and electrification of the energy sector, and of the economy as a whole, that contributes to the fight against climate change and generates new opportunities for economic, social and environmental development.
- **An energy model that is more electric**, one that abandons the use of fossil fuels and generalises the use of renewable energy sources, the efficient storage of energy, smart grids and digital transformation.
- **An energy model that is healthier for people**, whose short-term health and well-being depend on the environmental quality of their environment.
- **An energy model that is more accessible for all**, one that favours inclusiveness, equality, equity and social development.
- **An energy model that is built in collaboration** with all involved players and all of society.

To achieve this Purpose, Iberdrola has evolved its corporate values to the following concepts:

- **Sustainable energy**: because we seek to be a model of inspiration, creating economic, social and environmental value in all of our surroundings, and with the future in mind.
- **Integrating force**: because we have great strength, and therefore great responsibility. For this reason we work by combining talents, for a purpose that is to be achieved by all and for all.
- **Driving force**: because we make into reality small and large changes causing the life of people to be easier, while being efficient and self-demanding, always seeking continuous improvement.

## Iberdrola's Contribution to the Sustainable Development Goals (SDGs)

Iberdrola has committed to the SDGs defined by the United Nations for the 2015-2030 period. They are 17 global goals intended to transform our world, ending poverty, fighting against inequality and injustice, and confronting climate change.

Iberdrola has integrated the SDGs into its business strategy and its operations, and the Iberdrola group concentrates its efforts on the following objectives based on the activities it performs



• *Electricity for All* programme:

- Goal of 16,000,000 beneficiaries by 2030.
- Reached 5.4 million by year-end 2018.
- A global renewable leader: 29,177 MW in 2018.
- Energy efficiency: 60 million tons of CO<sub>2</sub> emissions avoided during the last three years.



• Iberdrola has set the following environmental objectives:

- Reduce the intensity of its CO<sub>2</sub> emissions to 50% below those of 2007 by 2030.
- Be carbon neutral by 2050.

The company has an SDG Advisory Committee that reviews actions taken and analyses the alignment thereof, in addition to proposing new challenges and encouraging actions that help to achieve the fixed goals.

Iberdrola firmly believes in the innovative role of the private sector, and commits to achieving the SDGs through business results. In this way, the company's contributions through its social dividend generate shared value for all of its Stakeholders:

<b>Responsible business model...</b>	<b>Fights against climate change</b>	<ul style="list-style-type: none"> <li>• A global renewable leader, with 29,177 MW installed.</li> <li>• 68.2% of all installed capacity does not produce CO<sub>2</sub> emissions.</li> <li>• Approval of emission reduction goals scopes 1, 2 and 3 by <i>Science Based Target Initiative</i>.</li> <li>• Pioneers in adopting the recommendations of the <i>Task Force on Climate-related Financial Disclosures (TCFD)</i>.</li> </ul>
	<b>Rapidly adopts new technologies and commits to innovation</b>	<ul style="list-style-type: none"> <li>• Drives the development of <b>smart grids</b>. Has deployed more than 10 million smart meters throughout the world.</li> <li>• Invests in sustainable mobility, in order to install 25,000 charging points in Spain by 2021.</li> </ul>
<b>...with positive impacts on all of its Stakeholders...</b>	<b>Economic</b>	<ul style="list-style-type: none"> <li>• Annually generates approximately <b>€32,000 million</b> in Gross Domestic Product (GDP) in the countries in which it operates<sup>1</sup>.</li> <li>• Contributes almost <b>€7,600 million</b> in investments annually to the capital formation of the world economy<sup>1</sup>.</li> </ul>
	<b>Environmental</b>	<ul style="list-style-type: none"> <li>• Invests more than <b>€1,600 million</b> in <b>renewable generation</b> during 2018, which has reduced its specific emissions to <b>163 gr / kWh</b> in 2018.</li> </ul>
	<b>Social</b>	<ul style="list-style-type: none"> <li>• Creates more than <b>425,000 jobs</b> worldwide (direct, indirect and induced employment)<sup>1</sup>.</li> <li>• Almost <b>€2,400 million</b> in employee remuneration.</li> <li>• Invests <b>€53.5 million</b> in projects contributing to the community<sup>2</sup>.</li> <li>• Makes more than <b>€7,500 million</b> in purchases from its suppliers throughout the world.</li> <li>• Contributes almost <b>€8,000 million</b> in taxes in the countries in which it does business.</li> </ul>
<b>...leading to the creation of sustainable economic value.</b>		<p><b>Balanced growth:</b> €34,000 million between 2018 and 2022, focused on business and countries with stable and predictable regulatory frameworks; 86% of which will be dedicated to regulated activities or long-term contracts.</p> <p>The company's <b>sustainable growth in results</b>, reaching a Net Profit of between €3,700 and €3,900 million by 2022.</p> <p><b>Financial strength:</b> The FFO/Net Debt ratio is expected to be greater than 24% by 2022, which will allow for higher organic growth, compatible with the objective of FFO/Net Debt ratio of 22%.</p> <p><b>Sustainable dividend:</b> Shareholder remuneration will grow in line with the increase in results, maintaining a pay-out ratio between 65% and 75%, with a growing floor for the dividend each year of the plan.</p>

(1) Data from a Study of Iberdrola's Impact, prepared by PwC, for financial year 2017.

(2) According to the London Benchmarking Group (LBG) measurement standard.



Iberdrola also takes action to contribute to the other SDGs. These activities are aligned with its Business model, and respond to the company's firm commitment to the social dividend, conceived as the sustainable creation of value for all the Stakeholders. The activities and results of the company for these Objectives can be summarised as follows:

	<p>Procedures to protect customers in situations of vulnerability: covers 100% of vulnerable customers in Spain. <i>Warm Home Discount</i> scheme in the United Kingdom and <i>Operation Fuel</i> in the United States. IX edition of the Iberdrola Social Programme 2019 called by Fundación Iberdrola España.</p>		<p><b>Goal:</b> Foster diversity and the social inclusion of vulnerable groups through the corporate volunteering programme. More than 7,000 initiatives at the global level were made available to the employees in 2018.</p>
	<p>More than 6,000 kg of food collected through the <i>Operation Kilo</i> programme promoted in all countries. Volunteer activities to distribute food, soup-kitchens, etc.</p>		<p>Iberdrola has developed a Sustainable Mobility Plan with the ultimate goal of contributing to a rational use of the means of transportation. <b>Goal:</b> Install 25,000 electric vehicle charging points in Spain by 2021, within its Smart Mobility plan.</p>
	<p>Iberdrola contributes to reducing the noxious effects on health of greenhouse gases with its commitment to reduce these gases. The company also has goals to reduce accident rates.</p>		<p>90% of energy production at Iberdrola is carried out using local sources of energy. Iberdrola was the first IBEX 35 company to certify its General Shareholders' Meeting as a sustainable event (ISO 20121).</p>
	<p>€2.2 million in the scholarship and research grant programme for the 2018-2019 academic year. Training for our employees: more than 45 hours of training per employee in 2018.</p>		<p>During the construction and operation of offshore wind farms, Iberdrola adopts innovative measures to preserve the neighbouring undersea eco-systems. Support for the <i>Dolphin Watch</i> project for the protection of fauna and the conservation of marine habitats with disclosure and awareness-raising activities.</p>
	<p>Iberdrola has been included in Bloomberg's 2019 GEI (Gender Equality Index). Iberdrola supports the Women's Universe (<i>Universo Mujer</i>) programme of the CSD, supporting 16 Spanish female federations. <b>Goal:</b> Increase the number of women in management positions.</p>		<p>Iberdrola has obtained the first AENOR Corporate Environmental Footprint certificate. <b>Goal:</b> Adjustment of 25,000 supports at distribution lines to avoid the electrocution of birds over the next two years (Flapping Wings (<i>Alateo</i>) project).</p>
	<p>Iberdrola is one of the utilities with the highest water productivity (revenue/water utilised). <b>Goal:</b> maintain intensity at 50% of the European average for next 5 years. Iberdrola has joined the UN CEO Water Mandate to encourage sustainable practices in the use of water.</p>		<p>The company has renewed the <i>UNE-ISO 37001</i> and <i>UNE19601</i> certifications regarding anti-bribery and compliance. It has also been chosen for the fifth consecutive year as one of the most ethical companies in the world, according to the <i>World's Most Ethical Companies</i> ranking prepared by the <i>Ethisphere Institute</i>.</p>
	<p>425,000 direct, indirect and induced job positions throughout the world<sup>(1)</sup>. More than €32,000 million in impact on the GDP of the countries in which it does business<sup>1</sup>. Iberdrola is the largest issuer of green bonds in the world, with more than €8,300 million of outstanding green debt. <b>Goal:</b> continue supporting the development of the green financing market.</p>		<p>Iberdrola works with a variety of companies, associations, universities and public bodies to achieve the SDGs. Iberdrola held the 1st Iberoamerican Conference on the SDGs, in collaboration with the Universidad de Salamanca and the Polytechnic University of Madrid.</p>
	<p>World leaders in Smart Grids. Progress on the Star project in Spain and the <i>Smart UK</i> project in the United Kingdom. <b>Goal:</b> Development of the Innovation and Digitisation Programme.</p>		

(1) Data from a Study of Iberdrola's Impact, prepared by PwC, which is based on 2017 figures. Includes indirect and induced impacts.

## 2.5 Capital Management

The Iberdrola group holds valuable assets for the development of its business model. The strategy defined by the company transforms these assets to create value for all its Stakeholders.

	Financial capital	Manufactured capital	Intellectual capital
<b>What is it?</b>	Financial resources that the company already has or obtains through financing.	Tangible assets or goods used by the company to carry out its business activities..	Intangible, knowledge-based assets.
<b>Management approach</b>	Create value for shareholders through sustainable growth.	Offer a competitive supply of energy in a safe and reliable environment.	Consider innovation as a strategic element of the company.
<b>Significant aspects</b>	<ul style="list-style-type: none"> <li>• Balanced and diversified growth.</li> <li>• Sound financial structure.</li> <li>• Operational excellence.</li> <li>• Sustainable results and dividends.</li> </ul>	<ul style="list-style-type: none"> <li>• Power generation assets.</li> <li>• Power transmission and distribution assets.</li> <li>• Other assets.</li> </ul>	<ul style="list-style-type: none"> <li>• Promotion of R&amp;D.</li> <li>• Digitisation for efficiency and development of new products and services.</li> <li>• Disruptive technology and business models.</li> </ul>

- Financial Capital / page 62
- Manufactured Capital / page 64
- Intellectual Capital / page 66

	Human capital	Natural capital	Social and relationship capital
<b>What is it?</b>	Employee knowledge, skills, experience and motivation.	Natural resources affected by the company's activities.	Ability to share, relate and collaborate with its Stakeholders, promoting community development and well-being.
<b>Management approach</b>	Guarantee the availability of a committed and qualified workforce. Offer an inclusive and balanced work environment.	Ensure a sustainable use of natural resources and contribute to combating climate change.	Promote relations of trust with Stakeholders, improving the quality of life of people in areas where the group has a presence.
<b>Significant aspects</b>	<ul style="list-style-type: none"> <li>• Global human resources management.</li> <li>• "Zero accidents" programme.</li> <li>• Talent management.</li> <li>• Diversity, equal opportunity and reconciliation.</li> </ul>	<ul style="list-style-type: none"> <li>• Climate Change.</li> <li>• Preservation of biodiversity.</li> <li>• Management of environmental footprint.</li> <li>• Operating excellence and energy efficiency.</li> <li>• Circular economy.</li> </ul>	<ul style="list-style-type: none"> <li>• Stakeholder Engagement Model.</li> <li>• Community support and electricity access programmes.</li> <li>• Human rights due diligence system.</li> <li>• Foundations of the Iberdrola group.</li> <li>• Brand management.</li> <li>• Transparency and good governance.</li> <li>• Corporate reputation.</li> </ul>

📍 Human Capital / page 68

📍 Natural Capital / page 70

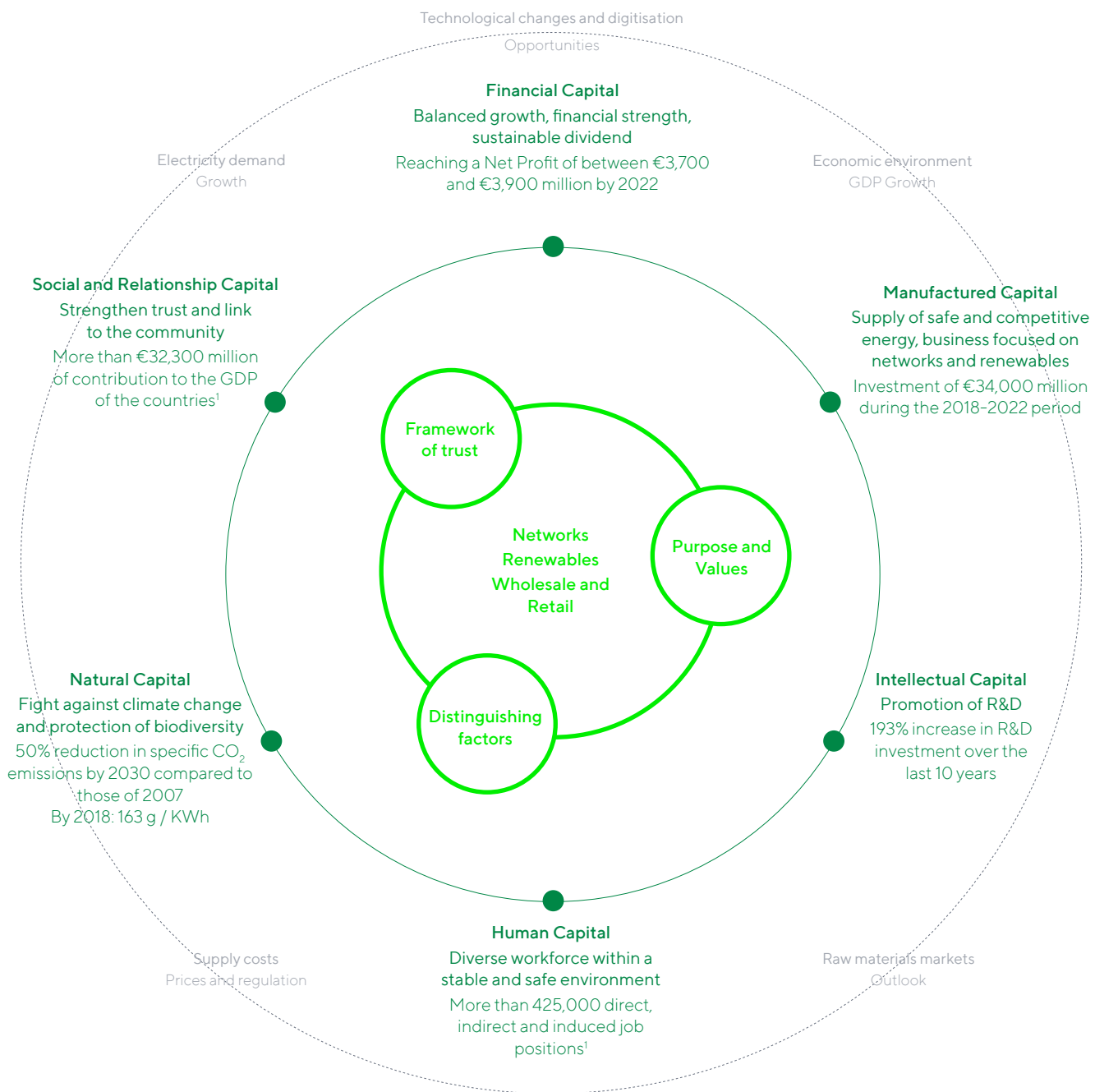
📍 Social and Relationship Capital / page 72

### Social dividend as an increase in the value of capital

The social dividend created by the business strategy and model of Iberdrola translates into an increase in the value of its capital, which in turn feeds back into a cycle of value creation, thus efficiently inter-relating the operations of the businesses and the capital of the company.

The chart below shows its strategic focus for each Chapter and quantifies an aspiration or achievement of the company in this area.

This process creates shared value for both Iberdrola and for its Stakeholders, and constitutes a main vector for achieving the company's purpose of offering an increasingly healthy and accessible energy supply.



..... External Context

(1) Data from a Study of Iberdrola's Impact, prepared by PwC, which is based on 2017 figures. Includes indirect and induced impacts.

## 2.6 Strategic Foundations for 2018–2022

### Market conditions

The green electrification of the economy is key for accelerating the energy transition; and it is possible thanks to the advance of clean generation technologies, smart grids and energy storage. To take the maximum advantage of these global growth opportunities, Iberdrola has increased the objectives set out in its Outlook 2018–2022.

The current political and regulatory context offers opportunities for growth in the main markets in which the group does business.

### Challenges and opportunities

#### Challenges

- Decarbonisation in the energy sector. Demand for cleaner and more sustainable energy.
- Management of a scenario of constant prices for energy in the medium term.
- Attainment of higher efficiency levels in all businesses, applying innovation and digitisation in operations.
- Regulatory management in all businesses, with special emphasis on transmission and distribution businesses, and in the development of the single market in Europe.
- Implementation of an investment plan focused on growth in the businesses of regulated networks, renewables and long-term contracted generation.

#### Opportunities

- Balanced business model focused on regulated activities and renewable generation.
- Significant experience in the development and construction of network and emission-free generation projects: hydroelectric, wind and photovoltaic.
- International diversification with a presence in countries with stable and predictable regulatory frameworks that require investment in the electricity and gas sectors.
- High quality of assets.
- Proven management capacity, culture of efficiency and results.
- Culture of innovation to implement digitisation in relation to customers and the development of new products and services.

### Growth vectors 2018–2022

#### Investments

##### United States

In renewables, the *Vineyard* offshore wind farm in Massachusetts is advancing as projected, with an estimated start-up between 2021 and 2022. In Networks, construction has begun on the \$950 million *New England Clean Energy Connect (NECEC)* transmission line, with a start-up in 2022, and which will contribute to results beyond the implementation period of the plan.

##### Spain

3,000 MW of solar photovoltaic capacity and onshore wind is expected to be added before 2022.

##### Mexico

Approximately 3.5 GW of additional capacity will be installed and operational by 2021, a 60% increase in installed capacity in the country.

##### United Kingdom

The *East Anglia One* offshore wind project, expected to enter into operation by 2020, is in full construction. New auctions of offshore wind are also expected in the near future.

##### Brazil

The company obtained four lots in the auction of electricity transmission lines held in December 2018, in addition to another six lots won in the 2017 auctions, which is a tremendous opportunity for organic growth in the country. 15 wind projects are also under construction for a total of 472 MW in the state of Paraíba.

#### Operational efficiency

Iberdrola has maintained a consistent focus on operational excellence over the years. Based on progress over the past financial year, on constant synergies and good practices throughout the group, the efficiency objective is expected to improve, accumulating more than €1,200 million over the period.

**The plan keeps the focus on profitable growth in the regulated businesses and in long-term contracts, with a geographically diversified portfolio, and guarantees growth beyond 2022.**

Financial Capital / page 62

**Strategic pillars**

In a scenario of growing demand for energy and given the urgent need to reduce emissions in order to combat climate change, a clean, reliable and intelligent energy must be developed, which requires boosting the green electrification of the economy. This transition is feasible thanks to innovation and technological progress. The development of renewable energies, the deployment with the support of its three strategic pillars: profitable long-term growth, operational excellence and optimisation of the financial structure; keeping the customer at the centre of our business model, and benefiting from innovation and digitisation.

The strategic pillars support the proposed creation of value for all Stakeholders, and have been the basis for growth over the last two decades, making Iberdrola more efficient, more sustainable, more international, more profitable, and ultimately more prepared to continue responding to these trends, which are accelerating.

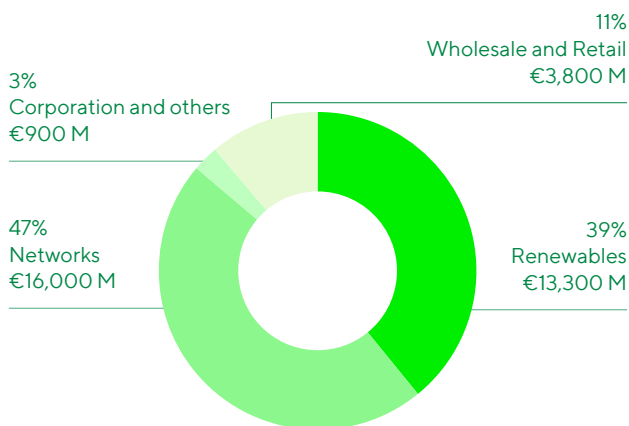
**1. Balanced growth**

The company will undertake a number of initiatives to develop this strategy, as described below:

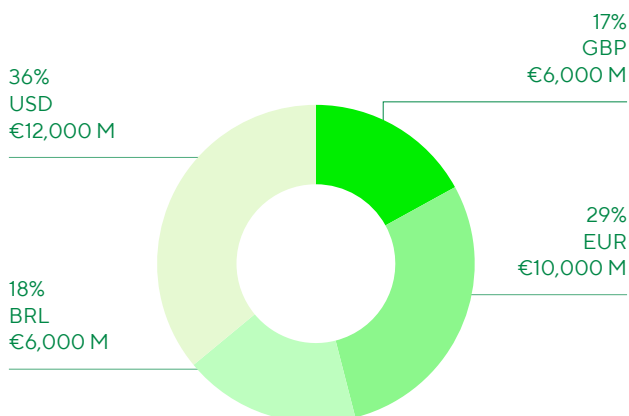
- The policies of decarbonisation and technological progress play an important role, as they will promote major investments in renewable generation, as well as the deployment and strengthening of grids playing an essential role in integrating both large-scale and distributed renewable generation and also in facilitating the adoption of electric vehicles.
- The company is accelerating investments in light of these forecasts, increasing the amount to €34,000 million during the 2018-2022 period, going from €5,300 million invested in 2018 to an average of €7,200 million per year in the following years of the plan.
- Of the total investments, some €30,000 million are already implemented or under construction, and the other €4,000 million will be allocated to projects with advanced status.
- This plan strengthens the commitment to invest in assets that are regulated or with long-term contracts, reaching 86%. Investment in Networks will reach €16,000 million, with growth mainly focused on the United States and Brazil. In Renewables, somewhat more than €13,000 million will be focused mainly on Spain, the United States and the United Kingdom.
- There is a sufficiently balanced diversification by currency in this updated plan, with the investment in dollars representing 36%, followed by 29% in euros, 18% in reais and 17% in pounds.

**Investment by business and currency 2018-2022**

**Investments of the Businesses**



**Investment by Currency**



**A growing floor is set for the dividend for each year of the plan. The minimum dividend will thus be 0.37 euro per share by 2020 and 0.4 euro per share by 2022.**

## 2. Financial strength

As can be seen in the results from financial year 2018, Iberdrola has accelerated implementation of the 2018-2022 plan. These results reaffirm the effectiveness of its strategic pillars, putting the company one year ahead of the Plan.

EBITDA increased by almost 28%, thanks to the good operational performance of all of the businesses, to a total of €9,349 million.

Operational efficiency improved 10% thanks to the measures implemented in all of the countries.

Progress in business activities, together with the control of financial expenses, have driven Net Profit to a historic maximum of more than €3,000 million, 7.5% more than in 2017, consistently with the forecasts presented in February 2018, which has allowed the Board of Directors to propose a 7.7% increase in shareholder remuneration, thus maintaining the commitment to increase shareholder remuneration in line with the results.

The increase in investments, optimisation of capital and implementation of increased efficiency measures has led to an improvement in the estimates for 2022. Thus, EBITDA will exceed €12,000 million by 2022, 30% more than that of 2018. 80% of this EBITDA will come from the Networks and Renewables businesses, which will maintain their diversification by currency. Net Profit forecasts for 2022 have also increased, and the maximum target of €3,700 million presented last year is the floor of the new range, which will reach a maximum of €3,900 million, a 30% increase over 2018.

Improvement of financial strength: The FFO/Net Debt ratio is expected to be greater than 24% by 2022, which will allow for higher organic growth, compatible with the objective of FFO/Net Debt ratio of 22%.

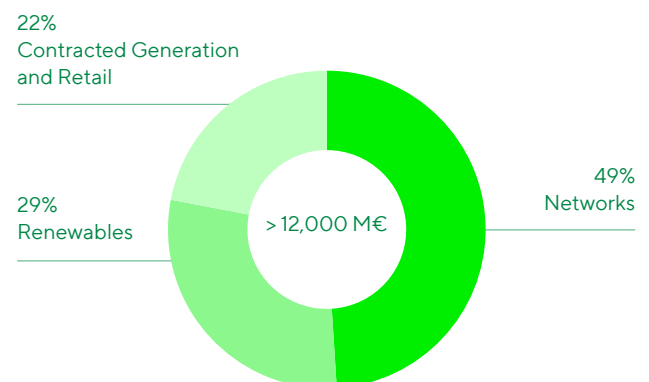
Optimisation of liquidity position (around €12,000 - €14,000 million, with a margin to increase it if necessary) to current market conditions in order to improve financial costs, maintaining 18 months of coverage even during stress scenarios. Neoenergia has its own liquidity policy covering 12 months of financial requirements.

## 3. Sustainable dividend

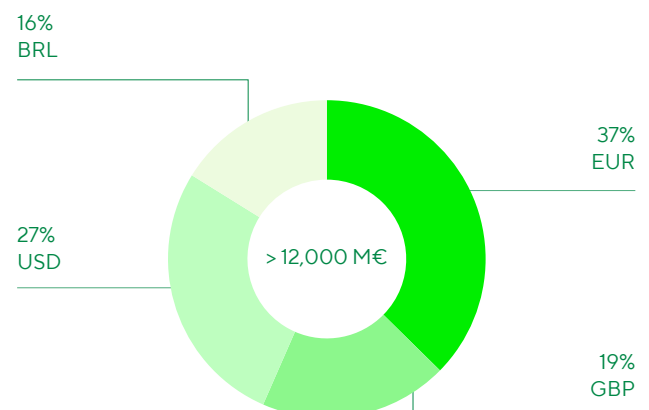
Thanks to the strength of the results obtained, and in compliance with the commitment to increase shareholder remuneration in line with the results, the Board of Directors will propose shareholder remuneration of 0.351 euro per share at the General Shareholders' Meeting, an increase of 7.7% charged to financial year 2018.

This remuneration will continue to increase in line with the results. Therefore, a minimum growth in the dividend is set for each year of the plan. This minimum will thus be 0.37 euro per share by 2020 and 0.4 euro per share by 2022. The pay-out ratio is kept at between 65% and 75%, and the number of shares at 6,240 million through share buyback plans to prevent dilution.

### EBITDA by business (forecast to 2022)



### EBITDA by currency (forecast to 2022)



## 2.7 Comparative Results and Awards

### Comparative analysis<sup>1</sup>

#### Comparative economic/financial variables 2018

##### Growth in EBITDA

CAGR (%)	Average comparables <sup>2</sup>	Iberdrola
31-Dec.-08 / 31-Dec.-18	-4.3%	<b>3.3%</b>

##### Growth in stock market capitalisation

Total growth (%)	Average comparables <sup>2</sup>	Iberdrola
31-Dec.-08 / 31-Dec.-18	-31.2%	<b>37.2%</b>

10 years ago, Iberdrola held fifth place among comparable companies in terms of capitalisation. It is now in second place.

##### Share price

Total growth (%)	Average comparables <sup>2</sup>	Eurostoxx Utilities	Iberdrola
31-Dec.-08 / 31-Dec.-18	-51.9%	-15.9%	<b>7.3%</b>

##### Comparative performance of total shareholder return

Return (%)	Average comparables <sup>2</sup>	Eurostoxx Utilities	Iberdrola
31-Dec.-08 / 31-Dec.-18	-13.8%	13.7%	<b>54.6%</b>

### Iberdrola's performance

Over the last 10 years, Iberdrola increased its assets by 30%, increased its revenues 40%, increased its EBITDA by 40%, and increased its net profit by 10% and shareholder remuneration by 20%, while improving its financial strength.

Iberdrola	31-Dec.-08	31-Dec.-18
Assets (€M)	85,837	113,038
Revenues (€M)	25,196	35,076
EBITDA (€M)	6,412	9,349
Net Profit (€M)	2,861	3,014
Dividends <sup>3</sup> (€/share)	0.27	0.33
Net Debt/EBITDA	4.87	3.66

(1) Comparable companies analysed: Engie, EDF, E.On, Enel, RWE. ACGR: Annual Compound Growth Rate, i.e. weighted average annual growth.

(2) For Engie, E.ON and RWE, the 2018 EBITDA figures are the estimates published by Bloomberg, due to the lack of final closing figures on the date of preparation of this document. Preliminary results for Enel.

(3) Not including the bonus for attending the General Shareholders' Meeting.



## Awards/Recognitions

### To the company:

- Best Corporate Governance in Spain (World Finance): 2018.
- World's Most Ethical Company Index (Ethisphere Institute): 2018.
- Compliance 2018 Award (Expansión) to the company with best compliance practices.
- Most Impressive Corporate Green in the financial markets award (Global Capital): 2018.
- Climate Reality Awards 2018 (Al Gore Foundation) to the company that has done the most to fight against climate change.
- Spanish version of European Environmental Award 2018 called by the European Commission and awarded by His Majesty the King.
- Innovation Awards from the United Nations to Iberdrola's Corporate Volunteering programme: 2018.
- Stadium Cup 2016 for Iberdrola's promotion of female sports in society.

### To the chairman:

- Universal Spaniard 2018 by Fundación Independiente.
- Honorary Member of the Spanish Institute of Engineering since 2018.
- Best European Utility CEO (Institutional Investor Research): 2017, for the eleventh time.
- Commander of the Most Excellent Order of the British Empire: 2014.
- International Responsible Capitalism Award (Grupo First): 2014.
- Honorary Doctorate from the Universities of Salamanca (2011), Strathclyde (2013) and Edinburgh (2011).

### To other members of the company:

- Best Utility Investor Relations Team (Institutional Investor Research): 2018.







ITAPEBI Hydroelectric Plant  
/ Brazil



# 3. Iberdrola's Primary Businesses

## 3.1 Regulatory Environment

### European Union

- The process of negotiating the *Clean Energy for All Europeans* package ended in December 2018. It includes goals to be reached by 2030, both for renewable energy (at least 32% of final EU gross consumption of energy) and energy efficiency improvements (32.5% for the entire Union). There was also a revision to the Regulation and Directive on the Internal Market in Electricity to improve the operation thereof, set the foundations for the transition towards a cleaner energy model, and give consumers a more active role.
- The *Clean Mobility Package*, which develops measures to reduce emissions from the transport sector during the 2021-2030 period, is currently in the pipeline. The goals for acquisition, leasing and hiring of clean vehicles by the government as set out in the Directive have been approved, and the goal of a 37.5% reduction in emissions for new cars by 2030 compared to 2021 emissions has been approved. Only an agreement on reducing emissions for heavy vehicles is still pending.
- In November 2018 the European Commission presented its Proposal for a *Long-term Emission Reduction Strategy*, which analyses eight different scenarios for reducing greenhouse gas emissions by 2050 compared to 1990. The first six ones are based on various measures regarding the energy and industrial sectors, to reach between 80% and 90% reductions in these emissions. There are also two scenarios to reach 100% reduction, which would require actions in other sectors (agriculture, forestry, etc.).
- The Directive governing trading in CO<sub>2</sub> emission rights through 2030 was published in 2018. The main new developments are:
  - Increase in annual reduction in the number of emission rights to be auctioned each year.
  - Creation of a mechanism to withdraw excess rights in circulation to stabilise prices.

### Spain

- The government has prepared a draft *Climate Change and Energy Transition Act*, to ensure the achievement of the Spanish energy and climate commitments set out within the framework of the Paris Agreement. This document defends a medium- and long-term framework to ensure an orderly transition towards a low-carbon economy.
- Before the end of 2019, Spain must submit to the European Commission its *Integrated National Energy and Climate Plan* (NECP) for the 2021-2030 period. It will include national goals for 2030 and the path to decarbonisation by 2050, as well as a description of the policies and measures focused on reducing emissions and increasing renewables and efficiency in accordance with EU-approved objectives.
- The power to establish the methodology and the parameters of remuneration, tolls and conditions for accessing the electricity and gas networks that will apply as from the next regulatory period (2020-2025) has been transferred to the National Markets and Competition Commission (*Comisión Nacional de los Mercados y la Competencia*) (CNMC).

### United Kingdom

- On 26 November 2018 the government and the regulator *Ofgem* announced an upcoming review of the regulatory framework and of the rules governing the energy sector, in order to simplify it and adapt it to the energy transition. The review affects all rules on which the gas and electricity networks and the wholesale and retail markets are based. *Ofgem* and the government will publish a consultation in the summer of 2019.
- On 25 November 2018 an agreement was reached for the United Kingdom to leave the EU. The British government has put contingency plans into place to avoid short-term impacts on the regulatory energy environment arising from this situation.

### United States and Canada

- In 21 August 2018 the Environmental Protection Agency (EPA) proposed the Affordable Clean Energy (ACE) Rule, a rule providing certain guidelines for allowing the states to develop plans to reduce GHG emissions for existing coal plants based on efficiency improvements at the plants and the application of new technologies. This rule will replace the 2015 Clean Power Plan (CPP).

### Mexico

- The new government took power on 1 December 2018. Its energy priorities are to revise the current reform, strengthen the CFE, modernise the hydroelectric plants and be self-sufficient in fuel, boosting the extraction of natural gas.
- In January 2019 the new government cancelled the fourth auction of long-term energy, clean energy certificates and capacity. The two auctions of transmission lines (connection of Baja California to the national system and connection of the Isthmus of Tehuantepec to the central zone of the country) have also been cancelled.
- The *Energy Transition Act* promotes the participation of clean energy to reach 35% by 2024 through the CEL system, as follows: 5% by 2018, 5.8% by 2019, 7.4% by 2020; 10.9% by 2021 and 13.9% by 2022.
- The new calculation methodology for the regulated tariff, which applies as an addition to the basic supply and recognises the costs of each activity of the electric system, began to be applied during 2018. The domestic consumption tariff will remain with the old methodology indefinitely.

### Brazil

- The Ministry of Mines and Energy has approved the Decennial Energy Expansion Plan, which provides for the installation of a total of 54.6 GW between this year and 2027, of which 32.3 GW will be renewable. Breakdown by technology: 13 GW will be wind, 6.9 GW solar and 6.8 GW hydroelectric, with the remaining 5.6 GW being biomass and mini-hydro. It is also expected that 108,000 million reais will be allocated to the transmission business.
- 6 distribution subsidiaries belonging to the state-owned company Eletrobras were privatized during 2018. Along the same lines, the new government has stated its intention to continue with the process of privatizing state-owned companies.
- The *Light for All* programme has been extended to December 2022 in order to support the electrification of rural and economically disadvantaged areas.
- The regulator has proposed a 1.1% increase in the Energy Development Account (CDE) to R\$20,270 million for 2019. This account is used to finance, among other things, programmes like the *Light for All Programme* to aid vulnerable groups or support for buying fossil fuels by the generators in isolated regions.
- There were various legislative initiatives in 2018 intended to reduce the litigation in the Brazilian electric sector due to disputes relating to hydrological risk (GSF) between the generators and the government. Given that certain generators continue to be supported under court measures exempting them from payment for the costs of hydrological risk between July 2015 and February 2018, short-term market settlements continue to generate a deficit that decreases the income of the distributors. Neoenergia has a net creditor position.



Work on high-voltage tower  
in Monterrey  
/ Mexico





## 3.2 Networks

### Regulatory environment of the business

#### Spain

- In 2018 a process began to revise remuneration for the distribution activity for the second regulatory period (2020–2025), which should conclude during this year. The regulator's report and the draft law on remuneration of regulated activities of the Ministry (January 2019) provides a value of 5.58% before taxes, which is based on the weighted average cost of capital (WACC).
- The Order on tolls for 2018, ETU/1282/2017, of 27 December, keeps the figures published for 2016 on remuneration for distribution and transmission, in the absence of publication of the amount for 2018.

#### United States

- In June 2018 a new 3-year tariff proposal was presented for the gas distribution company CNG (Connecticut). The new tariffs were approved and entered into force on 1 January 2019, with an ROE of 9.3%, an equity percentage of 54% and planned investments of \$150 million annually.
- In May 2018 a new 3-year tariff proposal was presented for the gas distribution company BCG (Massachusetts). The new tariffs were approved and entered into force on 1 February 2019, with an ROE of 9.7% and an equity percentage of 54%.
- In October 2018 a new 1-year tariff proposal was presented for the electricity distribution company CMP (Maine). The final determination is subject to the schedule established by the regulator.
- The tariff conditions for the gas distributors of the State of New York (NYSEG and RG&E), with a recognised ROE of 9.0% are maintained during 2019. \$600 M have been invested annually since the approval of the current regulatory framework in 2016.

#### United Kingdom

- *Ofgem* continues the process of designing the RII02 regulatory framework, which will enter into force for transmission by 2021 and for distribution by 2023. The new periods will be 5 years instead of the current 8 years, and the proposed CoE would be in a range of 4–5% and linked to the CPIH index (inflation).
- Until then, SP Transmission Ltd. as well as SPD Ltd. and SPM Plc continue to perform their activities under the *RIIO-T1* and *RIIO-D1* tariff frameworks, complying with all investment and quality goals agreed with *Ofgem*.

#### Brazil

- In April 2018 the tariff revisions entered into force for the distributors Coelba and Cosern, and will be in effect for the next five years. The Regulatory Asset Base (RAB) recognised for the new period is multiplied by 1.9 and 1.7, respectively, as a result of the investment effort made during the last tariff cycle. During the month of August, there was also an annual periodic review of Elektro, which mainly reflected the change in the General Price Index.
- A tariff revision is expected for Elektro in August of this year, which will be in force until August 2023.
- Neoenergia won 4 transmission projects in the auction by the Brazilian regulator ANEEL in December 2018, with a related investment of R\$4,200 million. This new award, added to the two auctions that it won in 2017, will entail an investment of R\$7,000 million.

### Objectives, risks and principal activities

#### Objectives

- Zero accidents.
- Offer our customers excellent service based on the quality of supply and information regarding the network.
- Maximise efficiency in system operations through operational excellence and the digitisation of our assets.
- Lead the transformation towards more efficient integration of distributed energy and the penetration of electric vehicles.

#### Significant risks

- Risk of occupational and third-party injuries at owned facilities.
- Impacts on supply from meteorological events.
- Technological and cybersecurity risks affecting the security of the facilities and service to our customers.

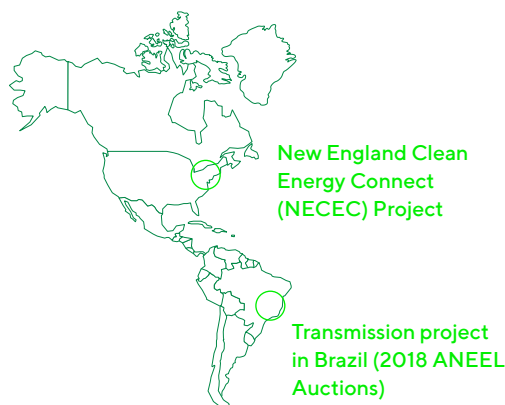
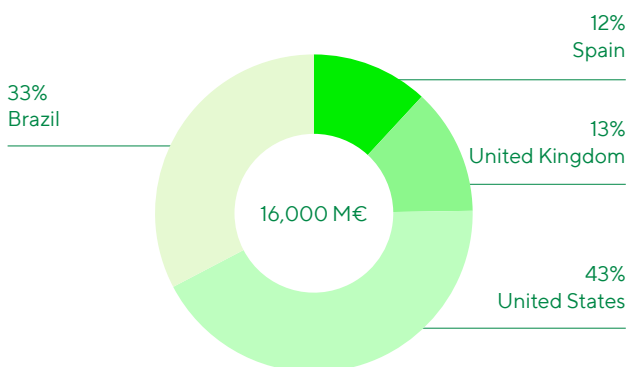
#### Principal activities 2018

- **Spain:** A major digitisation project, the *Star* project, consisting of the installation of more than 10.8 million smart meters, above the regulatory objective and reaching 99% of the total, was completed in 2018.
- **United Kingdom:** The *Western Link* underwater cable project between Scotland and Wales, with more than 2,000 MW of available capacity, was completed in 2018. There was also the start-up of the South West Scotland project, with 6 new substations and 87 km of lines, which will allow the connection of 1,000 new MW of wind power in Scotland.
- **United States:** Award of the *New England Clean Energy Connect* (NECEC) project. With USD 950 million of investment, it involves the construction of a 233 kilometre transmission line between Canada and New England, which will allow for the supply of 1,200 MW of 100% hydroelectric power to Massachusetts beginning in 2022.
- **Brazil:** The 4 transmission projects awarded in the ANEEL auction in December 2018 will involve a total of 3,000 kilometres of transmission lines.

### Outlook 2018-2022

- Increase in investments during the 2018-2022 period to €16,000 million, thanks to the award of large transmission projects like the *NECEC* project in the United States and more than 3,000 kilometres of power lines in Brazil.
- The deployment of electric vehicles, the integration of distributed renewable generation and resiliency plans in the United States and Brazil are vectors for growth of the traditional business.
- Operational efficiency improvement plans are being implemented in all countries to achieve the forecasted savings through 2022, to be shared with the customer.
- The Supply Quality indicators in Spain and Brazil in 2018 reached historic records and allow for reaching the operational goals before the end of the period.

Net investment of €16,000 million between 2018 and 2022, mainly in the United States and Brazil





## Customer service, operational excellence and digitisation of networks are the strategic pillars of the Networks Business.

### Key figures of the Networks Business

Item	Unit	Spain		United Kingdom		United States		Brazil		Total	
		2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
Gross margin	€M	2,003	2,109	1,174	1,222	2,754	2,780	856	1,530	<b>6,786</b>	<b>7,641</b>
EBITDA	€M	1,519	1,709	886	919	1,334	1,331	488	955	<b>4,228</b>	<b>4,915</b>
Electric power distributed	GWh	93,276	93,897	35,003	34,677	38,349	39,579	63,522	65,282	<b>230,151</b>	<b>233,435</b>
Customers (Electricity)	Millions	11.0	11.1	3.5	3.5	2.2	2.3	13.6	13.8	<b>30.3</b>	<b>30.7</b>
Gas supply	GWh	-	-	-	-	59,884	65,139	-	-	<b>59,884</b>	<b>65,139</b>
Customers (Gas)	Millions	-	-	-	-	1.0	1.0	-	-	<b>1.0</b>	<b>1.0</b>
Investments	M€	352	345	561	466	861	930	313	722	<b>2,086</b>	<b>2,463</b>
Workforce	No. of people	4,038	3,739	2,969	2,963	5,410	5,325	9,708	10,202	<b>22,125</b>	<b>22,229</b>

International Financial Reporting Standard (IFRS) 11 has been applied to the financial information.

#### Customer service

- In Spain, a new historical record in supply quality was reached in 2018. The Installed Capacity Equivalent Interrupt Time (TIEPI) decreased by 15% compared to 2017.
- A record quality level was also reached in Brazil, with a 23% decrease in the Equivalent Duration of Interruption (DEC) compared to 2017.
- 2018 was a year with strong storms in the service areas of the United Kingdom and the United States, with tremendous efforts to restore supply. The Maine company CMP received the *EEI Emergency Recovery Award* for its extraordinary response to the strong storms of October 2017.
- The company has developed a Resiliency Plan, which involves an investment of \$2,500 million over 10 years to strengthen the lines and improve electric supply in the states of Maine and New York, which will allow for improved quality and a reduction in the impact of storms.
- In Brazil, Cosern won the award for best availability of electric service.

#### Operational excellence

- The adjusted evolution of operating expenses continues in order to improve efficiency ratios in all countries.
- New plans and models have been launched to end electricity fraud in Brazil and Spain.
- Improvement in debt indicators with customers in Brazil thanks to the plan to decrease late payments.

#### Digitisation of the network

- Spain continued in 2018 with the *Star+* project to automate the medium-voltage network, as well as for the digitisation of the low-voltage network.
- Iberdrola, Ente Vasco de la Energía and the Provincial Government of Biscay signed an agreement in 2018 to continue wagering on the digitisation of the electric grid with *Bidelek 4.0*.
- To support promotion of deployment of electric vehicles, in the United Kingdom *Ofgem* decided to finance the *CHARGE* project in order to accelerate the connection of electric vehicle charging infrastructure to the network of SP Manweb (Liverpool and North Wales) between 2019 and 2022.

Smart apps  
/ UK



## 3.3 Wholesale and Retail

### Regulatory environment of the business

#### Spain

- Royal Decree Law 15/2018 on urgent measures for the ecological transition and consumer protection was approved in October 2018. Among other measures, it expands coverage of subsidised electricity rates (*bono social*) (adding special groups and increasing the limits on annual consumption with the right to a discount), and establishes the creation of a new subsidised thermal rate (annual direct assistance for the same beneficiaries of the electric rate as at 31 December of each year).
- This Royal Decree Law also contains tax measures, including:
  - The suspension for six months (October 2018 – March 2019) of value added tax on the production of electric energy.
  - Exemption from the hydrocarbon tax for products destined for electricity production at electric plants or the production of electricity or cogeneration of electricity and heat at combined cycle plants.

#### Mexico

- In 2018 there was a change in the method for calculating the electricity tariff for medium- and high-voltage customers, which went from an integral rate to an additive rate. This cost recovery for the system was less than the actual costs during the first quarter, creating a deficit that has to be recovered during the next three quarters.

#### United Kingdom

- In November 2018, *Ofgem* for the first time published price limits for standard tariffs and other default tariffs. The new limits that will apply from April to October 2019 were published on 7 February: 1,254 pounds annually for dual customers (electricity and gas customers with direct debit). The price limits will apply until no later than 2023 and will be updated on a half-yearly basis.
- The T-4 capacity auction for 2021/22 was held in February 2018, resulting in the award of a total of 2,299 MW to Iberdrola at a price of £8.40/MW.
- That same month there was the 2018/19 T-1 capacity auction, in which Iberdrola's plants did not participate as they won the T-4 auction held in 2014.
- In November 2018 the EU Court of Justice rendered a judgement nullifying approval of the capacity auctions in the United Kingdom as being state subsidies. The government is working with the European Commission to re-establish the Capacity Market as soon as possible.

#### Brazil

- In December 2018 Ministerial Decree no. 514/2018 was published, advancing with the liberalisation of the electric market and providing that consumers supplied with conventional energy with a capacity of more than 2.5 MW (as from July 2019) and with a capacity of more than 2 MW (as from January 2020) can migrate to the free market.

## Objectives, risks and principal activities

### Objectives

- Competitive supply and excellence in service to customers.
- Occupational safety.
- Environmental management and protection of biodiversity.
- Operational excellence and continuous improvement in efficiency.
- Risk identification and minimisation.
- Development of growth opportunities and new energy solutions.

### Significant risks

- Regulatory risk: Changes in regulations in the countries in which it operates.
- Operational risks: Availability rate of facilities and potential incidents with environmental impact.
- Market risk: Fuel prices and competition levels in liberalised markets.
- Credit, exchange-rate and interest-rate risks.
- Technological and cybersecurity risks affecting the security of the facilities or the information of our customers.

### Principal activities 2018

- **Spain:** Continued development of products and services adapted to the needs of customers (*Customised Plans, Smart services, Smart mobility, Smart solar, Smart home*).
- **United Kingdom:** In June 2018 and in October 2018 the increases in the dual tariffs for domestic customers (5.5% and 3.7%, respectively) became effective. At year-end 2018 a cumulative total of 1.2 million smart meters had been installed, meeting the goal set by *Ofgem*.

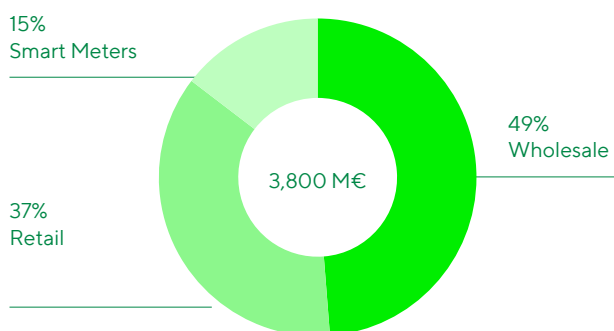
The generating assets in the country were also sold, which for conventional generation meant a reduction in installed thermal capacity of 2,000 MW.

- **Mexico:** Placement into service of 952 MW (878 MW Escobedo CC, 52 MW Bajío cogeneration and 22 MW repowering). Approximately 2,600 MW thermal under construction.
- **Europe:** Growth in retail activity. 734,000 contracts in portfolio reached during 2018.

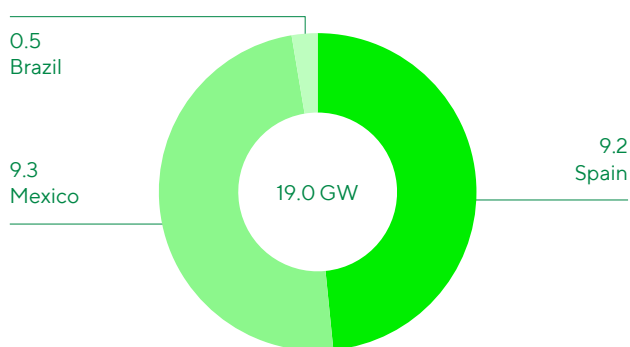
## Outlook 2018–2022

- Net investments of €3,800 million during the period for retail growth in the core markets and international expansion, continued deployment of meters in the United Kingdom and growth in installed capacity in Mexico.
- *Smart Solutions* and cost efficiencies will allow for 32 million contracts with customers to be reached by 2022. In addition, 3.5 GW of regulated generation will enter into service in Mexico during the period.
- Efficiencies deriving from digitisation, the deployment of smart meters and preventative maintenance based on artificial intelligence and data analytics.

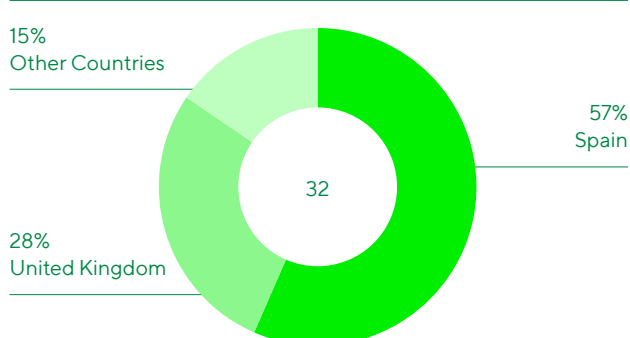
### Net investment 2018–2022 (€M)



### Installed Capacity in 2022 (GW)



### Contracts with customers in 2022 (M contracted)



**The Wholesale and Retail Business concentrates its efforts on the safety of operations, environmental management, operational efficiency, customer loyalty, development of new products and services, and growth in Mexico, which will provide stability in results and the generation of funds for the group.**

### Key figures of the Wholesale and Retail Business

Item	Unit	Spain		United Kingdom		United States		Brazil		Total	
		2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
Gross margin	€M	2,293	2,415	743	863	75	134	646	757	3,757	4,168
EBITDA	€M	779	1,001	108	307	51	92	525	638	1,464	2,038
Electricity contracts	Millions	10.17	10.15	2.88	3.01 <sup>1</sup>	-	-	-	-	13.05	13.16 <sup>1</sup>
Gas contracts	Millions	0.99	1.03	1.90	2.01 <sup>1</sup>	-	-	-	-	2.89	3.04 <sup>1</sup>
Smart solutions contracts	Millions	5.3	5.7	0.9	1.4	0.1	0.1	-	-	6.3	7.1
Total retail contracts	Millions	16.6	17.2	6.0	6.4	0.1	0.1	-	-	22.7	23.7
Investments	€M	138	229	220	194	18	12	694	616	1,071	1,050
Workforce	No. of people	2,815	2,817	1,968	1,609	98	98	711	855	5,592	5,379

International Financial Reporting Standard (IFRS) 11 has been applied to the financial information.

(1) Data from United Kingdom customers at close of nine months 2018.

#### Efficiency

- Optimisation of thermal production.
- Facilitating operations in complementary markets.
- Operating improvements and increase in availability and energetic yield of the thermal facilities in Mexico and Spain.

#### Prices

- Management of risks through appropriate hedging of all generation, including renewable generation.

#### Growth

- Mexico: Approximately 2,600 MW under construction, with the most significant projects including:
  - Topolobampo II CCGT (911 MW).
  - El Carmen CCGT (866 MW).
  - Topolobampo III CCGT (779 MW).
- United Kingdom: Continued widespread deployment of smart meters that began in 2016.

#### Customers

- Loyalty-building and development of new digital products and smart solutions adapted to the needs of customers, which promotes efficiency and the consumption of clean energy.
- Retail development in Mexico pursuant to changes in legal provisions on energy reform.
- Leaders in industrial customers in Portugal.
- Sustained growth of retail activities of electricity, gas and *Smart Solutions* in the rest of Europe.



Assembly of wind turbine blades





## 3.4 Renewables

### Regulatory environment of the business

#### Spain

- 2018 was a year of transition, with significant future content for renewables. The draft *Climate Change and Energy Transition Act* gives major visibility and volume to the expansion of renewable energy from now until 2030, announcing auctions with a minimum of 3,000 MW per year.
- The Ministry has published the draft law providing the return on renewables for the 2020-2025 period based on the weighted average cost of capital (WACC). The government's proposal maintains the current pre-tax rate of 7.389% for facilities prior to RDI 9/2013 until the end of 2031, and sets a figure of 7.09% until 2025 in the other cases.
- Finally, the first auction has been called for the non-mainland territories, and bids can be made during the first quarter of 2019.

#### United Kingdom

- For the third round of *Contracts for Difference* (CfD) auctions, expected for May 2019, the British government has confirmed an annual budget of £60 million and a maximum capacity of 6 GW to be awarded. The auction will be limited to less established technologies, including offshore wind, and for projects with start-up in 2023-24 or 2024-25.

#### United States

- There has been an increase for the sector in import tariffs declared by the government, with no major changes occurring. In 2018 tariffs were set on the import of various products: 25% on steel, 10% on aluminium and 30% on solar panels the first year. These tariffs will slowly be reduced during the next 3 years.

#### Mexico

- The industry has been working all year on improving the rules of the new market, including potential improvements for the long-term auctions, to be included during 2019.

#### Brazil

- There were two generation auctions, A-4 and A-6, in 2018. In A-6, Neoenergia was awarded 23.4 MW for the Baixo Iguaçu hydroelectric plant. New auctions are expected in 2019.

#### Continental Europe

- There is continued development of the *St. Brieuc* offshore wind farm after the revision of the terms with the French government.

**The business will engage in sustainable growth, mainly based on onshore and offshore wind and solar investments in the countries most important to the group.**

## Objectives, risks and principal activities

### Objectives

- Safety in operations.
- Efficiency in operations to maximise the profitability of the assets.
- Efficiency in construction costs, with a particular emphasis on offshore wind projects.
- Profitable growth from various technologies in the countries that are strategic for the group, and in new countries of interest.

### Significant risks

- Competitive auction processes in the markets in which it operates.
- Prices of energy sold in short-term markets.
- Risk of access to evacuation networks and limits on production due to technical restrictions of the networks.
- Operational and technological risk.
- Limitations on operation due to environmental risks.

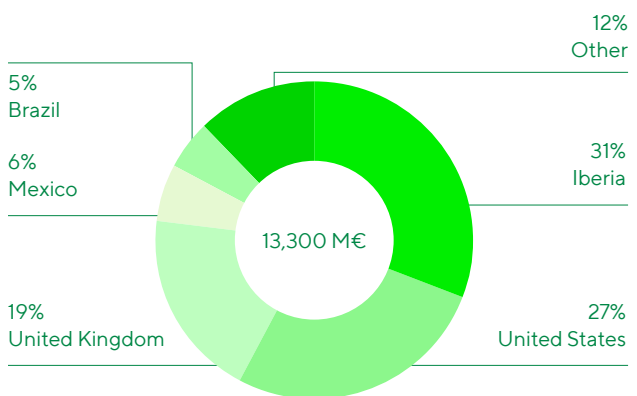
### Principal activities 2018

- 683 MW of installed capacity was added during the year:
  - Onshore wind: 18 MW in the United States, 41 MW in the Mexico and 81 MW in the United States.
  - Photovoltaic solar: 10 MW in the United States and 227 MW in Mexico.
  - Hydroelectric: 306 MW in Brazil.
- In turn 616 MW have gone out as a result of the sale of 566 MW from three hydroelectric plants in the United Kingdom and 50MW from the Puertollano thermosolar plant in Spain.
- In onshore wind, 1,136 MW are under construction in the United States, 203 MW in Spain, 472 MW in Brazil, 325 MW in Mexico and 16 MW in Greece.
- In photovoltaic solar: 391 MW in Spain.
- Once the 350 MW Wikinger wind farm is placed into operation, there will be growth in offshore wind with the construction of the 714 MW *East Anglia One* project in the United Kingdom and the development of the 800 MW *Vineyard* project in the United States, 496 MW *St. Brieuc* project in France and 476 MW *Baltic Eagle* project in Germany.
- In Brazil work continues on the construction of the *Baixo Iguazu* hydroelectric plant in Brazil, with a total of 350 MW, and the *Tâmega* hydroelectric project in Portugal, with 1,158 MW.

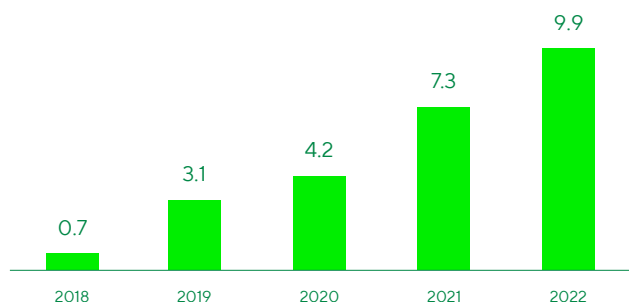
### Outlook 2018–2022

- Investments of €13,300 million, mainly to increase installed capacity in Spain, the United States, the United Kingdom, Portugal, Mexico and Brazil.
- Installed capacity of 9.9 GW is expected to be installed during the 2018–2022 period, including the 714 MW *East Anglia One* and 800 MW *Vineyard* offshore wind farms, the 391 MW *ac Nuñez de Balboa* photovoltaic solar plant, and the 1,158 MW *Tâmega* hydroelectric plant.
- Operational excellence achieved through management of the life cycle of assets via digitisation, maximising revenues and continuing with the advanced operation and maintenance model.

#### €13,300 investment plan million during the period



#### New additional aggregate capacity during the 2018–2022 period (GW)





## Key figures of the Renewables Business

Item	Unit	Spain		United Kingdom <sup>1</sup>		United States		Brazil		Mexico		Other countries <sup>2</sup>		Total	
		2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
Gross margin	€M	1,174	1,580	547	644	783	835	92	178	71	88	124	286	2,791	3,611
EBITDA	€M	616	919	392	518	530	573	66	129	53	65	99	242	1,755	2,445
Load factor <sup>3</sup>	%	13.5	18.7	21.7	22.1	29	29.7	30.6	31.3	30	31.2	25.6	26.9	18.8	22.6
Investments	€M	193	329	404	398	857	366	168	163	323	282	678	134	2,622	1,673

### Notes:

International Financial Reporting Standard (IFRS) 11 has been applied in the preparation of this table.

(1) The figures for the United Kingdom include those of the offshore wind division, except for Wikingier.

(2) Other includes Wikingier as it is an offshore wind farm outside of the United Kingdom.

(3) The load factor includes all renewable technologies.

### Load factor

Maximising the load factor

of facilities, while minimising down time through operating and maintenance measures, as well as other external factors.

### Operation and maintenance costs

Continuous improvement in efficiency through global standardisation and systematisation processes, exploiting digitisation opportunities.

### Project portfolio

Development of the portfolio of onshore wind projects in Spain, the United Kingdom, the United States, Brazil and Mexico, the photovoltaic projects in Spain, the United States and Mexico, and the offshore wind projects in France, Germany, the United Kingdom and the United States.

**The business focuses on sustainable development, mainly based on investments in onshore and offshore wind and in photovoltaic in the countries most important to the group, and in the safety of operations.**

**Efficiency is a key factor for business sustainability in the medium and long terms.**

**Iberdrola will take technological advances into account and will act on the supply chain to encourage greater efficiency in the coming years.**



Wikinger wind farm  
/ Germany





## 4. Our Assets

Iberdrola's assets are the basis for the creation of value by the company, which carries out its activities through the sound management thereof.

In this report, Iberdrola identifies and classifies its assets in accordance with the IIRC classification system:

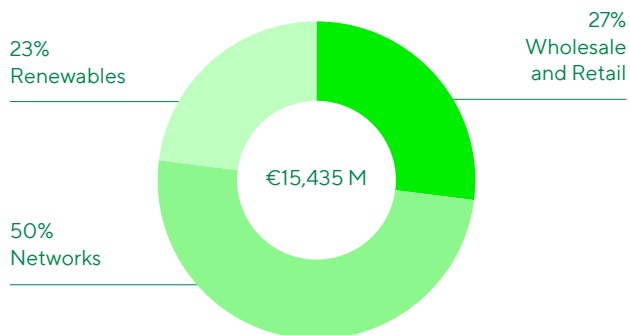
- Financial capital
- Manufactured capital
- Intellectual capital
- Human capital
- Natural capital
- Social and relationship capital

## 4.1 Financial Capital

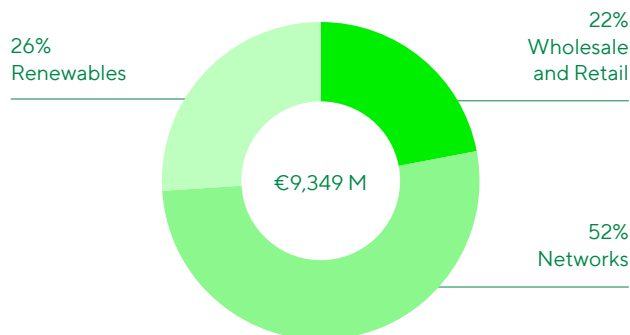
	Management approach	Results 2018	Outlook
<b>Balanced growth</b>	<p>The company has an investment policy consistent with its strategic vision and financial policy. The main goals are:</p> <ul style="list-style-type: none"> <li>• Ensure a return on capital through projects and investments preferably in regulated businesses, renewable assets or long-term contracts.</li> <li>• Increase geographic diversification, further balancing the contribution of the countries in which it does business.</li> <li>• Tailor investment levels to the actual needs of each market.</li> </ul>	<ul style="list-style-type: none"> <li>• Net investments of €5,320 million, of which 80% has been assigned to the Networks and Renewables businesses.</li> <li>• Investments in Networks assets have been boosted by the long-term regulatory frameworks established in all of the countries, and have increased 16% in Brazil and 7% in the United States and the United Kingdom (in local currency).</li> <li>• In Generation, there has been a commitment to more than 2.7 GW of capacity since the beginning of 2018.</li> <li>• Funds From Operations have increased 13.1%, reaching €7,300 million thanks to all the investments, exceeding investments by more than €2,000 million.</li> </ul>	<ul style="list-style-type: none"> <li>• Iberdrola will accelerate its growth with investments reaching €34,000 million during the 2018-2022 period, with a €2,000 million increase over the figure forecasted in February 2018. 86% of the investments will be dedicated to regulated activities or long-term contracts.</li> <li>• By business, Networks will absorb 47%, €16,000 million, increasing the value of its regulated assets 34% by 2022, to €38,900 million. In Renewables, the company will have 38.4 GW by year-end 2022. Iberdrola will also reach 90 GWh of storage capacity by that year.</li> <li>• Investments in dollars will represent 36%, followed by 29% in euros.</li> </ul>
<b>Solid financial structure</b>	<ul style="list-style-type: none"> <li>• Iberdrola considers financial strength to be an essential factor that allows it to successfully face potential turbulence in the markets and to be in a position to exploit growth opportunities in the countries in which it does business.</li> <li>• The financial policy seeks improvement in solvency ratios, balancing an increase in debt with the generation of additional cash flow from new investments.</li> <li>• The debt structure is in line with the profile of the business, which is mostly regulated, and the composition thereof reflects the results obtained in the relevant currencies.</li> </ul>	<ul style="list-style-type: none"> <li>• Gross margin of €15,435 million (+15.5%).</li> <li>• Net profit of €3,014 million (+7.5%), in line with forecasts for the year.</li> <li>• EBITDA increased by almost 28% to €9,349 million, thanks to the good operational performance of all of the businesses and the integration of Neoenergia.</li> <li>• Adjusted net financial debt is €34,149 million, increasing €1,294 million over the year, as a result of the strong investment process implemented by the group.</li> <li>• Liquidity of €13,012 million, which covers more than 24 months of financing needs.</li> </ul>	<p>The increase in investments, optimisation of capital and implementation of increased efficiency measures has led to an improvement in the estimates for 2022, with the higher end of the range forecast in February 2018 as the base for the new floor:</p> <ul style="list-style-type: none"> <li>• EBITDA of more than €12,000 million by 2022 means 30% growth over 2018. 80% of this EBITDA will come from the Networks and Renewables businesses in 2022.</li> <li>• Net Profit for 2022 will have a floor of €3,700 million, with the upper range reaching €3,900 million. This would be an increase of 30% compared to 2018.</li> <li>• Optimisation of the liquidity position to cover financing needs for 18 months in a stress scenario.</li> </ul>
<b>Operational excellence</b>	<ul style="list-style-type: none"> <li>• Notwithstanding the high efficiency levels that have been reached, the company believes that there is still a margin for improvement thanks to investments in digitisation and innovation.</li> <li>• The implementation of best practices in all areas will allow for additional savings and an increase in synergies at the global level.</li> </ul>	<ul style="list-style-type: none"> <li>• Net operating expenses decreased 0.4% to €4,155 million, supported by the exchange rate, reserves for efficiency plans recorded in 2017, and the application of IFRS 15, which offsets the consolidation of Neoenergia.</li> </ul>	<ul style="list-style-type: none"> <li>• 20% improvement of the efficiencies goal presented in 2018, such that more than €1,200 million in efficiencies will accumulate over the 2018-2022 period thanks mainly to digitisation and the optimisation of processes in all countries and businesses.</li> </ul>
<b>Sustainable results and dividends</b>	<ul style="list-style-type: none"> <li>• Iberdrola offers its shareholders an industrial enterprise for the long-term creation of value. The confidence of its shareholders enables Iberdrola to secure the resources needed to move its enterprise forward.</li> </ul>	<ul style="list-style-type: none"> <li>• Shareholder remuneration of 0.331 euro per share, equal to a dividend yield of 4.71%.</li> <li>• Flexible dividend offering tax benefits, the repurchase of shares to avoid dilution, adding the cash payment option.</li> </ul>	<ul style="list-style-type: none"> <li>• Thanks to the strength of the results obtained, and maintaining the commitment to increase shareholder remuneration in line with the results, the Board of Directors will propose shareholder remuneration of 0.351 euro per share at the General Shareholders' Meeting, an increase of 7.7% charged to financial year 2018.</li> <li>• The flexible dividend programme is maintained with the number of target shares at 6,240 million through share buyback plans to avoid dilution of the shareholders.</li> <li>• Remuneration will continue to increase in line with the results. Therefore, a growing dividend floor is set for each year of the plan, with a minimum dividend of 0.37 euro per share by 2020 and 0.4 euro per share by 2022.</li> <li>• The pay-out ratio is kept at between 65% and 75%.</li> </ul>

Create value for the shareholder with sustainable growth

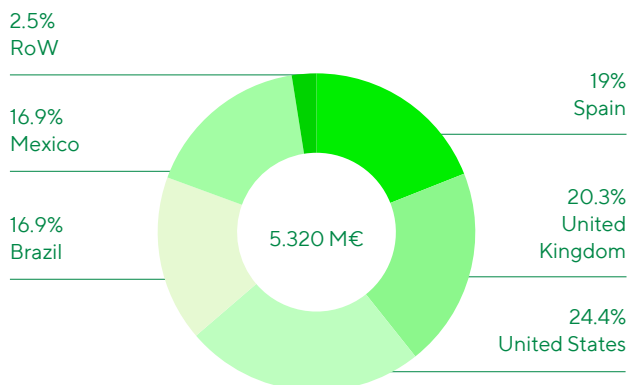
Gross margin by business 2018



EBITDA by business 2018

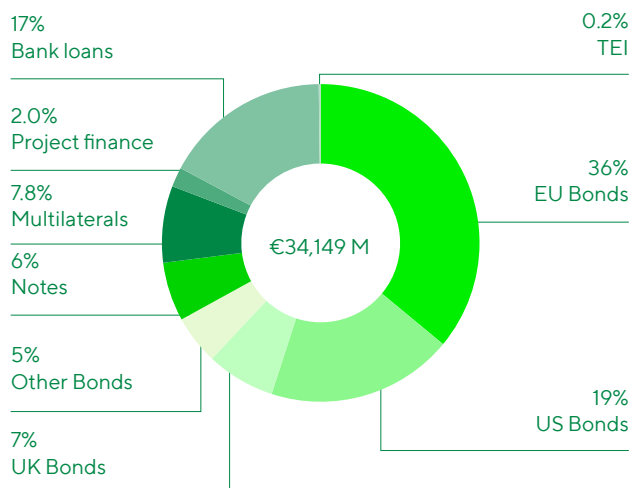


Investment by geographic area 2018



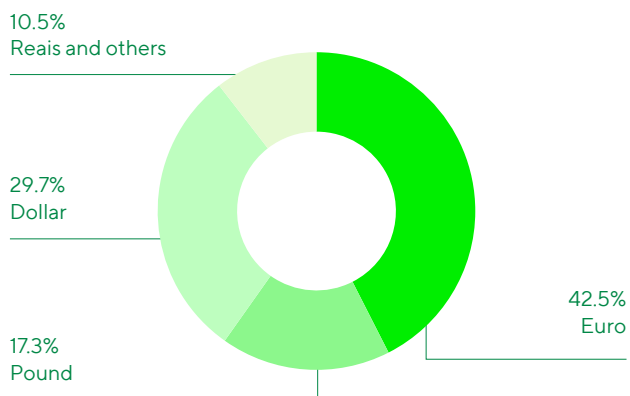
Diversification of investments, with a heavy concentration outside of the euro zone.

Net Debt (€M) 2018



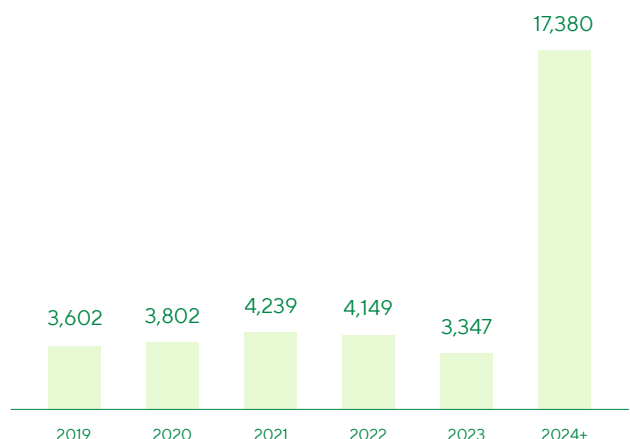
Net adjusted financial debt at 31 December 2018 decreased by €230 million from the nine-month period (€34,379 million) to €34,149 million.

Debt structure by currency in 2018



Debt structured by origin of cash flow earned in each currency. Includes derivatives to hedge net investment.

Maturity of financial debt (€M)



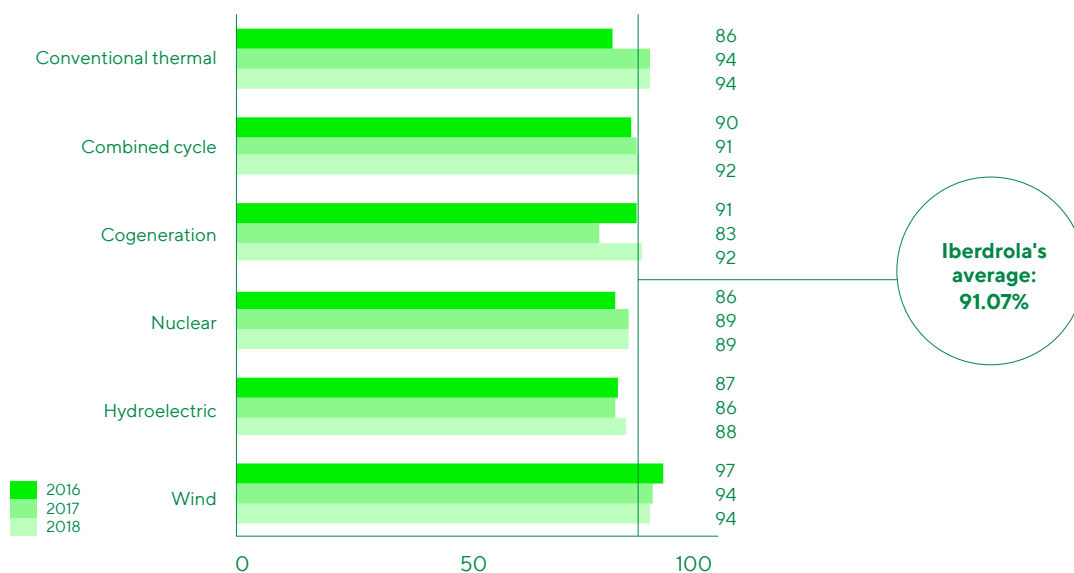
Comfortable maturity profile. Excludes credit lines.

## 4.2 Manufactured Capital

Size	Principal activities 2018	Outlook	
<b>Electric power generation assets</b>	<ul style="list-style-type: none"> <li>Iberdrola's generation assets are made up of more than 300 wind farms, almost 90 hydroelectric power plants (in addition to the mini-hydro plants), 10 photovoltaic plants, 37 thermal power stations using various technologies, 5 of which are nuclear, and other facilities built and operated according to the best practices.</li> </ul>	<ul style="list-style-type: none"> <li>ISO 9000 certification has been renewed for the operation of windfarms in Spain and the United Kingdom.</li> <li>The year ended with additional installed capacity of 1,635 MW, of which 952 MW are from thermal generation in Mexico, and 683 MW are renewable, including the Santiago and Hermosillo photovoltaic plants in Mexico and the Chimiche II wind farm in Spain.</li> <li>At the same time, 566 MW have left the capacity boundary due to the sale of three hydroelectric plants in the United Kingdom, 2,000 MW in thermal from the sale of conventional generation in the United Kingdom, and 50MW from the Puertollano thermosolar plant in Spain.</li> </ul>	<ul style="list-style-type: none"> <li>Construction continues on 2,152 MW of onshore wind, 391 MW of photovoltaic and 714 MW of offshore wind within the <i>East Anglia One</i> project. Development continues on the 496 MW <i>St. Brieuc</i> (France), 486 MW <i>Baltic Hub</i> (Germany) and 800 MW <i>Vineyard</i> (United States) offshore wind projects.</li> <li>In Mexico, construction continues on almost 2,600 MW in combined cycles.</li> <li>In Portugal, there is continued construction of the Tâmega hydroelectric complex, with 1,158 MW.</li> <li>In Brazil, work continues on the construction of the total 350 MW Baixo Iguaçú hydroelectric plant.</li> </ul>
<b>Power transmission and distribution assets</b>	<ul style="list-style-type: none"> <li>Iberdrola's electricity transmission and distribution networks comprise over 1.1 million km of distribution lines, more than 4,400 substations and 1.5 million transformers, built and operated to supply a high-quality, reliable service to 30.7 million electricity supply points.</li> <li>Iberdrola also has more than 40,000 kilometres of gas pipelines for the transport and distribution of gas in the United States.</li> </ul>	<ul style="list-style-type: none"> <li>In Spain, the <i>Star</i> project has been completed with the installation of more than 10.8 million smart meters (99% of the total).</li> <li>In the United Kingdom, the <i>Western Link</i> undersea cable project between Scotland and Wales, with more than 2,000 MW of available capacity, has been placed into service. There was also the completion of the South West Scotland project, with 6 new substations and 87 km of lines.</li> <li>There is continued deployment of smart meters in the United Kingdom, increasing the rate ahead of the goals established by the British regulator <i>Ofgem</i>.</li> </ul>	<ul style="list-style-type: none"> <li>In Brazil, the December 2018 ANEEL auction awarded 4 projects for the construction of more than 3,000 kilometres of transmission lines, with an expected regulatory investment of 6,000 million reais.</li> <li>In the United States, there was an award in 2018 of the <i>NECEC</i> project, which involves the construction of a 233 km <i>HVDC</i> transmission line between Canada and New England, with an investment of 950 million dollars.</li> <li>Progress continues with the digitisation of the network to lead the transformation towards a Distribution System Operator.</li> </ul>
<b>Other assets</b>	<ul style="list-style-type: none"> <li>Iberdrola manages approximately 1,600,000 m<sup>2</sup> of offices and work centres throughout the world, with a total of 816 properties, of which 266 are located in Spain, 106 in the United Kingdom, 173 in the United States, 251 in Brazil and 20 in the rest of the world. These properties, which follow the same corporate criteria in the interior spaces, are designed, built and operated in accordance with the strictest sustainability and efficiency standards.</li> </ul>	<ul style="list-style-type: none"> <li>Consolidation of the Iberdrola Campus as a centre for Iberdrola's training and events. It has the space and means necessary to hold training at different levels and to host conventions, seminars, workshops and working meetings for the entire Iberdrola group.</li> <li>Commencement of construction on phase II of the Iberdrola Campus.</li> <li>Culmination of the transfer of all Scottish Power employees to the new corporate headquarters in Glasgow, from where almost 1,700 employees have been doing their work this year.</li> <li>Inauguration of the new corporate headquarters of Avangrid at 180 Marsh Hill Road, Orange, CT.</li> </ul>	<ul style="list-style-type: none"> <li>The construction of the Iberdrola Campus will end during 2019 with the culmination of Phase II.</li> <li>Avangrid plans to continue consolidation of the real estate portfolio of offices in the various states in which it does business.</li> <li>At Neoenergia, the process of internalising the Networks Business is expected to be completed, with the opening of numerous work centres in its areas of influence.</li> <li>Iberdrola continues to be committed to the modernisation of work spaces, for which reason it will continue to develop new spaces for collaboration within the corporate buildings, within a permanent process of efficiency and continuous improvement.</li> </ul>

## Offer a secure supply of energy that is competitive in price and quality

### Average availability factor of Iberdrola's generation facilities



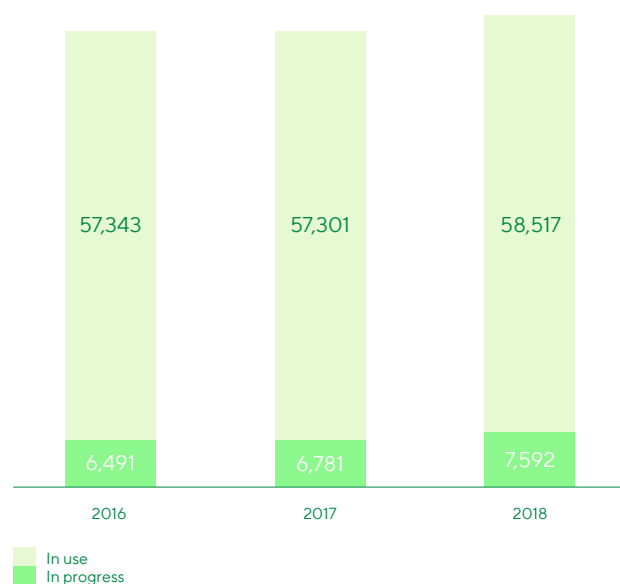
### Quality of electricity supply

Average power outage duration		2017	2018
Spain (*)	TIEPI (min)	52.7	44.6
United Kingdom	CML (min)	31.0	35.4
United States	CAIDI (h)	1.91	2.07
Brazil	DEC (h)	15.96	12.24
Power outage frequency		2017	2018
Spain	NIEPI (number)	1.14	0.91
United Kingdom	CI (ratio)	36.0	43.37
United States	SAIFI (index)	1.15	1.22
Brazil	FEC (frequency)	7.15	5.80

TIEPI: Installed Capacity Equivalent Interrupt Time.  
 CML: Customer Minutes Lost Per Connected Customer.  
 CAIDI: Customer Average Interruption Duration Index.  
 DEC: Equivalent Duration of Interruption by Consumer Unit.  
 NIEPI: Installed Capacity Equivalent Interrupt Number.  
 CI: Customer Interruptions Per 100 Connected Customers.  
 SAIFI: System Average Interruptions Frequency Index.  
 FEC: Equivalent Frequency of Interruption by Consumer Unit.

(\*) In 2017 excluded 18.8 min due to persistent strong rains suffered in Spain in the month of January, deemed to be force majeure.

### Property, plant, and equipment (€M)



## 4.3 Intellectual Capital

	Management approach	Principal activities 2018	Outlook
<b>Promotion of R&amp;D</b>	<ul style="list-style-type: none"> <li>Iberdrola is now the <i>utility of the future</i> thanks to an innovative strategy based on a strong commitment to clean energy, smart grids, efficient energy storage, the development of custom-tailored solutions for customers, and digital transformation.</li> </ul>	<ul style="list-style-type: none"> <li>€267 million of R&amp;D investment in 2018, an 8% increase over 2017.</li> <li>Consolidation of the <i>Iberdrola Universities Programme (Iberdrola U)</i>.</li> <li>Commitment to internal talent through the <i>Renewables Accelerator Programme, Networks 2.0 and Accelerator for Customer</i> initiatives.</li> <li>Holding of <i>Innoday</i>, the major date of the energy sector with innovation.</li> <li>Inauguration in Qatar of the <i>Iberdrola Innovation Middle East</i>, a technology centre focused on responding to the challenges of the digitisation of the energy system.</li> <li>Publication of the Innovation Report 2016–2018.</li> </ul>	<ul style="list-style-type: none"> <li>Development of <i>R&amp;D Plan 2018–2022</i>.</li> <li>Iberdrola will invest 34,000 million euros between 2018 and 2022, focusing its innovative activity on:               <ul style="list-style-type: none"> <li>Cleaner and smarter generation.</li> <li>More and smarter storage.</li> <li>More and smarter grids.</li> <li>More and smarter customer solutions.</li> </ul> </li> </ul>
<b>Efficiency and new products and services</b>	<ul style="list-style-type: none"> <li>Continuous optimisation of our operations, management of the life cycle of facilities and equipment, reduction in operating and maintenance costs, and decreasing environmental impact.</li> <li>Development of new and competitive products and services that adapt to an increasingly global and digitised market, the main goal of which is to meet the needs of customers.</li> </ul>	<ul style="list-style-type: none"> <li>Increase in <i>customer engagement</i>, providing a simple, modern and intuitive customer experience during their entire life cycle.</li> <li>Launching innovative campaigns and projects towards increased personalisation of content and offers based on consumption.</li> <li>Delivery of proactive communications in real time and use of online self-service, with quick and simple online contracting.</li> <li>New social media channels at the international level, offering rapid and efficient customer service.</li> </ul>	<ul style="list-style-type: none"> <li>As a result of its commitment to innovation, digitisation and the on-going search for excellence and quality, Iberdrola has designed unique products and services for its more than 16 million customers.</li> <li>In the future, Iberdrola will continue to wager on energy management of the home through smart devices that give customers greater knowledge and management of consumption, as well as products relating to electric vehicle charging.</li> </ul>
<b>Disruptive technology and business models</b>	<p>Through the <i>Iberdrola-PERSEO</i> international start-up programme, funded with €70 million, investments are made in technologies and new disruptive businesses models, which ensure the sustainability of the energy model. Lines of activity:</p> <ul style="list-style-type: none"> <li>Technologies favouring the integration of renewable energies: flexibility and storage.</li> <li>Aggregation and management of distributed energy resources (batteries, solar, etc.).</li> <li>Innovative solutions for customers (demand-side management, digital solutions, etc.).</li> <li>Advanced technologies for operation and maintenance of energy assets.</li> <li>Electromobility: charging infrastructures and new solutions.</li> </ul>	<ul style="list-style-type: none"> <li>Iberdrola has been included for the second consecutive year among the top 12 European companies committed to the open innovation promoted by the <i>Europe Partnership</i> of the European Commission. Specifically, it has been selected by the European start-ups as one of the <i>Corporate Startup Stars</i> for 2018 and has also received, for the second time, the <i>Corporate Startup Procurement</i> award.</li> <li>More than 10 pilot projects with start-ups in technological areas like Artificial Intelligence, Big Data, Internet of things (IoT) and blockchain.</li> <li>Participation in the company <i>Atten2</i>, dedicated to developing solutions for online monitoring of critical assets to improve the operation and maintenance thereof. This investment is a major contribution to the digitisation of assets in order to prolong the useful life thereof through predictive maintenance and improved operation thereof.</li> </ul>	<ul style="list-style-type: none"> <li>Ensure Iberdrola's access to the energy technologies of the future.</li> <li>Foster entrepreneurship and the development of an innovative entrepreneurial fabric within the energy sector. Investment in initiatives with a high social and job creation component.</li> <li>Establish alliances with key technology providers for Iberdrola (Open Innovation Ventures).</li> </ul>



## Highlight the value of the company's intangible assets

### Main R&D research projects

<b>Renewable energy</b>	<ul style="list-style-type: none"> <li>• As to the improved efficiency of assets, <i>ROMEO</i> and <i>ASPA</i> seek to develop new models and tools for the early detection of failures based on AI/big data techniques. The <i>Renewables Digital Evolution Plan (2018–2022)</i> has also been launched.</li> <li>• Avangrid Renewables has passed the process of being registered as a <i>Balancing Authority</i>, with responsibility for the real-time balancing of production and demand.</li> <li>• In offshore wind, the <i>Wiking</i> offshore wind farm was inaugurated and construction of <i>East Anglia One</i> offshore wind farm has started in the United Kingdom.</li> </ul>
<b>Smart grids</b>	<ul style="list-style-type: none"> <li>• The <i>ALOIS</i> project has commenced to develop a system for control and protection of feeders in distribution networks for stable and sustainable island operation.</li> <li>• <i>LAYCA</i> seeks to develop a system for locating breakdowns and identifying failures in medium-voltage networks. <i>Quality Innovation Award</i> received in the Basque Country.</li> <li>• Also noteworthy are the <i>Star+</i> and <i>Bidelek 4.0</i> projects, to continue pushing the digital transformation of the electricity grid and to improve the efficiency thereof.</li> </ul>
<b>Clean generation</b>	<ul style="list-style-type: none"> <li>• Includes the <i>OCTAVE</i> project for the design of technologies for the diagnosis and control of the combustion process to make our plants more flexible.</li> <li>• <i>OFF-GAS</i>, <i>RESHAND</i> and <i>FILTRABRIS</i>, which are part of Iberdrola's Supplier Innovation Programme, are oriented toward operational efficiency and nuclear safety.</li> </ul>
<b>Customers</b>	<ul style="list-style-type: none"> <li>• <i>Energy Wallet</i>, a pioneering product that allows the purchase of 6-, 12- or 24-month green energy packages knowing the final price. They can be used at different addresses and allow for real-time management from one's mobile phone.</li> <li>• In the United Kingdom, there is <i>PowerUp</i>, which allows for the purchase of gas or electricity in packages up to 180 days in advance at a pre-established price.</li> <li>• <i>Smart Mobility</i>, a comprehensive solution that includes the acquisition of a charging point, installation and warranty, operation by means of an <i>app</i>, and a personalised supply contract.</li> </ul>

### Innoday 2018, we are committed to innovation and young talent

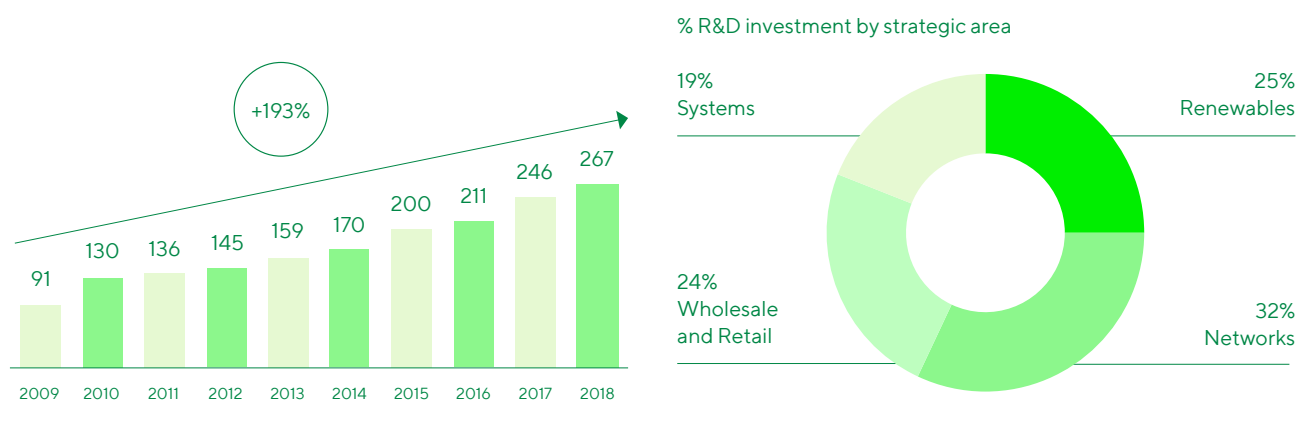
On 23 May, the company's international campus hosted the *Innoday 2018* symposium, a meeting space to disseminate *innovative* initiatives that transform the energy sector, encourage the transfer of knowledge and attract young talent.

*Innoday 2018* was based around two pillars:

- The presentation of the Iberdrola group's Universities Programme.
- The innovation fair: 25 exhibitors showed emblematic projects relating to energy in the areas of the group's business as well as that of its partners.

Youth who participated in the start-up initiatives of the Universities Programme were also involved, with the winners of the challenges earning an award.

### Investments in R&D (€M)



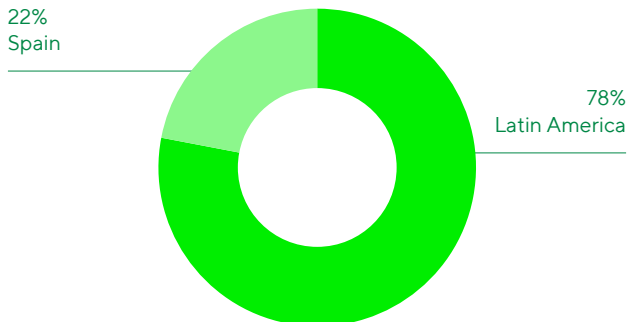
## 4.4 Human Capital

	Management approach	Principal activities 2018	Outlook
<b>Global human resources management</b>	<ul style="list-style-type: none"> <li>• Achieve the goals of competitiveness and business efficiency in a climate of social peace, fostering stable, high-quality employment.</li> <li>• Harmonise human resources processes and make inroads with implementing the Iberdrola culture in all countries, respecting specific local conditions.</li> </ul>	<ul style="list-style-type: none"> <li>• Management of an appropriate labour relations framework that can be adapted to suit business and social requirements.</li> <li>• Homogenise the variable remuneration, selection and on-boarding process.</li> <li>• Implementation of new forms of collaborative communication.</li> <li>• <i>Comparte</i> (Sharing) programme to engage employees in the achievement of the goals and targets of the 2018-2022 Strategic Plan.</li> </ul>	<ul style="list-style-type: none"> <li>• Consolidate the Human Resources function at Neoenergia, extending and unifying best practices.</li> <li>• Strengthen the commitment to Sustainable Development, fostering ethical and responsible behaviour.</li> <li>• Digitisation of Human Resources processes.</li> <li>• Encourage cultural exchange, reflecting on what should be the evolution of our values.</li> </ul>
<b>Goal of "accident reduction"</b>	<ul style="list-style-type: none"> <li>• Prioritise the safety of individuals at the group's facilities and within its sphere of influence, fostering a progressive reduction in incident rates and improving health and safety conditions.</li> <li>• Replicate throughout the group the best practices identified in the area of occupational health and safety, fostering a culture of excellence in management and coordinating global preventive activities.</li> </ul>	<ul style="list-style-type: none"> <li>• Attainment and/or maintenance of the OHSAS 18001 certification, and implementation of the global prevention system and standards in accordance with the group's policy. Assessment of level of conformance to global standards.</li> <li>• Monitoring of proactive and reactive indicators among the group's companies.</li> <li>• Identification and application of best safety practices. Exchange of lessons learnt. Creation of groups to promote safe behaviour (GPGs).</li> <li>• Implement the <i>Zero Accident Plan</i> at Neoenergia to reduce the accident rate.</li> </ul>	<ul style="list-style-type: none"> <li>• Continue with assessment of level of conformance to global standards and the implementation of improvement groups to promote safe behaviour, the management of documentation and data.</li> <li>• Complete OHSAS 18001 certification at group companies that are not yet certified.</li> <li>• Implement system for subcontractor pre-qualification and performance evaluation.</li> <li>• Engage in awareness-raising campaigns.</li> <li>• Improve the reporting system and global indicators at companies of the group.</li> </ul>
<b>Talent management</b>	<ul style="list-style-type: none"> <li>• Drive staff qualifications, preparing employees to work in a multicultural environment and making continual efforts to improve their employability.</li> <li>• Develop alternatives to compensate for factors stemming from the ageing of the workforce.</li> <li>• Maintain a team of competent, committed and motivated professionals, which is key for the sustained success of the business.</li> <li>• Manage talent on an integrated basis in order to train future leaders, preparing them now to assume larger responsibilities.</li> </ul>	<ul style="list-style-type: none"> <li>• Launch leadership development programme for team leaders in all countries.</li> <li>• Launch Climate Survey at the global level and define action plans.</li> <li>• Attract the best talent, strengthen excellence in our selection processes and improve our presence on social media and at leading universities.</li> <li>• Promote a culture of learning, self-development and improvement of the user experience in virtual training through the launch of the <i>Learning Meeting Point</i> and increase the offer of open courses.</li> </ul>	<ul style="list-style-type: none"> <li>• Digitisation of selection and on-boarding processes.</li> <li>• Implementation of self-assessment and career recommendation tools.</li> <li>• New mobility portal.</li> <li>• Review and simplification of management and leadership skills model.</li> <li>• Consolidation of the plan for development of high-potential leaders in accordance with the 70-20-10 learning model.</li> <li>• Launch of skills development programmes for specialists (technical career).</li> <li>• Selection and implementation of global mentoring platform.</li> <li>• Alignment of High Potentials identification process with the remunerative cycle.</li> </ul>
<b>Diversity, equal opportunity and reconciliation</b>	<ul style="list-style-type: none"> <li>• Guarantee a social model committed to professional excellence and the quality of life of our employees.</li> <li>• Develop labour relations based on equal opportunity, non-discrimination and respect for diversity.</li> <li>• Create a high-quality labour environment by committing to reconciliation.</li> <li>• Contribute to achieving the SDGs for the 2015-2030 horizon through the <i>Corporate Volunteering Programme</i>.</li> </ul>	<ul style="list-style-type: none"> <li>• Inclusion of Iberdrola in the 2019 <i>Bloomberg Gender-Equality Index</i>.</li> <li>• International cultural exchanges.</li> <li>• Corporate Volunteerism Activities to improve the quality of life and the integration of vulnerable groups, including <i>International Volunteering Day</i>, the <i>INVOLVE</i> international volunteering programme, the project for improving the electricity situation of refugee camps in Ethiopia, and the <i>Lights and Action</i> project, for which Iberdrola was awarded by the United Nations with the <i>IMPACT 2030 Innovation Award</i>.</li> <li>• Volunteer project regarding the fight against climate change in Spain, Mexico and Brazil.</li> </ul>	<ul style="list-style-type: none"> <li>• Continue encouraging the launch of initiatives that contribute to improving gender diversity within the group.</li> <li>• Continue to foster improvements in the quality of people's lives through social-welfare activities in all of the countries in which the group has a presence.</li> <li>• Promote the internationalisation of social programmes and strengthen ties among the employees of the company at the global level. Activate the global volunteer community to achieve the SDGs.</li> </ul>

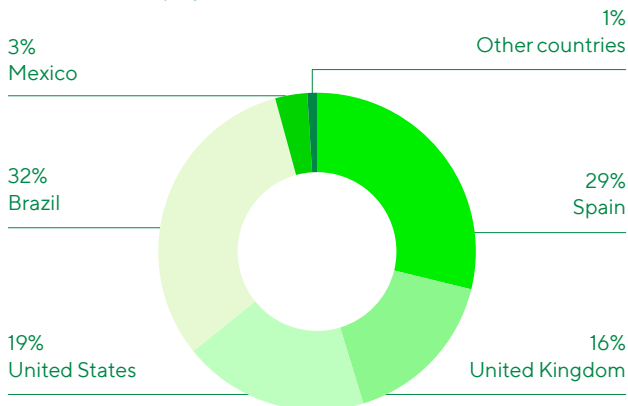
Ensure the availability of a committed, qualified workforce in a safe and stable environment

Growth and geographic diversification of the workforce

2006: 16,155 employees



2018: 34,078 employees



Accident rate (2015-2018)<sup>1</sup>



(1) Neoenergia data has been 100% consolidated for all periods.

Social commitment



Various corporate volunteer activities by employees in Spain, the United States, Brazil, Mexico and the United Kingdom

Iberdrola committed to leadership



2018 was the 10th anniversary of the *Energising Leadership Programme*, the goal of which is to strengthen the management and leadership skills of Iberdrola's leaders in a global environment. Almost 300 leaders from all countries have passed through this programme.

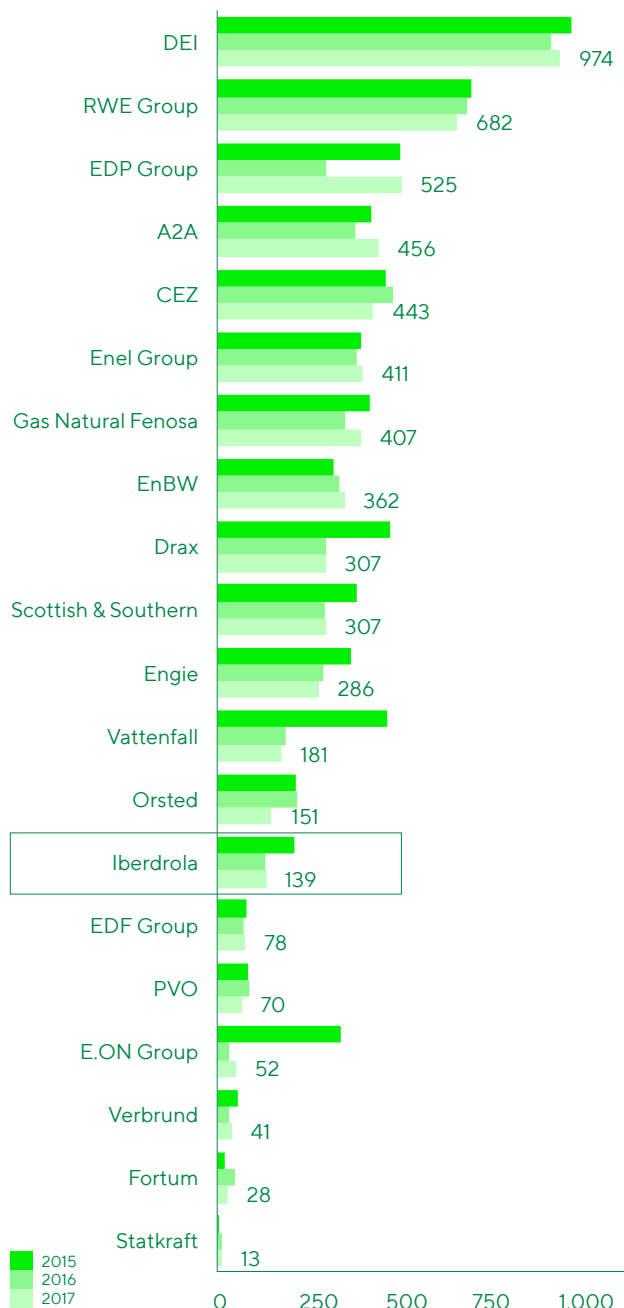
## 4.5 Natural Capital

	Management approach	Principal activities 2018	Outlook
<b>Protect the environment and stop the loss of biodiversity</b>	<ul style="list-style-type: none"> <li>• Conserve and recover the ecosystems associated with our activities, coordinating the biodiversity plans of the businesses in affected areas.</li> <li>• Improve the compatibility of Iberdrola's infrastructure with protection of the environment.</li> <li>• Avoid discharges and pollution of water and soil, all in line with Iberdrola's <i>Biodiversity Policy</i> and <i>Environmental Policy</i>.</li> <li>• Promote the protection of ecosystems in the surroundings of the facilities.</li> </ul>	<ul style="list-style-type: none"> <li>• Acquisition of ISO-TS 14072 Certificate for Corporate Environmental Footprint (CEF) 2017.</li> <li>• Corporate European Environment Award (Spain section).</li> <li>• Climate Change Adaptation Report for activities in Spain.</li> <li>• Biodiversity Report, 2014-2017 Edition.</li> <li>• Sustainable General Shareholders' Meeting 2018: <ul style="list-style-type: none"> <li>– ISO 20121 certification as a sustainable event for third consecutive year.</li> <li>– Renewal of all certificates updating to the new ISO 14001:2015 standard.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Development of a strategic plan for climate change adaptation.</li> <li>• Environmental guidelines linked to the SDGs.</li> <li>• Restoration, recovery, improvement and maintenance of surroundings and habitats.</li> <li>• Integrate the concept of natural capital.</li> </ul>
<b>Combat climate change and its effects</b>	<ul style="list-style-type: none"> <li>• Prevent pollution and the emission of greenhouse gases (GHGs) through practices that reduce or eliminate the production of pollutants at source.</li> <li>• Reduce the emissions of non-GHGs into the air.</li> <li>• Gradually replace equipment using substances that reduce the ozone layer.</li> <li>• Promotion of awareness-raising campaigns regarding air quality.</li> <li>• New GHG emissions-free facilities (renewable, wind, hydroelectric, etc.).</li> </ul>	<ul style="list-style-type: none"> <li>• Increase in emission-free installed capacity to 68.2%.</li> <li>• Emissions in Spain were 82 gr/kWh, approximately 75% less than the European average.</li> <li>• Commitment to reduce emissions, and active participation in the Katowice Climate Change Conference (Poland).</li> <li>• Sustainable Mobility Plan.</li> </ul>	<ul style="list-style-type: none"> <li>• Achieve a 50% reduction in emissions intensity by the year 2030 in comparison to 2007.</li> <li>• Be carbon neutral by 2050.</li> <li>• Develop innovation projects geared towards reducing pollution.</li> <li>• Promotion of electric vehicles: <ul style="list-style-type: none"> <li>– Installation of 25,000 electric vehicle charging points in Spain by 2021.</li> </ul> </li> <li>• Active participation in achieving the SDGs approved in September 2015 (with priority given to goals 7 and 13).</li> </ul>
<b>Guarantee sustainable modes of production and consumption</b>	<ul style="list-style-type: none"> <li>• Continuous improvement in operational performance.</li> <li>• Implementation of actions to increase energy efficiency.</li> <li>• Decrease in consumption of natural resources.</li> <li>• Inclusion of environmental variable in the design of infrastructure (Eco-design).</li> <li>• Improvement in control and management of waste generated.</li> </ul>	<ul style="list-style-type: none"> <li>• Innovative activities in environmental management and control.</li> <li>• Assurance of quality in environmental management.</li> <li>• Efficient management of water consumption.</li> <li>• Report on status of circular economy in the sector.</li> <li>• Improvement in withdrawal and consumption of inland water at all generation facilities.</li> <li>• Reuse and recycling of water.</li> <li>• Improvement in reuse and recycling of waste.</li> </ul>	<ul style="list-style-type: none"> <li>• Development and promotion of new ecodesign initiatives.</li> <li>• Analysis of life cycle.</li> <li>• Life Cycle Costing.</li> <li>• The circular economy as strategic cornerstone.</li> <li>• Verification of Iberdrola's Water Footprint.</li> </ul>
<b>Revitalise alliances with Stakeholders for sustainable development</b>	<ul style="list-style-type: none"> <li>• Strengthen transparent dialogue with Stakeholders in order to work together in seeking solutions to environmental problems.</li> <li>• Manage environmental compliance by suppliers.</li> <li>• Transparently report on environmental results and activities.</li> <li>• Optimisation of and innovation in environmental management systems.</li> </ul>	<ul style="list-style-type: none"> <li>• Make or provide information for the various reports relating to this capital (<i>Sustainability Report</i>, <i>Corporate Environmental Footprint Report</i>, etc.).</li> <li>• 85% of suppliers have ISO 14001 environmental certification.</li> <li>• Public-private cooperation with the Basque Government on environmental issues.</li> </ul>	<ul style="list-style-type: none"> <li>• Environmental transparency and communication: <ul style="list-style-type: none"> <li>– Development of new EPDs (Environmental Product Declarations).</li> </ul> </li> <li>• Communication of environmental performance, development of methodology.</li> <li>• Environmental communication plan.</li> </ul>

The environmental dimension is a key factor in the concept of sustainability

Key Figures / page 10

Specific CO<sub>2</sub> emissions produced by facilities in Europe (Carbon factor in g of CO<sub>2</sub>/MWh)

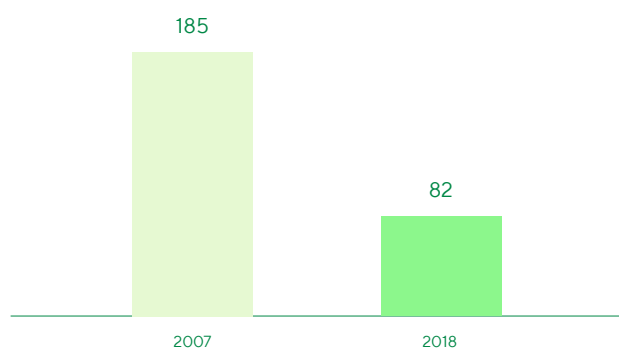


European carbon factor 2017: 290 g CO<sub>2</sub>/kWh

Source: "Facteur carbone européen Comparaison des émissions de CO<sub>2</sub> des principaux électriciens européens" PwC France. Dec. 2018.

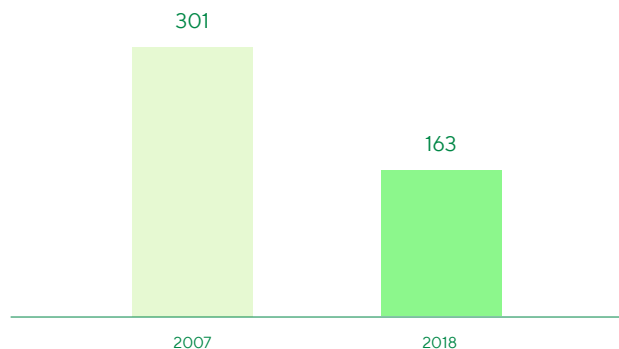
(1) The 139 g CO<sub>2</sub> in this chart refers to emissions from Iberdrola's facilities in Europe during 2017. The other companies only include the European space.

Intensity of emissions in Spain (g CO<sub>2</sub>/kWh)

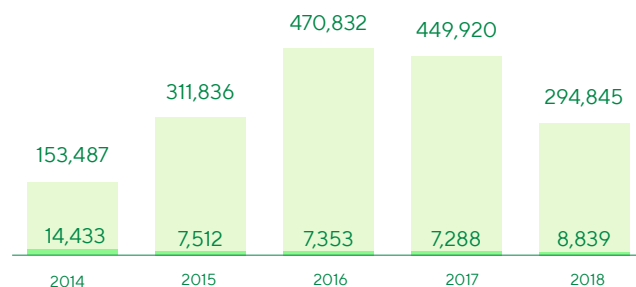


In 2018, CO<sub>2</sub> emissions in Spain were 82 grams per kilowatt-hour, well below that of other Spanish companies and approximately 75% less than the European average.

Intensity of group emissions at the global level (g CO<sub>2</sub>/kWh)



Volume of recovered, reused or recycled waste (t)



## 4.6 Social and Relationship Capital

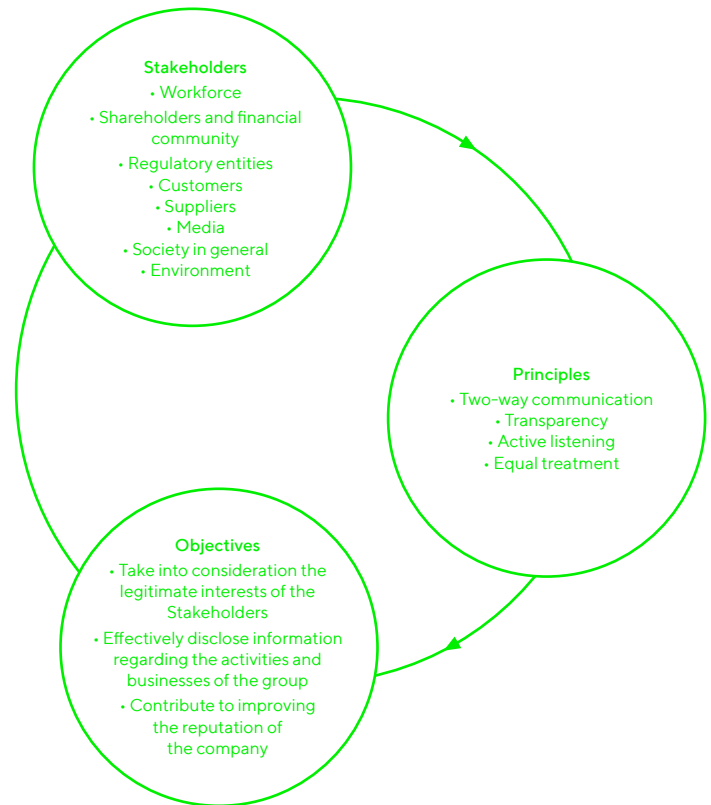
### Stakeholder engagement

Iberdrola works to increasingly engage its Stakeholders in all of the company’s activities and operations. Throughout the value chain, Iberdrola interacts with millions of people and thousands of organisations that make up its social and relationship capital, and thus a fundamental element for the sustainable performance of the company.

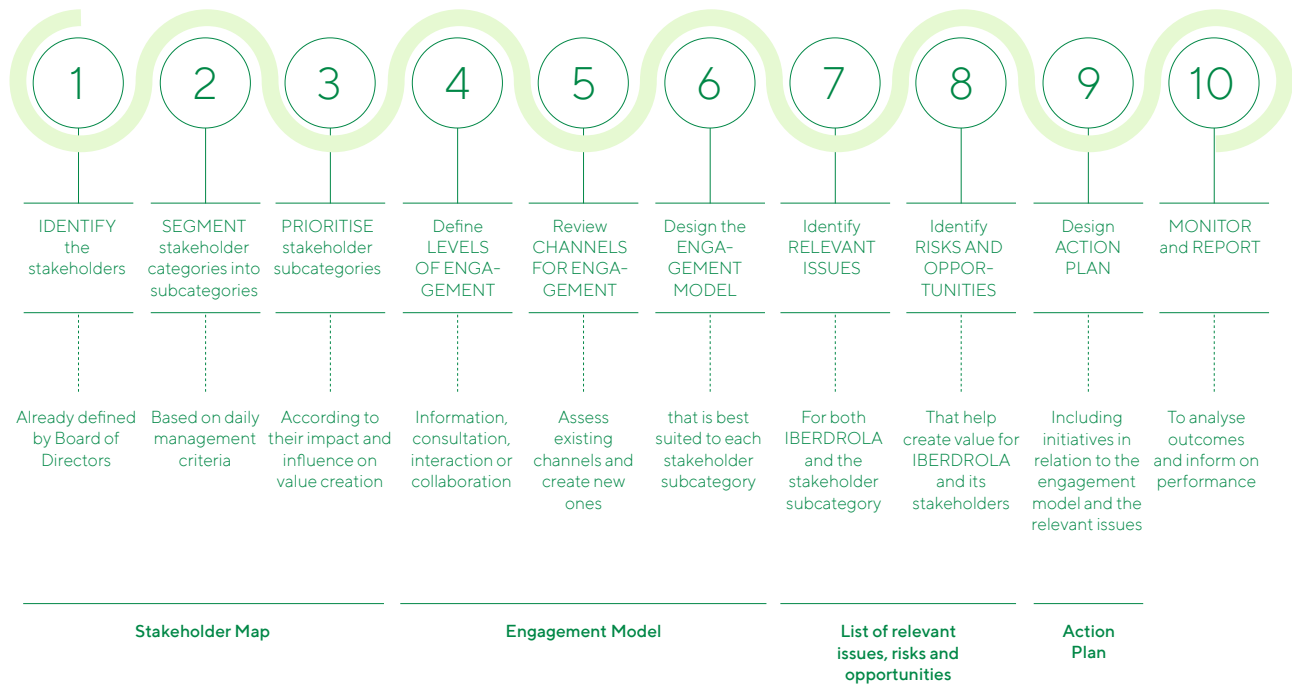
To meet its goals in this area, Iberdrola has a *Global Stakeholder Engagement Model* which, based on the AA1000 Stakeholder Engagement Standard 2015, ensures that all areas and businesses of Iberdrola have an in-depth understanding of their Stakeholders; have suitable channels of communication therewith; analyse their expectations (with the risks and opportunities thereof); and establish appropriate action plans with specific related impacts.

### Iberdrola Stakeholders’ Hub

The company has an internal Stakeholder coordination body made up of the parties responsible for all of the Stakeholders and businesses of Iberdrola. This Hub meets periodically, sometimes with the presence of outside experts.



### Stakeholder engagement model...



...ensuring continuous improvement

## Figures, materiality and good practices

### Key figures

Through its *Stakeholder Engagement Model*, Iberdrola has detected:

- 70 categories of sub-stakeholders
- More than 40 different channels of communication, increasingly digital.
- Approximately 130 significant issues in 2018, with numerous related action plans.
- Around thirty emerging trends.

The main issues and trends guide the company in its decisions and form part of Iberdrola’s CSR Plan “Responsible Energy for People”. Issues and trends are also aligned with the latest materiality study performed by an independent firm based on external information sources.

### Good Practices

#### Comparte programme

- Stakeholder group: Workforce
- Area: Global

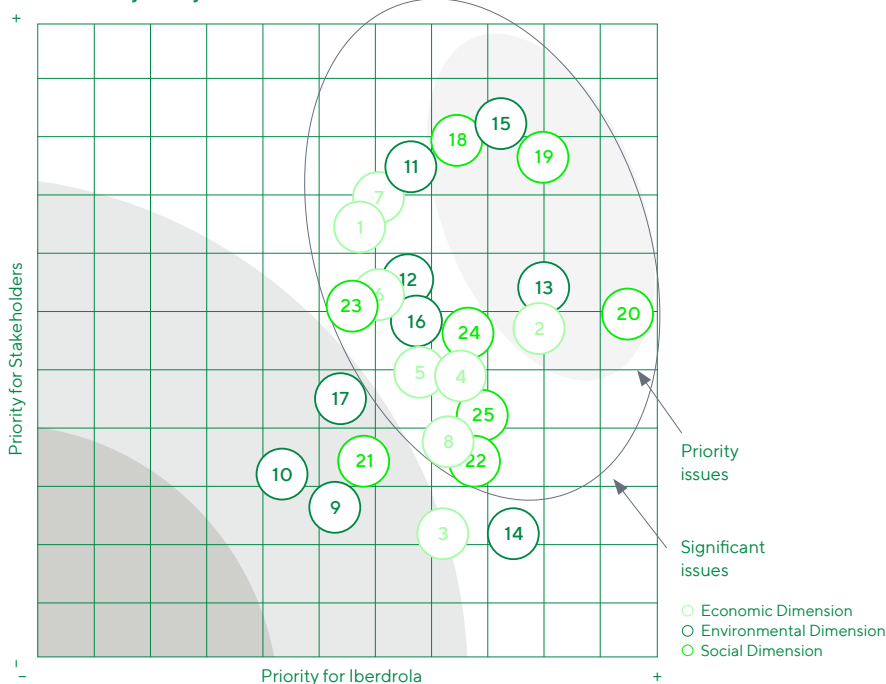
Iberdrola periodically carries out a global internal waterfall communication programme called “Comparte”. The goal is to simply share Iberdrola’s strategic goals and main lines of action, and to answer any questions from the workforce. There were more than 300 meetings of this kind during 2018.

#### System for real-time communication of incidents

- Stakeholder group: Customers
- Area: Spain and United Kingdom

Iberdrola has integrated the distribution and customer services offices in order to improve real-time information regarding incidents. This is one of the issues of most interest to customers of the company.

Materiality Study 2018



#### Priority issues

- 19. Diversity and equal opportunity
- 15. Energy transition
- 20. Occupational health and safety
- 18. Customer satisfaction
- 13. Climate change
- 2. Economic and financial performance

#### Significant issues

- 11. Innovation and new business models
- 7. Smart grids and supply quality
- 1. Socially responsible investment
- 24. Attraction, development and retention of human capital
- 12. Integration of renewable energy within the electric system
- 16. Availability and management of water

- 4. Ethics and integrity (anti-corruption and free competition)
- 6. Public policy
- 25. Connectivity, digitisation and cybersecurity
- 5. Responsible supply chain
- 23. Vulnerable customers
- 22. Human Rights
- 8. Green financing

#### Other significant issues

- 14. Management of biodiversity
- 21. Impact on local communities
- 3. Transparency
- 17. Environmental safety
- 9. Management of natural capital
- 10. Circular economy



## Community support and electricity access programmes

### Primary programmes

#### Activities 2018

- Contribution of €53.5 million to the community in the countries in which Iberdrola operates, measured according to the *London Benchmarking Group* (LBG) international standard.
- *International corporate volunteering programme*, offering various volunteering opportunities to employees in Spain, the United Kingdom, the United States, Brazil and Mexico.
- Entrepreneurial support: over €42 million of procurement from companies in operation for less than 5 years, and €70 million in venture capital for new initiatives with high technological value.
- Specific programmes and pricing for vulnerable groups in Spain, the United Kingdom, the United States and Brazil.
- Rural electrification programmes in Brazil, to which approximately €190 million has been allocated.
- Programmes implemented by the foundations created by Iberdrola in the principal countries in which it operates.
- Development of the *Electricity for All* programme.

#### Electricity for All

- The SDGs recognise energy as an engine for sustainable development.
- The *Electricity for All* programme is Iberdrola's response to the demand to extend universal access to modern forms of energy, with environmentally sustainable, financially affordable and socially inclusive models. This initiative is focused on sustainable electrification activities in emerging and developing countries.
- Iberdrola has set itself the goal of reaching 16 million beneficiaries of this programme by 2030. At year-end 2018, the programme had reached 5.4 million users.

### Foundations of the Iberdrola group

#### Activities 2018

- Iberdrola has strengthened the operation of its foundations in Spain, the United Kingdom, the United States, Brazil and Mexico.
- Overall investment dedicated to activities in all countries in 2018 increased to a total of €10.2 million.
- A new *Master Plan* has been prepared for the 2018-2021 period, in order to contribute to sustainable development.

• The industry areas have been consolidated, but prioritising the impact on the specific targets of the SDGs.

• In the Training area, there is strengthening of the promotion of equal opportunities through the *Social Assistance* programme, with 249 beneficiaries.

• In Art and Culture, there are three major programmes:

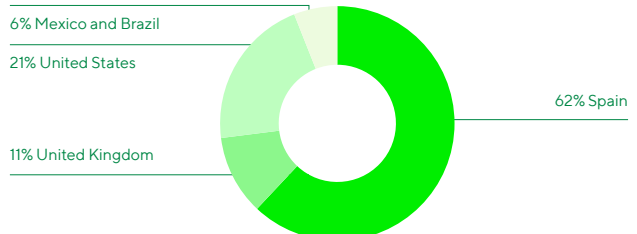
- Lighting: The most significant have been Morgan, Hilles, Austin and Wadsworth Galleries (United States), MUNAL Museum Rooms (Mexico), Uclés Monastery (Spain) and Cinco Pontas Fort (Brazil).
- Restoration: Includes the altarpiece of the Cuenca Cathedral and the three flags of Saigon of the Naval Museum of Madrid in Spain.
- Museums: Promote the restoration and exhibition of works, including *The Dauphin's Treasure* and the *Fountain of Grace* (Prado Museum), Caravaggio (MUNAL).

• In Biodiversity and Climate Change, there is the *MIGRA* programme to protect birds in danger of extinction, in collaboration with the Royal Society for the Protection of Birds Scotland (RSPB).

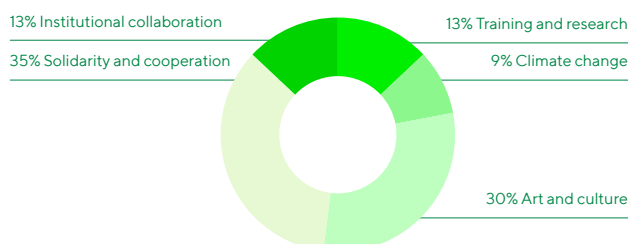
• In the area of Cooperation and Solidarity, there have been more than 150 partnerships in the five countries with a direct impact on more than 200,000 people in the fight against child poverty, the independence of people with disabilities and serious illnesses, with special attention on the most vulnerable groups: infants and youth.

#### Foundation Programs 2018

##### Contribution by region (%)



##### Contribution by programme (%)



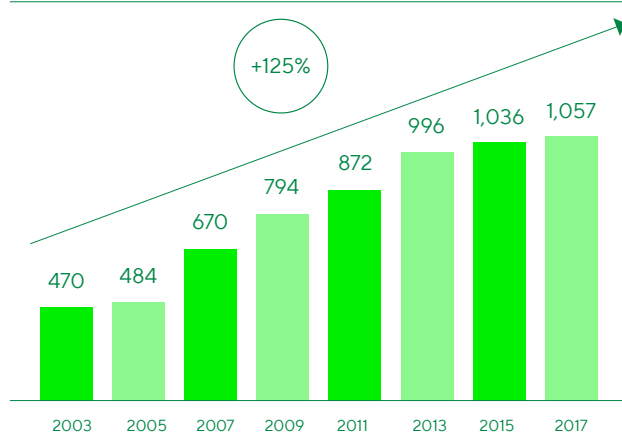


## Corporate reputation

### Soundness and strength of the brand

- Management of the brand so that it transmits the essence of the Purpose of the Iberdrola group and reflects the company’s strategy to commit to the environment and to Sustainable Development.
- Consolidation of an international brand, strengthening communication and alignment under a single brand positioning strategy in the countries in which the company operates.

### Brand value\* (€M)

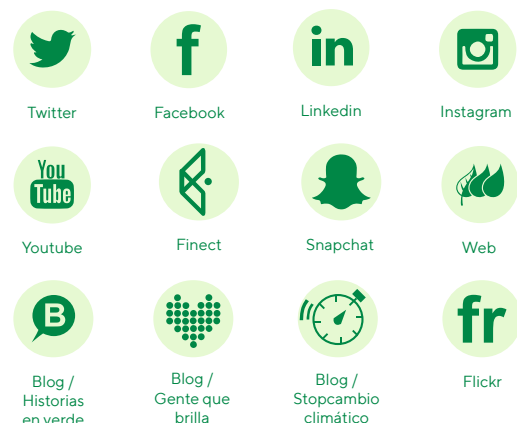


\* Source: Ranking of Best Spanish Brands by Interbrand.

### Evolution of the digital ecosystem

- Offer of useful and dynamic information, with messages adapted to each stakeholder.
- Facilitate direct interaction with our stakeholders, overcoming barriers and making use of existing synergies.

### Iberdrola on social media and the Internet



## Reputation

- Iberdrola considers reputation to be an intangible asset of great value, which influences aspects as important as the attraction and retention of talent, business relations with customers, valuation of the company in the capital markets, and integration within the communities in which it does business, and therefore its financial and non-financial performance.
- What Iberdrola is, does, communicates or how it engages its Stakeholders gives rise therein to judgements, attitudes and behaviours, which go into making up the company’s global reputation, which is also influenced by the social perception of the electricity sector.
- Iberdrola therefore manages its reputation with a dual objective:
  - To bring out opportunities that trigger favourable behaviour towards the company.
  - To minimise and mitigate reputational risks inherent in the activity.
- Reputation is mainly managed through four elements:
  - Proactive management of the Stakeholders through the Stakeholder Relations Model, which allows one to know expectations and to establish action plans, as explained at the beginning of this chapter.
  - The company’s communication plans, the CSR Plan and other specific actions focused on each of the Stakeholders.
  - The monitoring and measurement of reputation through a specific scoresheet that includes variables from reputational rankings, Stakeholder surveys and sustainability indices, among other things.
  - The establishment of processes that allow for responding to potential reputational crises.
- All of these elements are included in Iberdrola’s *Reputational Risk Policy*, which is updated annually and establishes a framework of reference for controlling and managing this risk.



Iberdrola Tower, Bilbao  
/ Spain





# 5. A Framework of Trust

## 5.1 Corporate Governance Model

### Foundations of Iberdrola's corporate governance model

#### A. Corporate Governance System

Iberdrola is a multinational leader in the energy sector committed to ethics, transparency and good governance, and which pays special attention to the social dividend, for which reason it made changes to its Corporate Governance System in 2018 in order to include the SDGs within its strategy.

The intention of its Board of Directors is to have a diversity of gender and professional experiences, with a plurality of opinions and independent judgement. Female presence is significant not only because of the number of women but especially due to the positions they hold.

Position	Director	Condition <sup>1</sup>	Date of last appointment	Ending date
Chairman & CEO	José Ignacio Sánchez Galán (Salamanca, Spain, 1950)	Executive	27-03-2015	27-03-2019
Vice Chair	Inés Macho Stadler (Bilbao, Spain, 1959)	Other external	08-04-2016	08-04-2020
Director	Íñigo Víctor de Oriol Ibarra (Madrid, Spain, 1962)	Other external	08-04-2016	08-04-2020
Director	Samantha Barber (Dunfermline, Fife, Scotland, United Kingdom, 1969)	Independent	08-04-2016	08-04-2020
Director	María Helena Antolín Raybaud (Toulon, France, 1966)	Independent	27-03-2015	27-03-2019
Director	Ángel Jesús Acebes Paniagua (Ávila, Spain, 1958)	Independent	27-03-2015	27-03-2019
Director	Georgina Kessel Martínez (Mexico City, Mexico, 1950)	Independent	13-04-2018	13-04-2022
Director	Denise Holt (Vienna, Austria, 1949)	Independent	27-03-2015	27-03-2019
Director	José W. Fernández (Cienfuegos, Cuba, 1955)	Independent	27-03-2015	27-03-2019
Director	Manuel Moreu Munaiz (Pontevedra, Spain, 1953)	Independent	27-03-2015	27-03-2019
Director	Xabier Sagredo Ormaza (Portugalete, Spain, 1972)	Independent	08-04-2016	08-04-2020
Director	Juan Manuel González Serna <sup>(2)</sup> (Madrid, Spain, 1955)	Independent	31-03-2017	31-03-2021
Director	Francisco Martínez Córcoles (Alicante, Spain, 1956)	Executive	31-03-2017	31-03-2021
Director	Anthony L. Gardner (Washington, D.C., U.S.A., 1963)	Independent	13-04-2018	13-04-2022

(1) As at the date of review of the report by the Board of Directors.

(2) Juan Manuel González Serna is the lead independent director.

## B. Governance model

Differentiation between the duties of strategy and supervision and those of guidance and management. Based on a system of checks-and-balances that avoids the accumulation of powers:

- Iberdrola’s Board of Directors, made up of a large majority of independent directors (one of whom is the lead independent director), focuses its activity on the determination, supervision and monitoring of the policies, strategies and general guidelines of the Iberdrola group.
- The chairman of the Board of Directors & chief executive officer and the rest of the management team are responsible for the organisation and strategic coordination of the group.
- In the principal countries in which the group operates, organisation and strategic coordination is implemented through country subholding companies, which group together equity stakes in the head of business companies and centralise the provision of common services. Each of these companies has its own CEO.

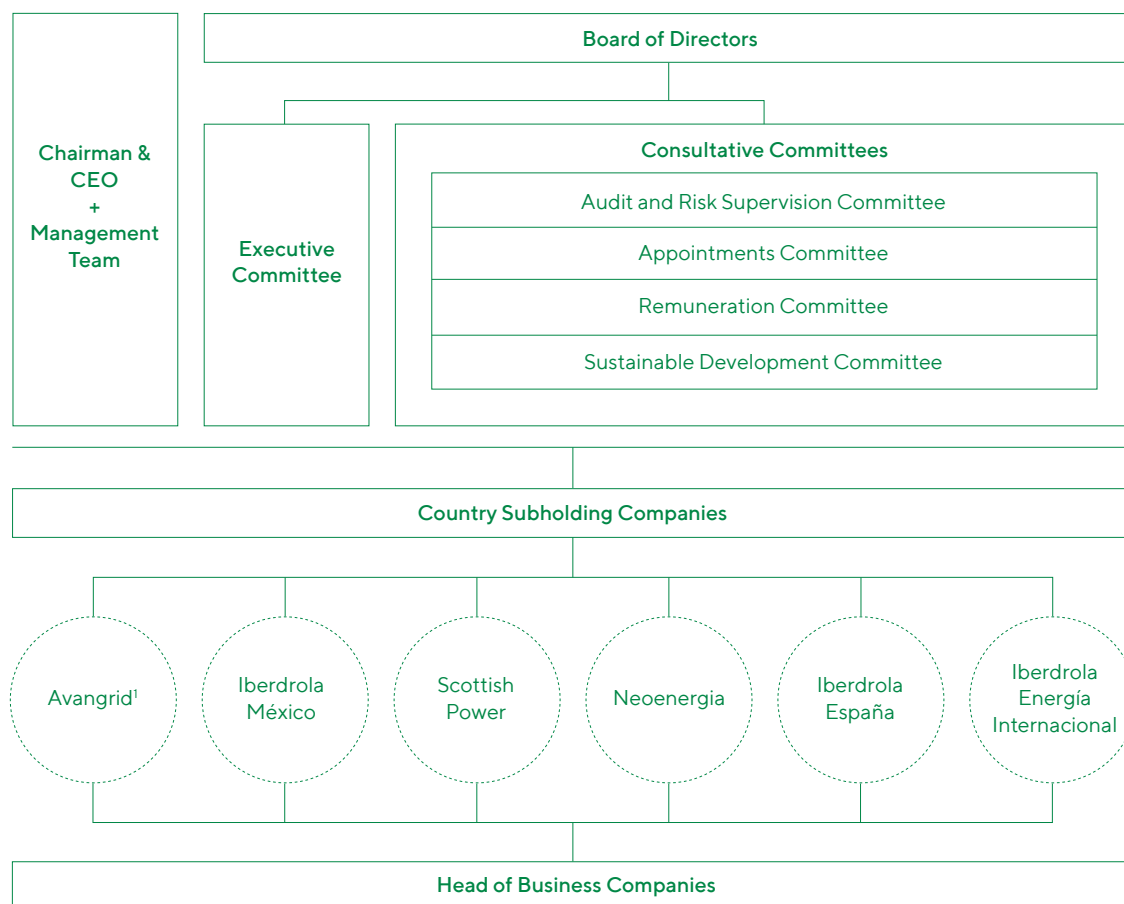
The Iberdrola group also has a country subholding company, Iberdrola Participaciones, S.A., that groups together the non-energy businesses.

Country subholding companies have boards of directors, including independent directors, and their own audit and compliance committees, internal audit divisions and compliance units or divisions. Listed country subholding companies like Avangrid, Inc. have a framework of strengthened autonomy.

- The head of business companies are in charge of the day-to-day administration and effective management of each business. They also have boards of directors, which include independent directors and specific management teams.

- The *Activities Report of the Board of Directors and of the Committees thereof* reports on their operation.

### Corporate and governance structure of Iberdrola, S.A.



(1) Company listed on the New York Stock Exchange.

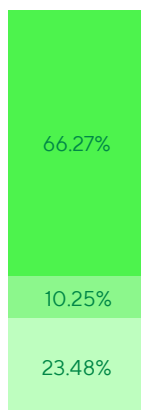


**Foreign institutional shareholders account for 66.27% of the capital.  
71.4% of the directors are independent.**

External corporate governance awards/recognition / page 43

**C. Equity structure**

Iberdrola has more than 600,000 shareholders throughout the world, and none of them has a controlling interest.



Foreign investors  
Domestic institutional investors  
Domestic individual investors

Status at 31 Dec 2018

**B. Continuous Improvement of its corporate governance rules and practices**

On corporate governance matters, the company looks to the Good Governance Code of Listed Companies published by the CNMV and generally accepted practices in the international markets.

Remuneration policy	<p>Director Remuneration Policy approved by the shareholders at the General Shareholders' Meeting.</p> <p>Executive directors' variable remuneration tied to objectives.</p> <p>Clause on cancellation and reimbursement of variable remuneration (<i>malus and claw-back clauses</i>).</p>
Operation of the Board	<p>71.4% of the directors are independent.</p> <p>System of checks and balances, including a lead independent director.</p> <p>Gender diversity: 5 women on the Board. A female vice-chair of the Board, and three Committee chairs.</p> <p>Diversity of skills, experience, nationality and origin.</p> <p>External evaluation of governance bodies.</p>
Social responsibility and corporate reputation	<p>Sustainable Development Committee.</p> <p>Sustainable development policies focused on the maximisation of the social dividend, promotion of the SDGs and Stakeholder engagement.</p> <p>Fight against Climate Change.</p> <p>General Shareholders' Meeting conceived of and certified as a sustainable event.</p>

Ethics and Sustainable Development / page 89

Corporate Governance System

**Iberdrola's response to the corporate governance challenge**

**A. Corporate governance strategy**

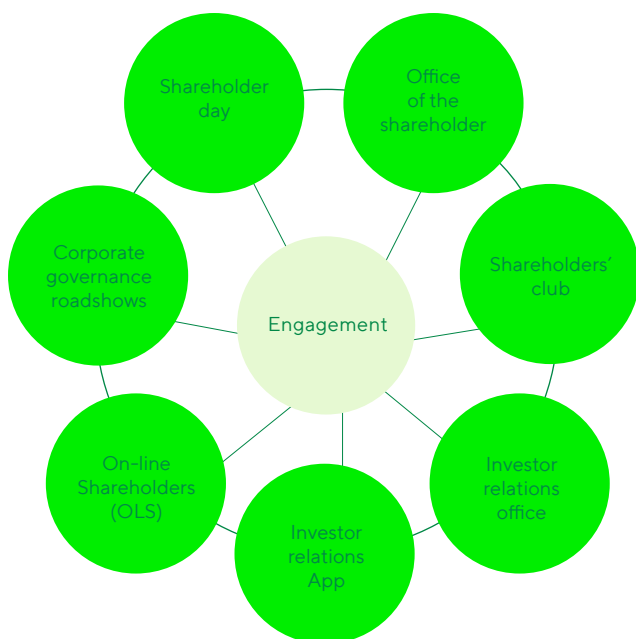
The key elements defining Iberdrola's corporate governance strategy are:

- Shareholder engagement
- Corporate structure and Governance Model
- Diverse and balanced composition of the Board of Directors
- Effective system of checks and balances.
- Social dividend and achievement of the SDGs
- Active listening to the legitimate interests of the Stakeholders
- Prudent and balanced management of risks

## The quorum in attendance at the 2018 General Shareholders' Meeting was 76.09%.

### C. Commitment to shareholders and investors

- The Iberdrola group has a strong industrial and financial model based on balanced growth, focused on the regulated networks businesses, renewables, and long-term contract assets, focused on the achievement of growing profits and an increase in shareholder remuneration.
- The *Shareholder Engagement Policy* is intended to understand the opinions and concerns of the shareholders in the areas of corporate governance and sustainable development, encourage their sense of belonging and align their interests with those of Iberdrola.
- Boost shareholders' participation throughout the year, especially at the General Shareholders' Meeting.



### D. Remuneration policy

- The *Director Remuneration Policy* was approved by the shareholders at the General Shareholders' Meeting held on 13 April 2018.
- Director remuneration is aligned with strategic objectives and shareholder return.

#### Remuneration model for the Board

Type of remuneration	External (non-executive) directors	Executive directors
Fixed	According to their duties	On market terms.
Short-term variable	Not applicable	Tied to financial and non-financial targets.
Long-term variable	Not applicable	Tied to multi-annual targets payable in shares (3-year accrual period and payment deferred over 3 years following accrual).

#### Parameters to which the annual variable remuneration of executive directors is tied in 2019

Operational / Financial	Net Profit. Shareholder remuneration. Financial strength. Efficiency in costs. Investments.
Sustainable Development	Female presence in management positions. Presence on international indices. Training.

#### Parameters to which the multi-annual variable remuneration of executive directors is tied (2017-2019)

Growth in net profit.
Total shareholder return.
Maintenance of financial strength.
Reduction in CO <sub>2</sub> emissions.

## Principal activities of the Board of Directors

### Key topics in 2018

Iberdrola's Board of Directors has focused its activities mainly in the following areas:

#### Strategy

Profitable growth	The Board of Directors designs the group's strategy and decides the key investments.	<p>Long-term view of the <b>electricity industry</b> and of the <b>principal challenges and trends</b>.</p> <p>Approval of the <i>Outlook 2018-2022</i>.</p> <p>Approval of the <b>strategy and budgets</b> for financial year 2019.</p> <p>Definition of the <b>digitisation strategy</b> for the 2018-2022 period.</p>
Sustainable Remuneration	The Board of Directors compares shareholder remuneration with the group's performance.	<p><b>Shareholder remuneration 2018-2022</b> in line with the increase in results, with a pay-out ratio between 65-75%.</p> <p>Approval of an <b>increase in shareholder remuneration with a charge to 2017</b>.</p> <p>Introduction of the new <i>Iberdrola Flexible Remuneration</i> system.</p>
Maximisation of social dividend	The Board of Directors defines the guidelines that direct the group's activities in the area of sustainable development.	<p>Integration of the <b>UN Sustainable Development Goals</b> as part of the strategy.</p> <p>Supervision of the group's activities in the area of <b>sustainable development</b>.</p> <p>Approval of initiatives to strengthen the commitment to <b>innovation</b>.</p> <p>Update of the <i>General Sustainable Development Policy</i> and the <i>Human Resources Framework Policy</i>.</p>
Financial strength	The Board of Directors controls the financial situation to ensure the sustainability of the business over the long term.	Monitoring of the financing policy and principal transactions in the capital markets.

#### Supervision

Supervision	The Board of Directors, with the support of the Executive Committee, supervises the implementation of the group's strategy and the development of the group's organisational model on an ongoing basis.	<p>Detailed study of the <b>markets</b>, with special attention on issues <b>with strategic impact</b>.</p> <p>Supervision of <b>key financial indicators</b>.</p> <p>Supervision of the implementation of the strategy to <b>maximise the social dividend</b>.</p> <p>Supervision of implementation of the company's <b>digitisation and innovation strategy</b>.</p>
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## The Board of Directors has focused its work on defining strategy, monitoring the implementation and control of risks and advancing best corporate governance practices.

### Risk supervision

The Board of Directors monitors the level of risk by means of periodic tracking of the most significant threats.

Regular supervision and control of corporate risks.

On-going review of the internal control system.

Review of the geostrategic risks associated with the company.

Supervision of the *Strategic Plan and cybersecurity risks*.

Analysis of the risks arising from the performance of activities with an impact on climate change.

### Corporate governance

Ongoing efforts to identify and implement best corporate governance practices are key pillars for the creation of sustainable value.

Selection and composition of the governance bodies.

Appointment of Ms Inés Macho Stadler as vice-chair of the Board.

Appointment of new directors.

Evaluation and re-election of directors.

Strengthening of the checks-and-balances system with the appointment of CEOs at the various companies.

Supervision of the implementation of measures adopted at the group level to recruit, retain, manage and promote talent.

Analysis of the latest corporate governance trends.

Continuous update of the Corporate Governance System.

### Sustainable Development

The Board is committed to achievement of the Sustainable Development Goals, especially the fight against Climate Change and to sustainable and clean energy.

Amendment of various sustainable development policies.

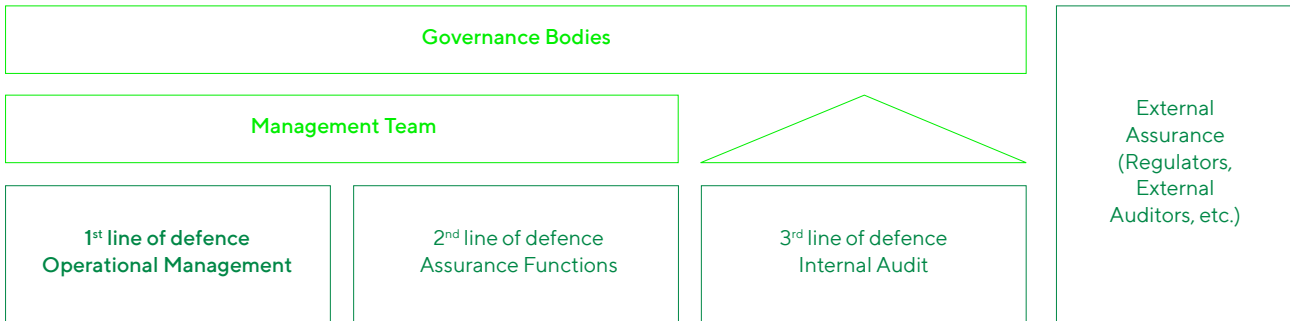
Strengthening of company's commitment to the SDGs.

Supervision of the group's activities in the area of sustainable development and the alignment thereof with the leading bodies.

Review of the company's cybersecurity activities and protocols for conduct in the event of reputational impact.

## 5.2 Three Lines of Defence

Significant Risks Facing Iberdrola's Primary Businesses / pages 50, 54, 58



Based on the document "Guidance on the 8th EU Company Law Directive, article 41" ECIIA/FERMA, September 2010.

Comprehensive Risk Control and Management System / page 86

### Three lines of defence model

The Internal Control System of Iberdrola and the companies of its group is configured by reference to international best practices. It is based on a guarantee combined around three lines of defence, providing a comprehensive view of how the different parts of the organisation interact in an effective and coordinated manner, increasing the efficiency of the processes for management and internal control of the entity's significant risks.

#### 1st line of defence Operational Management

As the first line of defence, the management team and the professionals of Iberdrola and its group are the direct managers of the risks of the entity.

Thus, the company's Management is responsible for maintaining effective control and implementing procedures to control risks on a continuous basis.

#### Internal Control Objectives (COSO. May 2013)

**Operations objectives-** Pertain to the effectiveness and efficiency of the entity's operations, including operational and financial performance goals, and safeguarding assets against loss.

**Reporting objectives-** Pertain to internal and external financial and non-financial reporting and may encompass reliability, timeliness, transparency or other terms as set forth by regulators, recognised standard setters or the entity's policies.

**Compliance objectives-** Pertain to adherence to laws and regulations to which the entity is subject.

Compliance Unit / page 89

#### 2nd line of defence Assurance Functions

As the second line of defence, certain functions provide the foundation for the entity's internal control system, proposing guidelines to the Board of Directors and monitoring how the first line of defence implements them.

The primary assurance functions within Iberdrola, within their respective areas of responsibility, are: (i) the group's Risk Division, within the framework of its functions within the Comprehensive Risk Control and Management System; (ii) the Compliance Unit, which is responsible for proactively ensuring the effective operation of the Compliance System; and (iii) the Internal Control Division, which is part of the Administration and Control Division, within its duties relating to the internal control and risk management systems in relation to the preparation of financial information (ICFRS).

#### 3rd line of defence Internal Audit

The function of the Internal Audit area, as the third line of defence, is to proactively ensure the proper functioning of the internal control, risk management, and governance systems, systematically auditing the first and second lines in the performance of their respective duties of management and control.

To ensure its independence, the director of the Internal Audit Area reports hierarchically to the chairman of the Board of Directors and functionally to the Audit and Risk Supervision Committee.

The Internal Audit divisions of the various country subholding companies have this same positioning, and are coordinated under the framework of the *Basic Internal Audit Regulations* of Iberdrola and its group, which forms part of Iberdrola's Corporate Governance System.



## Iberdrola adopts the three lines of defence model to ensure effective and integrated management of its Internal Control System.

The 2018 annual activities plans of the Internal Audit Area Division of Iberdrola and of the Internal Audit divisions of the group, with a risk-based focus looking to support the achievement of the company's goals, responded to the requirements established by the Audit and Risk Supervision Committee of Iberdrola and the respective Audit and Compliance Committees of the country subholding companies, and included work for the senior management and the rest of the organisation, including:

- Half-yearly reviews of the operation of the most critical controls of the Internal Control Over Financial Reporting (ICFR) System, as well as reviews of the various cycles of preparation of the financial information of Iberdrola, S.A. and the various companies of the group, within the framework of the general goal of reviewing the entire ICFR over a period of 5 years.
- Audits of key corporate and business process and risks, based on the Risk Policies approved by the Board of Directors on an annual basis.
- Audits of compliance programmes and frameworks established by the group in the various areas of application, such as the crime prevention programme.

Continuing with the commitment made in 2005, the Internal Audit area submits to an exhaustive review every five years of compliance with internal audit rules (called a Quality Assurance Review) by the Global Institute of Internal Auditors. During the last review in 2015, the certification of Iberdrola, S.A. and of ScottishPower was renewed and the scope of the certification was expanded to include Iberdrola España and Avangrid.

Furthermore, the Internal Audit has had ISO 9001 certification since 1999, updated to version 9001:2015. This ensures that all of the group's internal auditors perform duties under the same framework and that such framework is aligned with the international professional rules of the function.

### Basic Internal Audit Regulations of Iberdrola, S.A. and its group

Approved by the Board of Directors of Iberdrola upon a proposal of its Audit and Risk Supervision Committee (updated on 23-Octo-2018).

Defines its nature as an independent internal unit, and establishes the regulation, competencies, powers and duties of Internal Audit, among other things.

Establishes the framework of relations with: i) the Board of Directors, its Chairman and Committees; ii) the Internal Audit divisions of the other companies of the group; and iii) the rest of the organisation.

Disseminates the knowledge of the Internal Audit function among the professionals of the group.

Serves as a reference for the management model and the quality system of the Internal Audit Area of the company and the Internal Audit divisions of the other companies of the group.

### External assurance

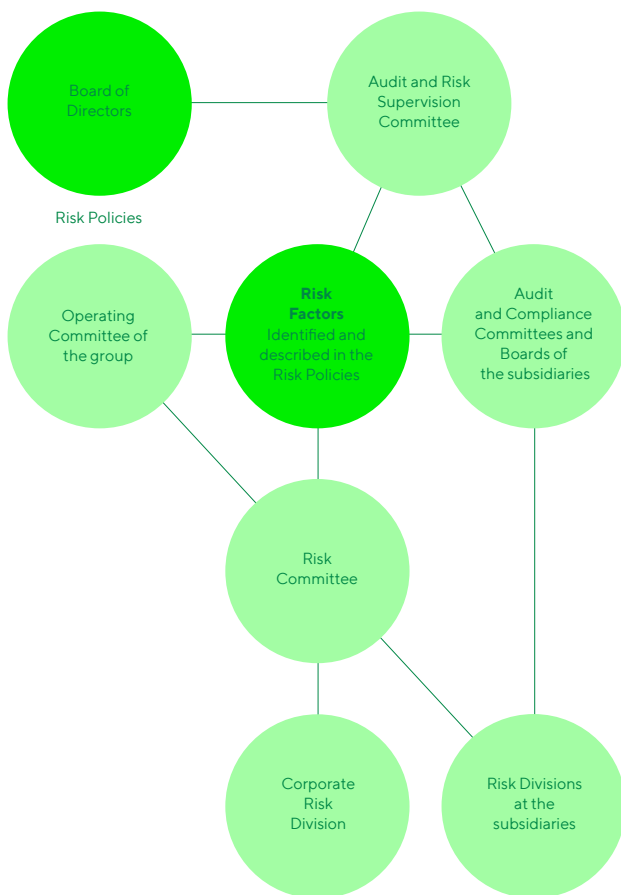
Regulatory bodies and other entities external to the organisation play a significant role in the general structure of governance, internal control and risks of Iberdrola, especially in the regulated businesses. The regulators establish requirements intended to strengthen the controls of an organisation and perform a function of independent and separate monitoring, and the auditors provide assurance regarding the true and fair view of the entity's financial information. In this regard, the powers of the Audit and Risk Supervision Committee of Iberdrola and the Audit and Compliance Committees of the country subholding companies include ensuring the preservation of the independence of the auditors in the performance of their duties

## 5.3 Risks

### Commitment of the Board of Directors and of senior management

Iberdrola's Board of Directors and senior management is strongly committed to and engaged in the management of the group's risks:

- **Ex-ante:** acceptable levels of risk tolerance are reviewed and approved on an annual basis through risk policies and limits that establish the qualitative and quantitative risk appetite at the group level and at each of the main businesses and corporate functions.
- **Ex-post:** periodic monitoring of significant risks and threats and the various exposures of the group, as well as of compliance with the approved risk policies, limits and indicators.



### Comprehensive Risk Control and Management System

The *General Risk Control and Management Policy* of the group approved by the Board of Directors establishes the mechanisms and basic principles for appropriate management of the risk/opportunity ratio, at a risk level that makes it possible to:

- Attain strategic goals with controlled volatility.
- Provide the maximum level of assurance.
- Protect the results and reputation of the group.
- Defend the interests of the Stakeholders and guarantee the business stability and financial strength of the group.

At the operational level, the Comprehensive Risk Control and Management System is structured around a Risk Committee and an independent specialised Risk Division that analyses and quantifies the risks within the main businesses and corporate functions of the group.

### Duties of the Risk Division

#### Active management

**Credit risk.** Analysis and approval of counterparties and limits and/or establishment of admission criteria in order to minimise credit losses within the group.

**Market risk.** Analysis and approval of detailed limits in order to delimit the effects of volatility in the markets in which the group operates.

#### Enterprise Risk Management ("ERM") focus

Ensure that there are mechanisms for all significant risks of the group to be adequately identified, measured, managed and controlled at all times and that they are regulated reported to the various committees.

Instruments and reports:

- Risk policies and risk limits and indicators.
- Quarterly report on key risks.
- On-going monitoring and detection of emerging risks.

Operational risk is centrally managed through the group's corporate Insurance, Information Technology and Cybersecurity units.

*By way of supplement, the group has a Compliance System, linked to the Board's Sustainable Development Committee, with elements that include the Code of Ethics and the Compliance Unit.*

## Risk management within the Iberdrola group is based on foresight, independence, commitment to the group's business objectives and the engagement of senior management and the Board

### Risk policies and limits of the Iberdrola group

The *General Risk Control and Management Policy* is further developed and supplemented with the following specific policies established in relation to certain risks, corporate functions or businesses of the group, which are also annually approved by the Board of Directors at the head of the group, and which include limits and indicators that are subsequently monitored:

#### Specific risk policies of the businesses:

- *Liberalised Businesses of the Iberdrola group.*
- *Renewable Energy Businesses of the Iberdrola group.*
- *Networks Businesses of the Iberdrola group.*
- *Real Estate Business.*

#### Corporate risk policies:

- *Corporate Credit Risk Policy.*
- *Corporate Market Risk Policy.*
- *Operational Risk in Market Transactions Policy.*
- *Insurance Policy.*
- *Investment Policy.*
- *Financing and Financial Risk Policy.*
- *Treasury Share Policy.*
- *Risk Policy for Equity Interests in Listed Companies.*
- *Reputational Risk Framework Policy.*
- *Procurement Policy.*
- *Information Technologies Policy.*
- *Cybersecurity Risk Policy.*

The country subholding companies adopt the group's risk policies and specify the application thereof, approving the guidelines on specific risk limits, based on the nature and particularities of the businesses in each country. The listed country subholding companies or companies with significant stakes of other partners, under their own special framework of strengthened autonomy, approve their own risk policies.

### Principal risk factors of the Iberdrola group

The group is exposed to various risks inherent in the different countries, industries and markets in which it operates, and which may prevent it from achieving its objectives and implementing its strategies. These risks are grouped into:

**Corporate governance risks:** those that endanger the corporate interest and strategy of the company.

**Market risks:** exposure to volatility in variables like prices of electricity and other energy commodities, exchange rate, interest rate, etc.

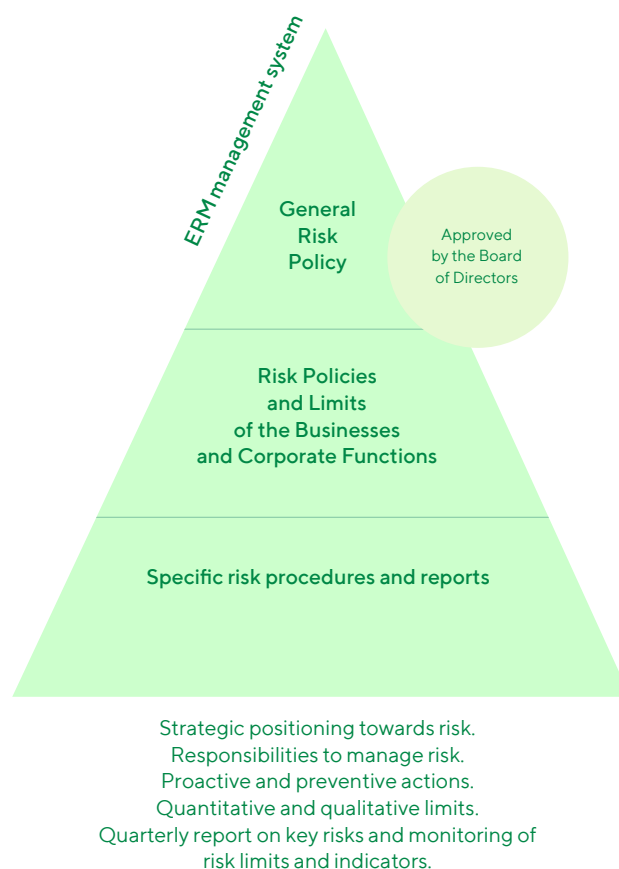
**Credit risks:** possibility of contractual breach by a counterparty, causing economic or financial losses.

**Business risks:** deriving from the uncertainty of the behaviour of variables intrinsic to the business, characteristics of demand, climatology, etc.

**Regulatory and political risks:** coming from regulatory changes made by the regulators that can affect remuneration of the regulated businesses, environmental or tax provisions, etc.

**Operational, Technological, Environmental, Social and Legal Risks:** economic losses resulting from inadequate internal procedures, technical failures, human errors, climate change, etc.

**Reputational risks:** potential negative impacts on the company arising from performance below the expectations of its Stakeholders.



## Risk factors and mitigation measures

### Price and demand risks

Changes in the price of electricity	The main variable affecting the results of the group's Wholesale and Retail Businesses as regards market prices is the price of electricity, which relatively corresponds to the price of fuel and applicable emission rights, required to produce such electricity.		
	The group's Renewables Businesses preferentially sell their energy at: i) regulated tariff; or ii) fixed price via PPAs. The remaining market exposure of the Spain and United Kingdom Renewables Businesses is transferred to the Wholesale and Retail Business of such countries.		
	Offsetting at-risk positions between wholesale and retail activities allows for a large reduction in the group's market risk; the remaining risk is mitigated via diversification of purchase/sale agreements and the specific clauses thereof, and by trading in derivatives.		
Changes in energy commodity prices	<ul style="list-style-type: none"> <li>- Spain</li> <li>- United Kingdom</li> <li>- Mexico</li> <li>- United States</li> </ul>	<ul style="list-style-type: none"> <li>● Integrated Wholesale, Retail and Renewables Risk (windfarms prior to 2004)</li> <li>● Integrated Retail and Renewables Risk (power from wind farms subject to ROCs)</li> <li>● The PPAs with the CFE do not have a market risk</li> <li>● For windfarms exposed to the market</li> </ul>	
Change in demand	Wholesale, Retail and Renewables Businesses: moderate short-term impact, given the characteristics of the group's generation facilities and the structure of the long-term power purchase agreements. No impact on the group's Networks Businesses except for the Brazilian subsidiaries in between tariff periods.	Possible impact of 1% reduction in demand	<ul style="list-style-type: none"> <li>● Wholesale and Retail Spain</li> <li>● Wholesale and Retail United Kingdom</li> </ul>

### Resource risks

Change in hydroelectric resources - Spain	<ul style="list-style-type: none"> <li>• In the medium-to-long term, humid years are offset by dry years. The storage capacity of multi-year reservoirs and the group's portfolio of power plants mitigate the level of volatility during the year.</li> </ul>	Lower hydroelectric production - Spain	● Renewables Business - Spain
Change in wind resources - group	<ul style="list-style-type: none"> <li>• Mitigated thanks to the high number of facilities in operation and the geographic dispersion thereof.</li> <li>• In the medium-to-long term, years with more wind are offset by years with less wind.</li> </ul>	Lower wind output - group	● Renewables Business - group

### Financial risks

Change in interest rate	The Iberdrola group maintains a fixed-rate and variable-rate debt structure, based on the structure of its revenues and the sensitivity thereof to changes in interest rates.	Possible impact on financial cost of +25 bps increase	● Group financial cost
Change in exchange rate	This risk is mitigated by taking on debt and carrying out all its financial flows in the functional currency corresponding to each company, whenever possible and economically efficient, and managing its open positions with derivatives. The risk associated with the translation of results from subsidiaries is closed out annually.	Possible impact on financial cost of 5% increase in currency	● Group financial cost

### Other risks

Credit risk	<ul style="list-style-type: none"> <li>• Main sources: amounts outstanding (customers, suppliers, banks, partners, etc.) and cost of replacement.</li> <li>• Retail: cost of late payments/defaults has been kept to moderate levels, close to 1% of the total invoicing.</li> <li>• Networks: In Spain and in the United Kingdom there is no retail sale of energy, in the United States and Brazil late payments are generally recovered.</li> </ul>		
Operational risk	These risks are mitigated by making the necessary investments, applying operation and maintenance procedures and programmes (supported by quality systems), planning appropriate training and skills development for staff, and finally by obtaining appropriate casualty and civil liability insurance.		
Regulatory and political risk	The group is subject to laws and regulations on tariffs and other regulatory aspects of its activities in the countries in which it does business. The introduction of new laws/regulations or amendments to existing ones could adversely affect operations, annual results and the financial value of the businesses of the group (including the risks relating to Brexit).		
Climate change risk	Includes the risks of transition (regulatory or market associated with emissions reduction goals) and physical risks (deriving from potential impacts of an increase in extreme climate phenomena, increase in temperatures, increase in sea level, changes in rain patterns, etc.). Iberdrola believes that it is well positioned with respect to this risk, given the nature of its current businesses and its main goals for growth.		

● <15 M€ ● 15-50 M€ ● >50M€

## 5.4 Ethics and Sustainable Development

### Compliance System

Iberdrola’s Compliance System is made up of the substantive rules, formal procedures and major activities within the group to encourage the organisation to act in accordance with applicable ethical principles and legal provisions, through a set of procedures and actions designed to prevent, detect and react to irregular actions, fraud or actions contrary to the Iberdrola group’s *Code of Ethics* or applicable laws and regulations.

The Code of Ethics, which forms part of Iberdrola’s Corporate Governance System, was approved by the Board of Directors in 2002 and is regularly updated. In October 2018, the Board of Directors approved the merger of the three codes existing at the time into a single code: *Directors’ Code of Ethics, Employees’ Code of Ethics and Suppliers’ Code of Ethics*.

### Compliance Unit

Iberdrola has created a Compliance Unit, a collective, internal and permanent body linked to the Sustainable Development Committee of the Board of Directors.

There is a compliance division linked to the Audit and Compliance Committees at each subholding company and/or head of business company.

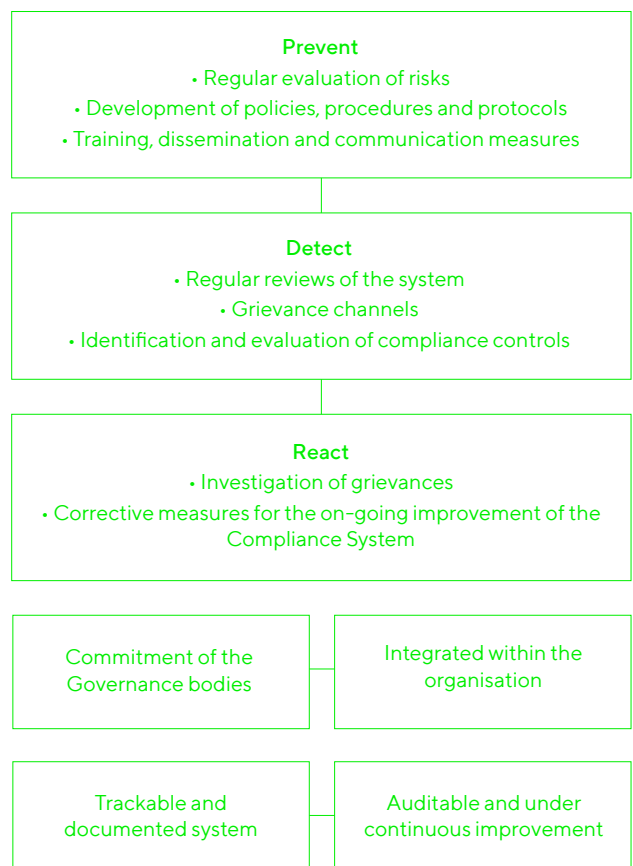
The duties of all of them include promoting a culture of ethical behaviour and zero tolerance for fraud and the commission of unlawful acts and management of the Compliance System.

### Powers of the Unit

The Compliance Unit has powers related to the *Code of Ethics*, the *Anti-Corruption and Anti-Fraud Policy*, the *Crime Prevention Policy*, the *Internal Regulations for Conduct in the Securities Markets*, legal provisions regarding the separation of activities, and all other powers that may be entrusted thereto by the Sustainable Development Committee or the Board of Directors of the company or that are established in Iberdrola’s Corporate Governance System.

### Main areas of the Compliance System

The main activities and areas of activity within the framework of the group’s Compliance System are: (i) the crime prevention programmes, which are developed within the provisions of the Spanish Criminal Code (without prejudice to additional actions required by the laws of any other jurisdiction in which the group does business), (ii) measures for compliance with the *Code of Ethics*, which includes specific training and communication plans for all professionals of the group, (iii) the development and implementation of specific rules and measures regarding fraud and corruption, (iv) actions to ensure compliance with the rules on market abuse and separation of activities, and (v) management of the ethics mailboxes.





### Principal awards/recognitions

In 2018, Iberdrola renewed the *Compliance Leader Verification* certification provided by the Ethisphere Institute to those companies that show they have an ethical culture implemented within all of their businesses and activities as well as a robust and effective compliance system.

In 2018 it also renewed the *UNE-ISO 37001* and *UNE19601* certifications provided by Aenor.

Furthermore, the companies of the Spain subgroup also obtained these certifications in 2018.

Iberdrola has been chosen for the sixth consecutive year as one of the most ethical companies in the world, according to the *World's Most Ethical Companies 2019* ranking prepared by the *Ethisphere Institute*, thus recognising the ethical leadership and conduct of the organisation.

Finally, Expansion has given Iberdrola the *Company with best compliance practices 2018-2019* award, recognising the company's compliance system and structure.



### Organisation of social responsibility within the group

Iberdrola's commitment to sustainable development is carried out by integrating the UN 2030 Agenda into the strategy and operations of the Iberdrola group.

The group's Social Responsibility is thus developed generically for all of the Areas and Businesses, in all countries.

The Corporate Sustainable Development Committee and the Sustainable Development Committees of the country subholding companies coordinate the balanced development of Social Responsibility within the Iberdrola group. The Sustainable Development Committee performs the work of supervision within its purview.

#### "Responsible Energy for People" Plan

The most significant contributions towards achieving the SDGs are focused around two major foundations that inspire our actions:

- **We care for the planet**, putting ourselves in the lead of reducing emissions in the energy sector.
- **We contribute to the well-being and progress of the societies** of all the territories in which we are present.

Iberdrola's commitment takes shape through various lines of work that cover more than 300 environmental, social and economic activities, thus responding to the expectations and needs of our Stakeholders, encompassed within 7 priorities.

#### Main priorities of the SR Plan

Sustainable economic growth

Workplace health & safety and personal development

Fight against climate change and protecting biodiversity

Innovation, digitalization and quality for our customers

Contributing to the wellbeing of our communities

Good governance, transparency and stakeholder

engagement

Promoting CSR in the supply chain

## Iberdrola considers its corporate values to include ethical principles, good governance and transparency, and social commitment

### External awards/recognitions



Only European electric utility included in the 19 editions, regarded as one of the eight top sustainable electric utilities in the world.



Only Spanish electric company selected in 2019 as one of the 100 most sustainable companies in the world.



A rating in CDP Climate Change, and among A-list in CDP Supply Chain.



Iberdrola selected AAA.



Iberdrola selected in various Euronext Vigeo Eiris indices.



Classified as "Silver Class" in the electricity sector.



First Spanish utility and fifth worldwide.



Leader among Spanish utilities: electricity, gas and water.



Iberdrola classified as Prime.



Iberdrola classified as the top utility in report on status of sustainability reporting 2018.



Iberdrola among top 25 scoring companies.



Iberdrola among the top three utilities.



Only Spanish utility included in the index.



Iberdrola selected in various sustainability indices.



Iberdrola selected in ET Global 800 and ET Europe 300.



International  
Volunteering Day





## 6. About this Report

This report, which Iberdrola directs to both its shareholders and investors and all of its Stakeholders, has been prepared under the integrated report concept following the IIRC guidelines, and constitutes one more example of the group's desire to be innovative in the area of transparency.

## 6.1 About this Report

### Integrated report

- This report has been prepared in accordance with the reporting framework published by the International Integrated Reporting Council (IIRC) and in accordance with the recommendations thereof, taking into consideration the individual and consolidated financial statements of the company formulated by the Board of Directors, audited and pending approval by the shareholders at the General Shareholders' Meeting of Iberdrola.
- A multi-disciplinary team made up of corporate businesses and areas of the group was created in order to provide a complete view of the company, its business model, the challenges and risks it faces, and its social, environmental, financial and governance performance. The participating organisations guarantee the completeness of the information included.
- The content of this document has been reviewed by the company's Operating Committee. All operating and financial figures, as well as the strategic provisions contained therein, were approved by the Board of Directors at its meeting held on 19 February 2019, after a favourable report from the Sustainable Development Committee.

### Information boundaries

- The information submitted covers Iberdrola and its subsidiaries and affiliates. The information boundaries are defined in the group's consolidated annual financial statements and *Statement of Non-Financial Information - Sustainability Report*.
- The group's performance in recent years has been influenced by external corporate transactions, which the reader should take into account in order to properly interpret this report. These transactions and activities are described in the group's public information, the following being particularly noteworthy:
  - The integration of UIL Holdings Corporation into Iberdrola USA (December 2015), which is now called Avangrid, a company listed on the New York Stock Exchange and the country subholding company of the group in the United States.
  - The inclusion of Neoenergia within all of the businesses of the Iberdrola group held in Brazil through Elektro Holding, which became effective on 24 August 2017. As a result of this transaction, the Iberdrola group's interest in Neoenergia increased from 39% to 52%.

### Material aspects identified

- Iberdrola has channels of communication and dialogue with its Stakeholders, developed in accordance with the principles of the *AA1000 Assurance Standard*, as described in detail in the *Stakeholder Relations Policy* and in the *Statement of Non-Financial Information - Sustainability Report*.
- The company also performs materiality analyses that help identify matters of significance to its Stakeholders, bringing to light particularly sensitive financial, environmental or social issues related to the business in the various communities and geographic areas in which the group operates.
- The contents of this report have been selected by taking into account the existing channels for dialogue as well as the materiality analyses and the framework defined by the IIRC for this kind of information..

**This report has been prepared in accordance with the reporting framework published by the International Integrated Reporting Council (IIRC).**



### Internal and external verification

- This report has been subject to a process of internal verification, by means of a limited review performed by the Management of the Internal Audit Division of Iberdrola.
- Although it has not been subject to a process of independent external verification, a significant portion of the information contained herein relating to financial year 2018 and to previous years comes from annual financial reports and sustainability reports, all of which have been the subject of an external audit or verification for which the respective certificates are available. The remaining information comes mainly from other reports or public presentations made by the company.

### Legal disclaimer with respect to forward-looking statements

- This document contains information and forward-looking statements regarding Iberdrola and its affiliates. Such statements include projections and estimates and their underlying assumptions, statements regarding plans, objectives and expectations with respect to future transactions, investments, synergies, products and services, and statements regarding future performance. Forward-looking statements are not historical facts and are generally identified by the words “expects”, “anticipates”, “believes”, “intends”, “estimates” and similar expressions.
- In this regard, although Iberdrola believes that the expectations reflected in such statements are reasonable, investors and holders of Iberdrola shares are cautioned that forward-looking information and statements are subject to risks and uncertainties, many of which are difficult to predict and generally beyond the control of Iberdrola, which risks 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 identified in the documents sent by Iberdrola to the National Securities Market Commission (*Comisión Nacional del Mercado de Valores*) and which are accessible to the public.
- Forward-looking statements speak only as of the date on which they were made, are not guarantees of future performance and have not been reviewed by the auditors of Iberdrola. You are cautioned not to place undue reliance on the forward-looking statements. All forward-looking statements reflected

in this report are subject to the warnings provided and are based on information available as of the date of approval hereof. Except as required by applicable law, Iberdrola does not undertake any obligation to publicly update its forward-looking statements or to revise any forward-looking information, even if new data are published or new events occur.

## Glossary of terms and abbreviations

Term	Definition	Term	Definition
ACE	Affordable Clean Energy. Page 47	IIRC	International Integrated Reporting Council. Page 4, 61, 93, 94.
ACGR	Annual Compound Growth Rate. Page 42.	LBG	London Benchmarking Group. Page 34, 74.
ANEEL	<i>Agência Nacional de Energia Elétrica</i> . (National Electrical Energy Agency). Page 49, 50, 64.	NECEC	New England Clean Energy Connect. Page 17, 39, 50, 64.
CDE	<i>Cuenta de Desarrollo Energético</i> (Energy Development Account). Page 47	NYSEG	New York State Electric and Gas Corporation. Page 49.
CEF	Corporate Environmental Footprint. Page 70	Ofgem	Office of Gas and Electricity Markets (UK). Page 46, 49, 51, 53, 54, 64.
CEO	Chief Executive Officer. Page 2, 3, 35, 43, 78, 79	PIEC	<i>Plan Integrado de Energía y Clima</i> (Integrated Energy and Climate Plan). Page 46.
CFE	<i>Comisión Federal de Electricidad</i> (Federal Electricity Commission). Page 47, 88.	PPA	Power Purchase Agreement. Page 88.
CNMV	<i>Comisión Nacional del Mercado de Valores</i> (National Securities Market Commission). Page 80.	RAB	Regulated Asset Base. Page 49.
COSO	Committee of Sponsoring Organizations of the Treadway (Internal Control System). Page 84.	RG&E	Rochester Gas and Electric. Page 49.
CPP	Clean Power Plan. Page 47.	RIIO-D1	Revenue=Incentives + Innovation + +Outputs. Distribution 1. Page 49.
EBITDA	Earnings Before Interests, Taxes, Depreciations and Amortizations. Page 9, 10, 29, 41, 42, 51, 55, 59, 62, 63.	RIIO-T1	Revenue=Incentives + Innovation + +Outputs. Transmission 1. Page 49.
EPA	Environmental Protection Agency. Page 47.	ROE	Return on equity. Page 10, 49.
EPD	Environmental Project Declaration. Page 70.	RSPB	Royal Society for the Protection of Birds Scotland. Page 74.
ERM	Enterprise Risk Management. Page 86, 87.	SBTi	<i>Science Based Targets</i> Page 27.
EU	European Union. Page 26, 46, 53, 63, 84	SDGs	Sustainable Development Goals of the United Nations. Page 2, 3, 33, 34, 35, 68, 70, 74, 78, 80, 83, 90.
FFO	Funds from operations. Page 10, 34, 41.	SP	ScottishPower. Page 49, 50.
GDP	Gross Domestic Product. Page 3, 12, 14, 16, 18, 20, 34, 35, 38.	SPD	ScottishPower Distribution. Page 49.
GHG	Greenhouse gases. Pages 35, 47, 70.	SPM	ScottishPower Manweb. Page 49.
GRI	Global Reporting Initiative. Page 4.	TCFD	Task Force on Climate-related Financial Disclosures. Page 27, 34.
HVDC	High Voltage Direct Current. Page 64.	WACC	Weighted average cost of capital. Page 49, 57.
ICFRS	Internal Control Over Financial Reporting System. Page 84, 85		

Integrated Report, February 2019

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Spain

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