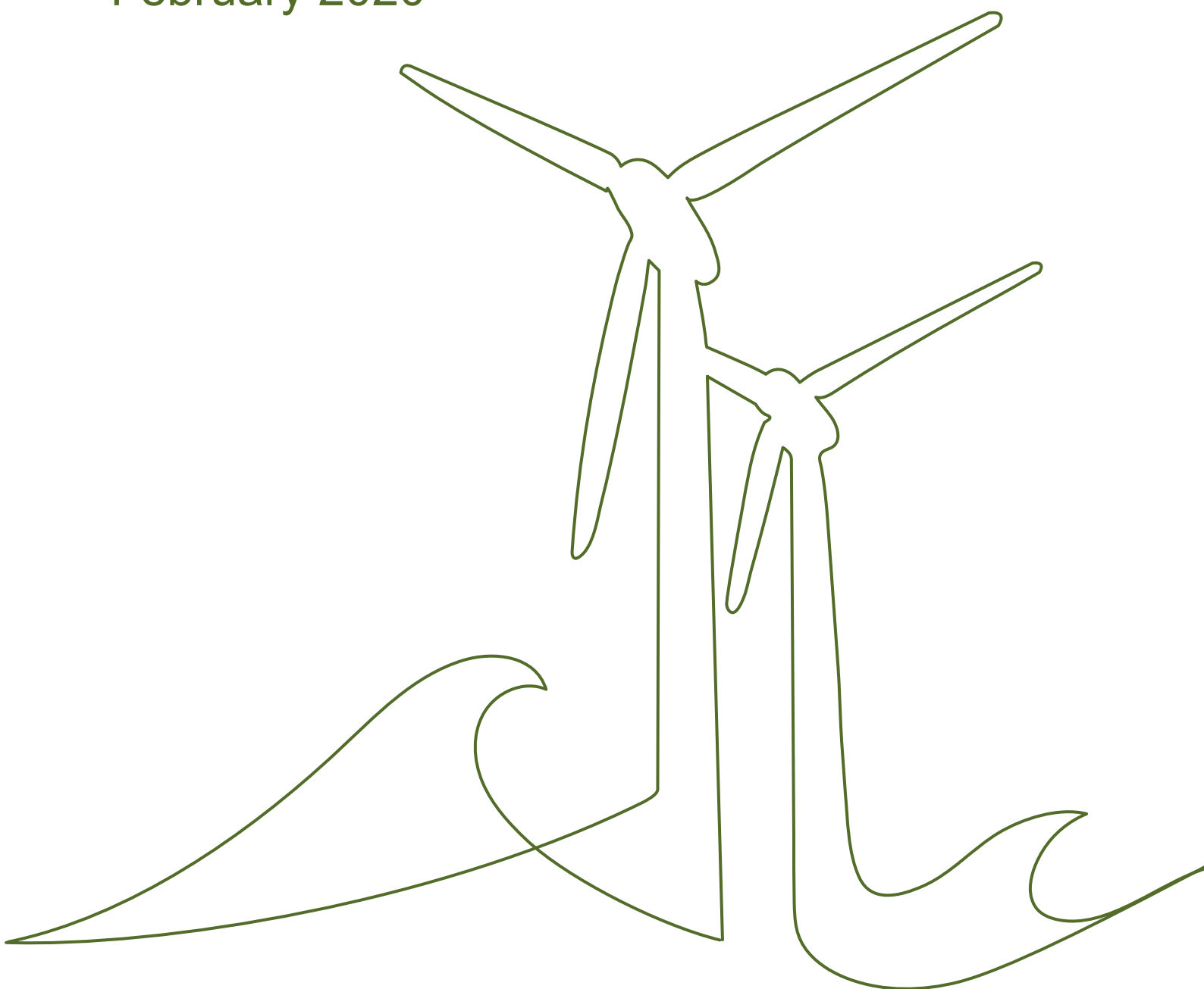
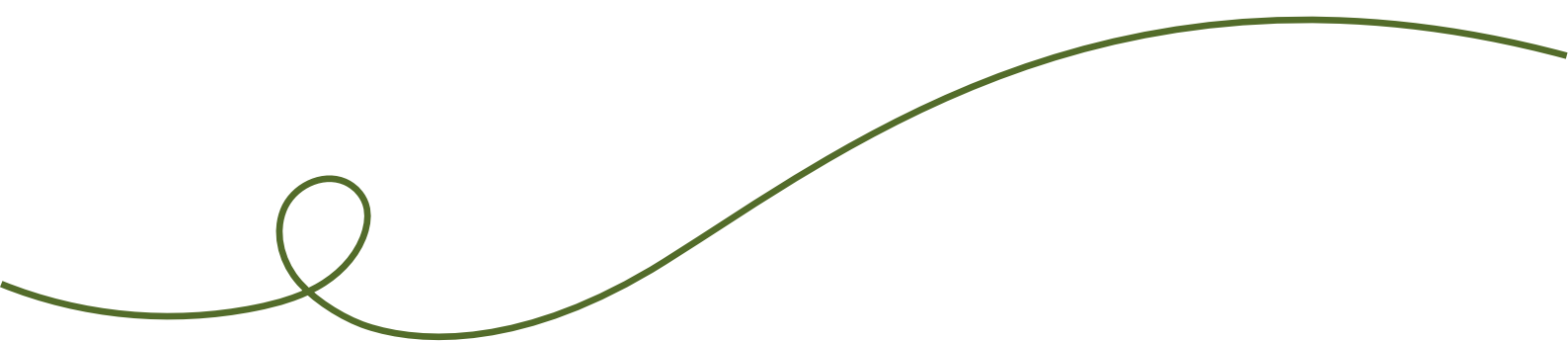


Integrated Report

February 2020



IBERDROLA





Iberdrola's public information

Iberdrola provides its Stakeholders with all relevant information regarding the performance of the company and its strategic lines for the coming years in a systematic and accessible manner.

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 following the recommendations of the Good Governance Code of Listed Companies and best international practices.
- **Statutory Auditor Independence Report**
Prepared according to the recommendations of the CNMV's Technical Guide 3/2017.

Additional information

- **Economic/financial**
Quarterly Results Report
IBE Watch Fact Sheet
Quarterly Shareholder Bulletin
- **Environmental**
Corporate Environmental Footprint Report
Biodiversity Report
Greenhouse Gas Report
- **Other information**
Innovation Report

Information on the corporate website

www.iberdrola.com

- About Us
- Environment
- Innovation
- Social commitment
- Talent
- Culture
- Shareholders and Investors
- Corporate Governance



Access the annual reports for financial year 2019 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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- 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, S.A. 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; £M: millions of pounds; R\$ Brazilian reais.
 - IFRS-11 is not being applied in the operational indicators (installed capacity, output, etc.).

East Anglia ONE offshore wind farm
/ United Kingdom





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 today¹ is the third-largest electricity company in the world by stock market capitalisation and the largest in Europe without government participation.

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 main geographic areas of activity.
- Head of business companies under the country subholding companies.

Iberdrola is one of the largest electric utilities in the world

International presence

The Iberdrola group engages in its activities in many countries, including Spain, the United Kingdom, the United States, Brazil, Mexico, Germany, Portugal, France, Italy and Ireland, as well as Australia, where the Company has just commenced building a hybrid solar and wind project.

Iberdrola group 2019 Key figures

52,082 MW Total installed capacity		32,041 MW Total renewable installed capacity
151,714 GWh Net production	1,191,513 Km / Power lines	233,502 GWh Distributed energy
34 Millions of consumers ²	8,158 €M Gross investments ³	8,156 €M Direct tax contribution
35,374 People Direct employment	Approximately 400,000 People ⁴ Direct, indirect and induced employment	8,716 €M Procurement

(1) As at the date of issue of the Report.

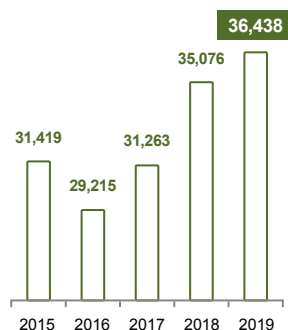
(2) Consumers: for electric power, total number of customers is used where there are areas of electricity distribution and retailing, supply points are used for the other areas. For gas: total number of gas customers is used, except for the United States, where total number of supply points is used.

(3) Net total investments for financial year 2019 were €7,240 million.

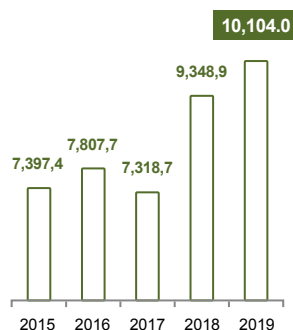
(4) Data from a Study of Iberdrola's Impact, prepared by PwC, for financial year 2018.

1.2 Company Performance

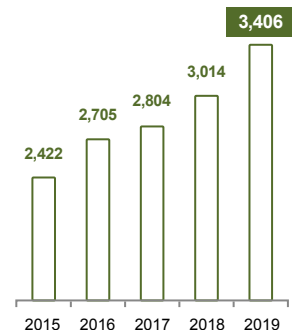
Revenues (€M)



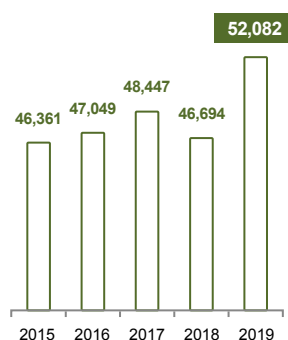
EBITDA (€M)



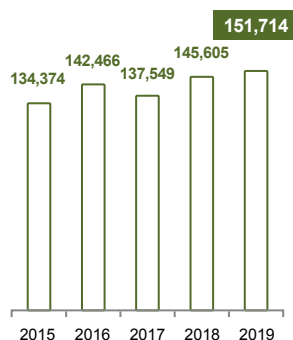
Net Profit (€M)



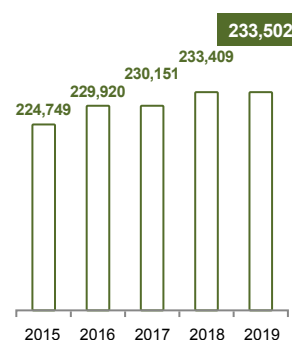
Total installed capacity (MW) ¹



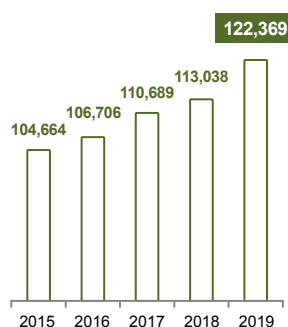
Total net production (GWh) ¹



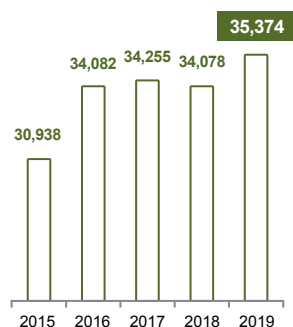
Distributed energy (GWh) ²



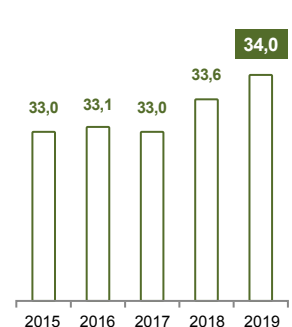
Assets (€M)



Employees ¹



Consumers (millions) ³



(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) Consumers: for electric power, total number of customers is used where there are areas of electricity distribution and retailing, supply points are used for the other areas. For gas, total number of gas customers is used, except for the United States, where total number of supply points is used

1.3 Key Figures

Financial performance (€M)	2015	2016 ¹	2017	2018	2019	Δ Annual average 2015-19 (%)	Δ 2018-2019 (%)
Revenues	31,418.7	29,215.4	31,263.3	35,075.9	36,437.9	3.8	3.9
Consolidated gross margin	12,842.7	12,916.2	13,363.8	15,435.1	16,263.4	6.1	5.4
Consolidated EBITDA	7,397.4	7,807.7	7,318.7	9,348.9	10,104.0	8.1	8.1
Networks (Regulated) EBITDA	3,628.0	4,081.7	4,228.0	4,915.0	5,262.2	9.7	7.1
Spain	1,456.8	1,603.1	1,519.5	1,709.4	1,710.7	4.1	0.1
United Kingdom	1,138.0	976.2	886.0	919.4	986.8	(3.5)	7.3
United States	780.5	1,269.6	1,334.0	1,331.2	1,330.4	14.3	(0.1)
Brazil	252.7	232.8	488.5	955.0	1,234.3	48.7	29.2
Renewables EBITDA ²	1,647.2	1,500.2	1,754.8	2,445.5	2,386.0	9.7	(2.4)
Spain	473.2	497.4	615.6	918.5	736.1	11.7	(19.9)
United Kingdom	438.1	267.0	391.7	517.5	525.0	4.6	1.4
United States	570.9	563.6	529.7	573.1	591.3	0.9	3.2
Brazil	26.9	24.9	66.0	129.4	125.0	46.8	(3.4)
Mexico	43.1	52.0	52.5	65.4	85.6	18.7	30.9
International	95.0	95.3	99.3	241.6	323.0	35.8	33.7
Wholesale and Retail (Liberalised) EBITDA ²	2,323.1	2,253.3	1,463.8	2,038.3	2,468.7	1.5	21.1
Spain	1,504.6	1,520.5	779.4	1,000.7	1,557.7	0.9	55.7
United Kingdom	421.7	293.6	108.1	307.2	110.1	(28.5)	(64.2)
Brazil	-	(3.1)	50.9	92.0	63.8	--	(30.6)
Mexico	455.2	436.2	525.4	638.4	762.0	13.7	19.4
International	--	--	--	(25.7)	(25.0)	--	2.7
Other businesses EBITDA	(68.9)	(105.2)	13.0	29.0	28.1	--	(3.1)
Corporation EBITDA and adjustments	(190.4)	83.8	(140.9)	(78.2)	(41.0)	31.9	47.6
Amortisation, depreciation, provisions and other	(3,568.1)	(3,253.7)	(4,606.1)	(3,909.5)	(4,226.8)	(4.3)	(8.1)
Operating profit (EBIT)	3,829.3	4,554.0	2,712.6	5,439.4	5,877.2	11.3	8.0
Financial results	(1,023.1)	(903.4)	(937.1)	(1,156.1)	(1,300.1)	(6.2)	(12.5)
Results from companies consolidated by the equity method (net of taxes)	55.3	48.7	(28.7)	55.9	(51.4)	--	--
Results from non-current assets	125.1	48.2	279.1	8.9	202.8	12.8	2,178.7
Pre-tax profit (EBT)	2,986.6	3,747.5	2,025.9	4,348.0	4,728.6	12.2	8.8
Corporate income tax	(527.1)	(904.6)	1,397.1	(959.4)	(914.0)	(14.8)	4.7
Minority interests	(38.0)	(137.9)	(365.9)	(323.3)	(408.2)	(81.0)	(26.3)
Net attributable profit	2,421.6	2,705.0	2,804.0	3,014.0	3,406.3	8.9	13.0
Total assets	104,664.1	106,706.2	110,688.6	113,037.9	122,369.0	4.0	8.3
Shareholders' equity	40,956.1	40,687.4	42,733.2	43,976.6	47,194.7	3.6	7.3
Gross investments	3,819.2	5,008.9	6,631.6	6,172.5	8,157.7	20.9	32.2
Funds from Operations (FFO)	5,906.7	6,310.8	6,479.4	7,328.4	8,059.6	8.1	10.0
Adjusted net Bank borrowings	28,067	29,230	32,856	34,149	37,769	8.4	13.5

Financial ratios	2015	2016	2017	2018	2019	Δ Annual average 2015-19 (%)	Δ 2018-2019 (%)
EBITDA margin (EBITDA/revenues) (%)	23.5	26.7	23.4	26.7	27.7	4.2	3.7
Net profit margin (Net profit/Revenues) (%)	7.7	9.3	9.0	8.6	9.3	4.9	8.7
NOE/Gross margin (%)	29.8	27.7	31.2	26.9	26.6	(2.8)	(1.1)
Net financial debt / EBITDA (multiple)	3.79	3.77	4.49	3.65 ³	3.74	(0.3)	2.4
Financial leveraging (%)	40.7	42.0	43.4	43.7 ³	44.8	2.5	2.5
Funds from Operations (FFO)/Net financial debt (NFD)	21.0	21.5	19.7	21.5 ³	21.5	0.6	(0.1)
Retained cash flow (RCF/NFD) (%)	18.7	19.1	17.2	20.2 ³	20.0	1.7	(1.1)
Return on equity (ROE) (%)	6.3	7.3	7.8	8.4 ³	9.2	9.8	9.7

Stock market performance	2015	2016	2017	2018	2019	Δ Annual average 2015-19 (%)	Δ 2018-2019 (%)
Stock market capitalisation (€M)	41,506	39,661	40,811	44,898	58,404	8.9	30.1
Number of shares at end of period (millions)	6,337	6,362	6,318	6,398	6,362	0.1	(0.6)
Share price (€)	6.55	6.23	6.46	7.02	9.18	8.8	30.8
Earnings per share (EPS)	0.37	0.42	0.44	0.47	0.54	9.9	14.9
Dividend per share (DPS)	0.276	0.286	0.317	0.331	0.356	6.6	7.6
Dividend yield (%)	4.21	4.59	4.91	4.72	3.88	(2.0)	(17.8)
Total dividend (including cash payments) (€M)	1,732	1,966	1,996	2,077	2,247	6.7	8.2
Payout ratio (%)	71.5	72.7	71.2	68.9	66.0	(2.0)	(4.2)
Share price / net earnings per share (PER)	17.17	14.66	14.55	14.90	17.15	0.0	15.1

● Statement of Non-Financial Information, 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 afterwards hydroelectric production activity is classified within the Renewables business.

(3) Data adjusted due to effect of potentially cumulative treasury share derivatives (€50 million at 31/12/2018).

(4) Includes the bonus for attending the General Shareholders' Meeting.

Operating performance	2015 ¹	2016 ²	2017 ²	2018 ²	2019 ²	Δ Annual average 2015-19 (%)	Δ 2018- 2019 (%)
Installed capacity (MW)	46,361	47,049	48,447	46,694	52,082	3.0	11.5
Total Net Own Capacity	42,019	42,707	43,811	42,058	45,702	2.1	8.7
Total Net Third-Party Capacity	4,342	4,342	4,636	4,636	6,380	10.1	37.6
Net output (GWh)	134,374	142,466	137,549	145,605	151,714	3.1	4.2
Total Net Own Production	101,688	112,069	105,239	115,134	114,030	2.9	(1.0)
Total Net Third-Party Production	32,686	30,397	32,310	30,471	37,684	3.6	23.7
Electric power distributed (GWh) ³	224,749	229,920	230,151	233,409	233,502	1.0	0.0

Environmental performance	2015 ¹	2016 ²	2017 ²	2018 ²	2019 ²	Δ Annual average 2015-19 (%)	Δ 2018- 2019 (%)
Own emission-free installed capacity (%) ⁴	69.6	73.0	73.5	77.0	76.8	2.5	(0.2)
Own emission-free output (%) ⁴	68.5	71.9	70.1	73.8	72.6	1.5	(1.6)
Own specific CO ₂ emissions (t/GWh) ⁴	185	131	136	112	110	(12.2)	(1.8)
Fuel consumption (M Tep)	19,001	11,668	12,055	10,505	17,018	(2.7)	62.0
Environmental investments (€M)	1,014.2	2,262.2	2,239.9	2,132.6	3,711.7	38.3	74.0
Environmental expenses (€M)	669.2	527.1	513.2	549.7	705.9	1.1	27.4
Energy produced under certified environmental management systems (%)	84.2	82.4	79.8	80.0	83.4	(0.2)	4.3
Water use/overall production (m ³ /GWh)	533	573	597	604	583	2.3	(3.5)
Direct emissions of CO ₂ , Scope 1 (kt)	19,929	15,637	15,020	13,328	12,928	(10.3)	(3.0)
Indirect emissions of CO ₂ , Scope 2 (kt)	963	4,504	3,415	2,544	2,154	22.3	(15.3)
CO ₂ avoided due to efficiency initiatives (kt)	19,269	16,853	23,460	19,485	22,920	4.4	17.6
SO ₂ emissions (t/GWh)	0.125	0.047	0.038	0.023	0.011	(45.5)	(52.2)
NO _x emissions (t/GWh)	0.230	0.140	0.113	0.085	0.326 ⁵	9.1	283.5

Social Performance	2015 ¹	2016 ²	2017 ²	2018 ²	2019 ²	Δ Annual average 2015-19 (%)	Δ 2018- 2019 (%)
Consumers (millions) ³	33.0	33.1	33.0	33.6	34.0	0.7	1.2
Electric power	28.9	29.0	29.0	29.5	29.8	0.8	1.0
Spain	10.3	10.2	10.2	10.1	10.1	(0.5)	(0.2)
United Kingdom	3.3	3.2	3.0	3.0	2.8	(3.9)	(6.3)
United States	2.2	2.2	2.2	2.3	2.3	0.7	0.4
Brazil	13.1	13.4	13.6	13.8	14.0	1.8	1.8
IEI	-	-	-	0.3	0.6	--	100
Gas	4.1	4.1	4.0	4.1	4.2	0.6	2.4
Spain	0.9	0.9	1.0	1.0	1.0	3.9	1.9
United Kingdom	2.2	2.1	2.0	2.0	1.9	(3.7)	(6.0)
United States	1.0	1.0	1.0	1.0	1.0	0.5	3.0
IEI	-	-	-	0.1	0.2	--	233.3
Number of employees	30,938	34,082	34,255	34,078	35,374	3.4	3.8
Permanent contracts (%)	98.4	98.4	99.4	99.0	99.1	0.2	0.1
Employees with collective bargaining agreement (%)	76.6	79.3	77.8	78.9	78.7	0.7	(0.3)
Employee turnover	7.0	7.3	7.9	10.7	6.6	(1.4)	(38.1)
Diversity (men/women)	76/24	76/24	77/23	77/23	77/23	--	--
Injury rate (IR)	1.4	1.8	1.8	1.4	1.3	(1.3)	(2.9)
Hours of training (millions of hours)	1.0	1.4	1.5	1.6	1.8	15.9	11.9
Hours of training per employee trained (h)	46.0	45.3	41.8	45.2	54.9	4.5	21.3
Funds for social development (€M)	46.0	106.7	341.2	243.1	92.4	19.0	(62.0)
Contributions to society (€M)	38.0	57.7	63.0	53.5	52.3	8.3	(2.2)
Rural electrification programmes (€M)	8.0	49.0	278.2	189.6	40.1	49.6	(78.9)
Investments in R&D (€M)	200	211	246	267	280	8.8	5.0
General procurement (€M billed)	5,093	7,508	8,648	7,753	8,716	14.4	12.4
Procurement from local suppliers (%)	85	84	88	85	89	1.2	4.7

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(1) Takes into account 39% of Neoenergia in 2015 (unless otherwise noted).

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

(3) Consumers: for electric power, total number of customers is used where there are areas of electricity distribution and retailing, supply points are used for the other areas. For gas: total number of gas customers is used, except for the United States, where total number of supply points is used.

(4) Calculated on own production.

(5) Change in method for calculating NO_x emissions in Mexico

1.4 Presence by Areas of Activity

Iberdrola in Spain Largest electric company.

Primary brands

Local brand



Operating brands



Key figures 2019

26,624
MW
Installed capacity

16,526
MW
Renewable installed capacity

58,560
GWh
Net production

270,258
Km /
Power lines

93,516
GWh
Distributed energy

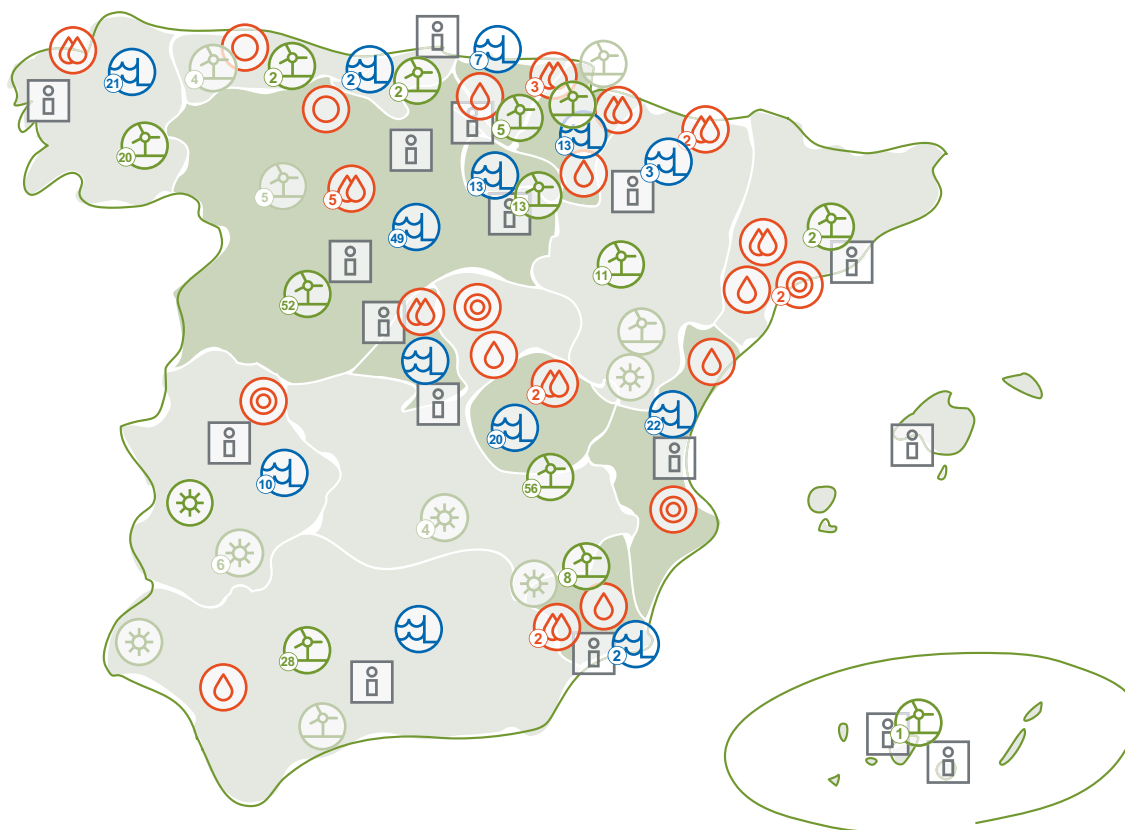
11.1
Millions
of consumers¹

9,587
Employees

1,756
M€
Gross investments

3,529
M€
Direct tax contribution

(1) Total number of electricity and gas customers.



Primary facilities in Spain


201

Wind farms / 6,005 MW


164

Hydroelectric plants / 10,021 MW


7

Combined cycle gas plants / 5,695 MW


18

Cogeneration plants / 353 MW


5

Nuclear plants / 3,177 MW


2

 Thermal plants / 874 MW¹
 (1) Closure of coal plants requested

1

Photovoltaic plant / 500 MW

Projects under construction


13

12


Principal Offices



Electricity distribution



Area of influence

Iberdrola in the United Kingdom

100% of electricity production from renewable sources.

Transmission and distribution networks in Scotland, Wales and England.

Sale of electricity and gas.

Primary brands

Local brand



Operating brands



Key figures 2019

2,520
MW
Installed capacity

2,520
MW
Renewable installed capacity

4,640
GWh
Net production

110,083
Km /
Power lines

33,670
GWh
Energy distributed

4.7
Millions
of consumers¹

5,637
Employees

1,897
M€
Gross investments

639
M€
Direct tax contribution

(1) Total number of electricity and gas customers.



Primary facilities in the United Kingdom



39

Wind farms / 1,906 MW



2

Offshore wind farms / 614 MW



1

Underwater power line / 425 km

Projects under construction



2



1



4



Principal 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.

Almost all output from renewable sources.

Primary brands

Local brand



Operating brands



Key figures 2019

8,361

MW
Installed capacity

7,521

MW
Renewable installed capacity

20,960

GWh
Net production

170,755

Km /
Power lines

38,441

GWh
Distributed energy

3.3

Millions
of consumers¹

6,597

Employees

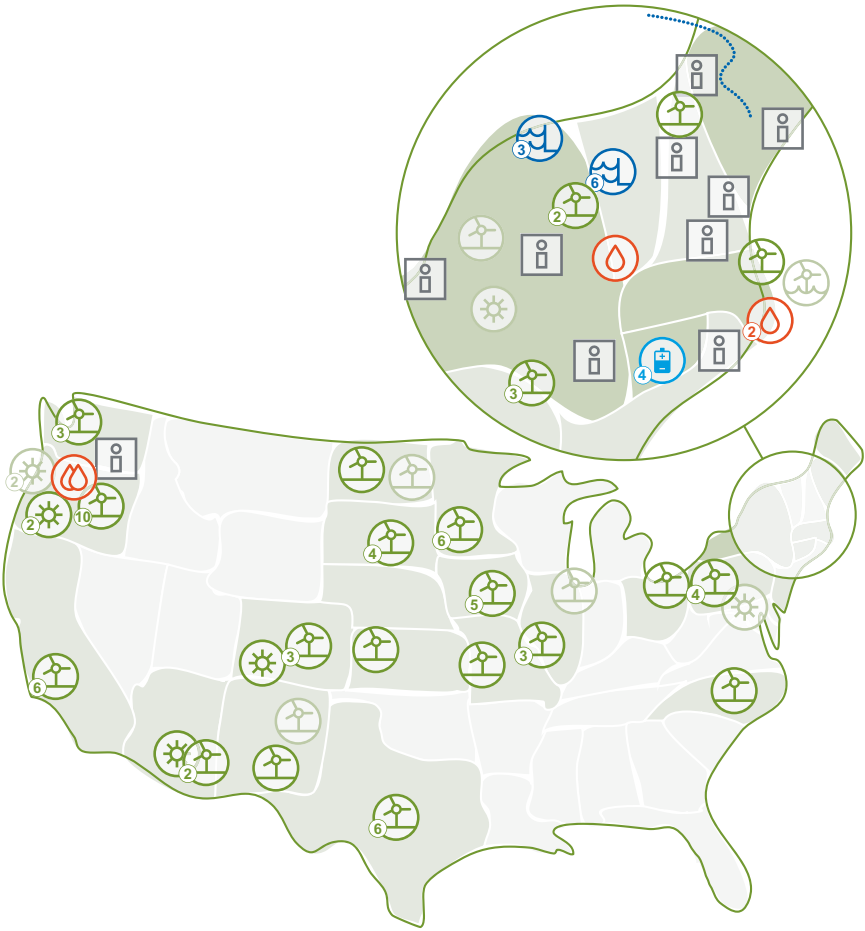
2,836

M€
Gross investments

963

M€
Direct tax contribution

(1) Total number of electricity and gas supply points.



Primary facilities in the United States



65
Wind farms / 7,259 MW



4
Photovoltaic plants / 130 MW



9
Hydroelectric plants / 118 MW



1
Cogeneration plant / 636 MW



3
Combined cycle gas plants / 204 MW



4
Batteries / 13 MW

Projects under construction



4



4



1

1 transmission line (NECEC)



Principal Offices



Electricity distribution



Area of influence

Iberdrola in Brazil

Presence in 18 states.
Energy leader in Brazil and Latin America.

Primary brands

Local brand



Operating brands



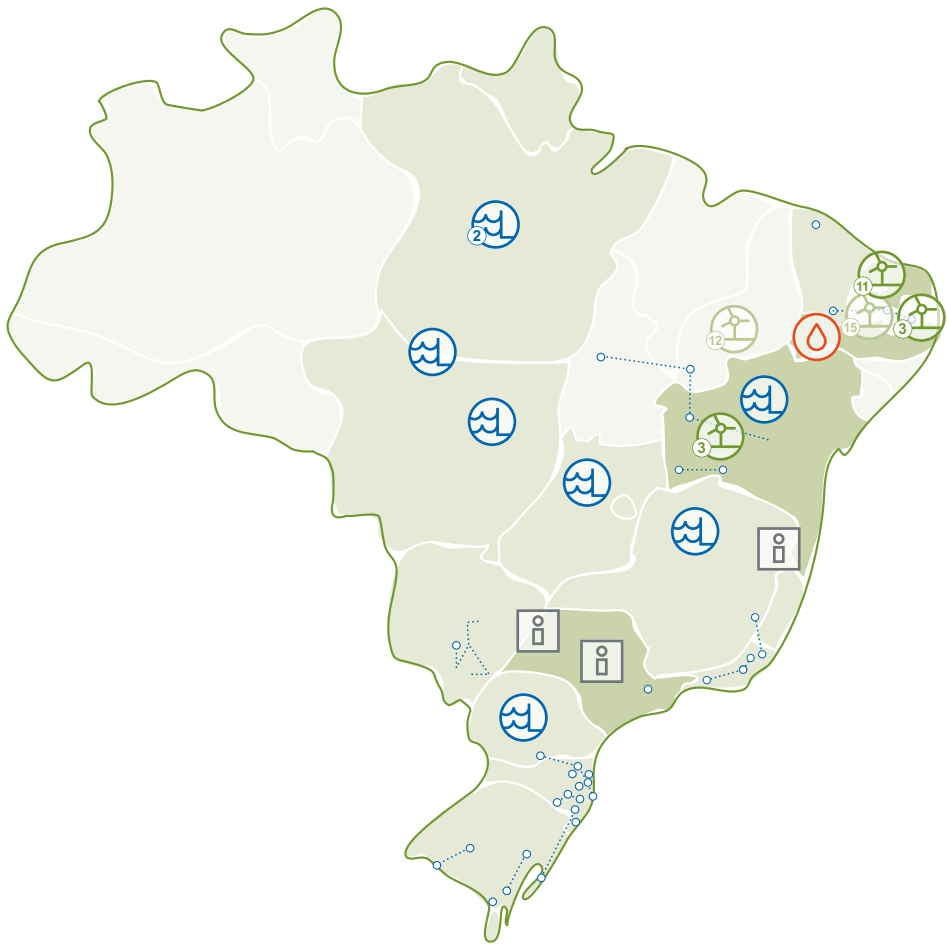
Key figures 2019

4,079MW
Installed capacity**3,546**MW
Renewable installed capacity**14,007**GWh
Net production**640,417**Km /
Power lines**67,875**GWh
Distributed energy**14.1**Millions
of consumers¹**11,746**


Employees

1,050M€
Gross investments**2,570**M€
Direct tax contribution


(1) Total number of electricity supply points.



Primary facilities in Brazil

 **8**
Hydroelectric plants / 3,031 MW

 **17**
Wind farms / 516 MW


 **1**
Combined cycle gas plant / 533 MW

Projects under construction

 **27**

 **11**

 Principal Offices

 Electricity distribution

 Area of influence

Iberdrola in Mexico

Second-largest producer of electricity.

20 years contributing to the energy development of the country.

Presence in 13 states.

Primary brands

Local brand



Operating brands



Key figures 2019

3,152

MW

Own installed capacity

860

MW

Own renewable installed capacity

13,198

GWh

Own production

6,380

MW

Third-party installed capacity

103

MW

Third-party renewable
installed capacity

37,684

GWh

Third-party output

1,291

Employees

486

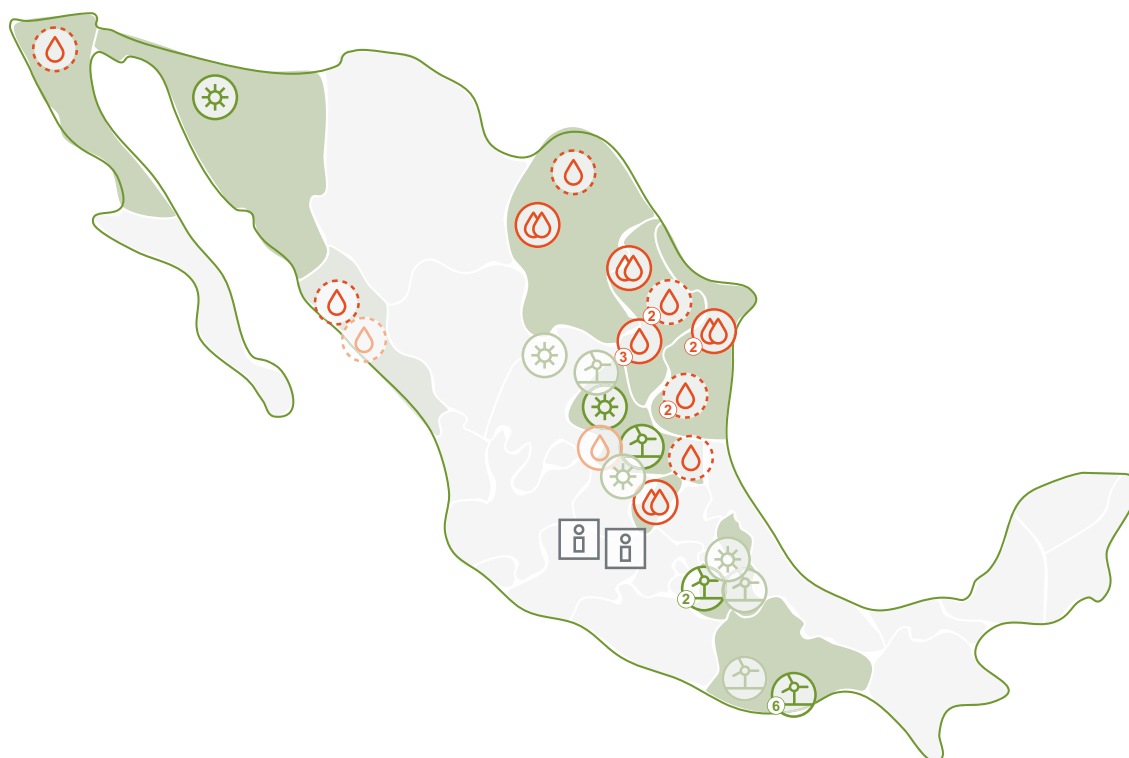
M€

Gross investments

258

M€

Direct tax contribution



Primary facilities in Mexico

10

Combined cycle gas plant



1,946 MW own



6,277 for third parties



5

Cogeneration plants / 346 MW



2

Photovoltaic plants / 368 MW



8

Own wind farms / 492 MW



1

Third-party wind farm / 103 MW

Projects under construction



3



3



1



1



Principal Offices

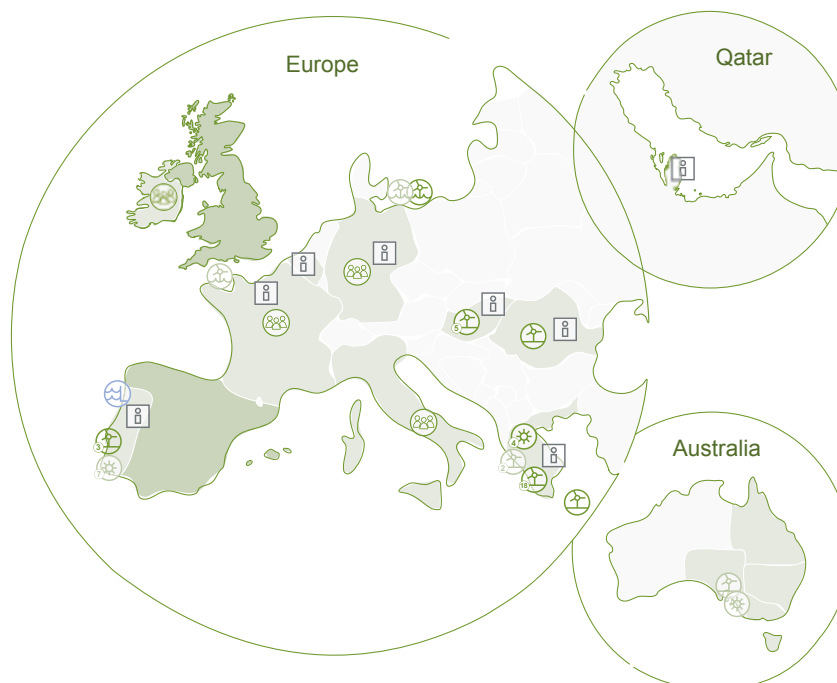


Area of influence



Area with projects under construction

Iberdrola Energía Internacional



Operating brand



Key figures and facilities 2019

965 MW

Renewable installed capacity

2.665 GWh

Net renewable production

516

Employees

133 M€

Gross investments

197 M€

Direct tax contribution

0,8 Millions

of consumers¹



28

Wind farms / 609 MW



1

Offshore wind farm / 350 MW



4

Photovoltaic plants / 6 MW

Projects under construction



2



1



3



8



Principal Offices



Area of influence



Retail business areas

(1) Total number of electricity and gas customers.

Installed capacity and production by country and technology

Installed capacity (MW) ^{1,2}	Spain		United Kingdom		United States		Brazil		Mexico				IEI		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	Own		For Third-parties		2019	2018	2019	2018
									2019	2018	2019	2018				
Renewables	16,526	15,789	2,520	2,100	7,521	6,739	3,546	2,935	860	674	103	103	965	961	32,041	29,301
Onshore wind	6,005	5,770	1,906	1,906	7,259	6,466	516	516	492	306	103	103	609	605	16,890	15,672
Offshore wind			614	194									350	350	964	544
Hydroelectric	9,715	9,715	0	0	118	118	3,031	2,419							12,864	12,252
Mini-hydroelectric	306	303													306	303
Solar and others	500	0			143	155			368	368			6	6	1,018	529
Nuclear	3,177	3,177													3,177	3,177
Combined cycle	5,695	5,695	0	0	204	212	533	533	1,946	1,035	6,277	4,533			14,654	12,007
Cogeneration	353	353			636	636			346	346					1,335	1,335
Coal	874	874													874	874
Total	26,624	25,887	2,520	2,100	8,361	7,586	4,079	3,467	3,152	2,055	6,380	4,636	965	961	52,082	46,694

Net electricity production (GWh) ^{1,2}	Spain		United Kingdom		United States		Brazil		Mexico				IEI		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	Own		For Third-parties		2019	2018	2019	2018
									2019	2018	2019	2018				
Renewables	22,191	25,973	4,640	5,145	17,480	17,261	10,674	10,099	1,424	817	227	279	2,665	2,180	59,301	61,754
Onshore wind	12,491	11,654	3,706	3,812	16,953	16,650	1,993	2,120	693	805	227	279	1,379	1,284	37,442	36,605
Offshore wind			934	755									1,277	887	2,211	1,642
Hydroelectric	9,082	13,590	0	577	179	269	8,680	7,979							17,941	22,415
Mini-hydroelectric	618	670													618	670
Solar and others	0	58			348	342			731	12			9	9	1,088	421
Nuclear	23,737	23,535													23,737	23,535
Combined cycle	9,697	4,092	0	5,585	3	8	3,334	3,553	8,940	7,229	37,457	30,192			59,431	50,659
Cogeneration	2,586	2,472			3,477	2,713			2,834	2,834					8,897	8,020
Coal	349	1,637													349	1,637
Total	58,560	57,709	4,640	10,729	20,960	19,983	14,007	13,652	13,198	10,880	37,684	30,471	2,665	2,180	151,714	145,604

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

(2) Totals may vary due to rounding of decimals.





2. Business Model and Strategy

2.1 The Future of Energy

The challenge of climate change

Climate change is one of the most significant and urgent challenges facing humanity. Confronting this serious threat requires not only the commitment of companies and consumers, but also that of regulators and public institutions, which should adopt appropriate energy policies and regulations.

Electricity has a unique potential to contribute to this challenge due to its ability to integrate renewable energy into a number of productive processes. Therefore, it is first important to continue promoting increased penetration of renewable energy into the electricity supply. These technologies are now competitive with other sources of generation. And second there must be a drive to electrify of other industries like transport and the heating and cooling industries, which represent more than 50% of emissions and in which the penetration of electricity is still low.

The optimal integration of increased renewable generation also needs efficient and digitised transmission and distribution networks (smartgrids), as well as storage solutions.

Current energy context

The World Economic Forum's Global Risks Report 2020 considers climate change to be the main risk to the global economy over the next decade. Society is increasingly aware of the need to transform the energy and production model, and is thus demanding that governments and companies take bold action with the ultimate goal of limiting the increase in temperature to less than 1.5°C by the end of the century.

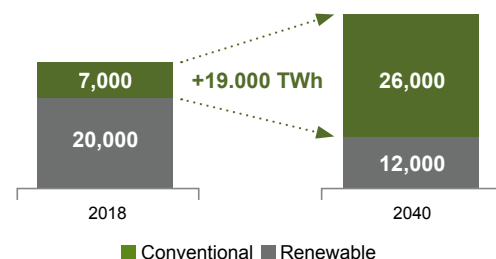
According to the IPCC⁽¹⁾, this will require reducing emissions by 45% by 2030 compared to those in 2010 and achieving zero net emissions by 2050. This puts electricity at the centre of decarbonisation. The electrification of sectors like transport and construction, in which the presence of electricity is still low, could multiply the total demand for electricity by the end of this century by up to six times the current demand, representing up to 71% of the final consumption of energy.

Within this context, a growing number of countries are announcing goals for emission neutrality by 2050. This includes the European Union, which has presented the European Green Deal as the roadmap for reaching this goal, with ambitious measures that promote the renewables-based electrification of transport, heating and industry.

The World Energy Outlook 2019⁽²⁾ also anticipates that electricity will play a fundamental role in the world energy system, increasing its share in the total consumption of final energy from 19% in 2018 to 24% in 2040 in the main Stated Policies Scenario (STEPS), a scenario compatible with the objectives of the Paris Agreement (Sustainable Development Scenario, or SDS).

Electricity generation by source (TWh)

(WEO -Sustainable Development Scenario-)²



Progressive electrification will be based on renewable energy, which would reach 67% of total generation by 2040 in the SDS scenarios (44% in the STEPS scenario). The growth of renewable energy is being driven by the significant reduction in its production costs⁽³⁾, which have decreased by 49% for onshore wind, 84% for solar photovoltaic and 56% for offshore wind since 2010.

The electrification of the economy accords a key role to an efficient, smart and flexible electricity transmission and distribution infrastructure, capable of integrating renewable energy and of meeting new requirements in terms of connectivity, digitisation and demand management. Along these lines, the central scenario of the WEO2019 anticipates an average investment of around 400,000 million U.S. dollars per annum in grids by 2040, almost 45% of the total investment of the electricity sector over this period.

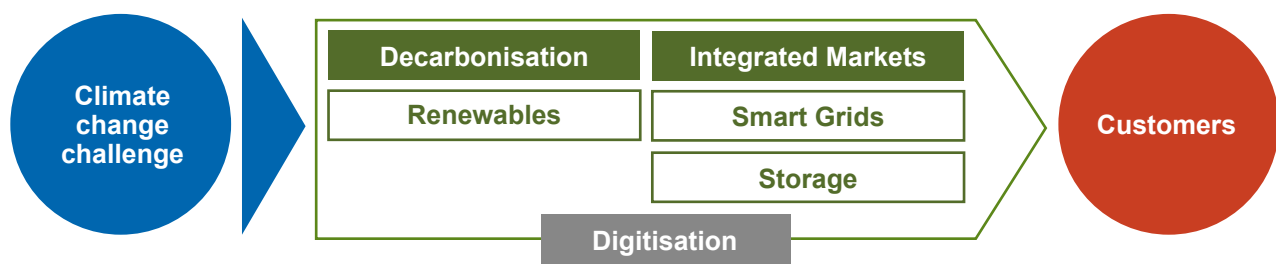
(1) Special Report of the Intergovernmental Panel on Climate Change (IPCC) on Global Warming of 1.5 °C.

(2) World Energy Outlook 2019 – International Energy Agency.

(3) Levelized cost of electricity (LCOE) – Bloomberg New Energy Finance (BNEF) (2019). New Energy Outlook.

Iberdrola: we began the fight against climate change more than 20 years ago

Iberdrola began a profound transformation more than 20 years ago, when it committed to a sustainable, safe and competitive energy model, which allowed it to take on the fight against climate change. This has been the main driver of its profitable growth strategy, which has led it to invest more than 100,000 million euros over these two decades in order to achieve a decarbonised energy model. The group is in an optimal position to continue anticipating and managing risks and to capitalise on the opportunities offered by this energy transition based on its leadership in renewable energy, smart grids and storage, as well as its firm commitment to digitisation.



Iberdrola's objectives

- **Reduce the intensity of emissions** of CO₂ 50% by 2030 compared to those in 2007, provide for its emissions to be virtually zero in Europe by 2030, and be carbon neutral by 2050.
- In March 2019 Iberdrola set a goal of reducing greenhouse gas emissions of absolute scope 1, 2 and 3, a commitment recognised according to Science Based Targets (SBTi).
- **Support international climate change negotiation processes**, private sector participation in the global agenda, 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 declaration on net-zero emissions by 2050 based on the *Science Based Targets* initiative, of which Iberdrola was one of the first companies to join.

2019 milestones include the following:

- Leadership in the private sector's participation in the principal milestones of the global climate agenda, including the **Climate Action Summit of the General Secretary of the United Nations in New York** and the **Madrid Climate Change Summit (COP25)**.
- Progress on its commitment to **implement the recommendations** of the **Task Force on Climate-related Financial Disclosures (TCFD)** in its public reports by 2020.
- **Support for the goal of net-zero emissions by 2050** of the climate strategy of the **European Union**.

2.2 Business Model

Industry positioning

The group's strategy since the beginning of the 2000s was designed based on the goals set out in the Kyoto protocol, anticipating the role that the electric industry would play in the fight against climate change. Iberdrola wagered on decarbonisation and renewable energy; and the strong focus on innovation by all of the group's businesses allowed for the rapid adoption of new generation technologies, as well as automation and remote control of the transmission and distribution 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 will continue strengthening its commitment to the energy transition, accelerating its investments in renewables and smart grids to a record amount of almost 10,000 million euros annually, double the amount of only four years ago. In 2017 Iberdrola requested the closure of its last coal plants in the world, which request is pending final approval by the government. The strong investment in smart grids will allow for the large-scale integration of renewable sources as well as on a distributed scale, ensuring quality of supply and safety of the system.

2019 saw the launch of the Núñez de Balboa photovoltaic solar plant in Spain, the Montague, Patriot and Karankawa wind farms in the United States, and the inauguration of the Baixo Iguaçu hydroelectric plant, the development of customer solutions based on connectivity, and the startup of various transmission and distribution network facilities, as well as a continuation of smart grid transformation projects.

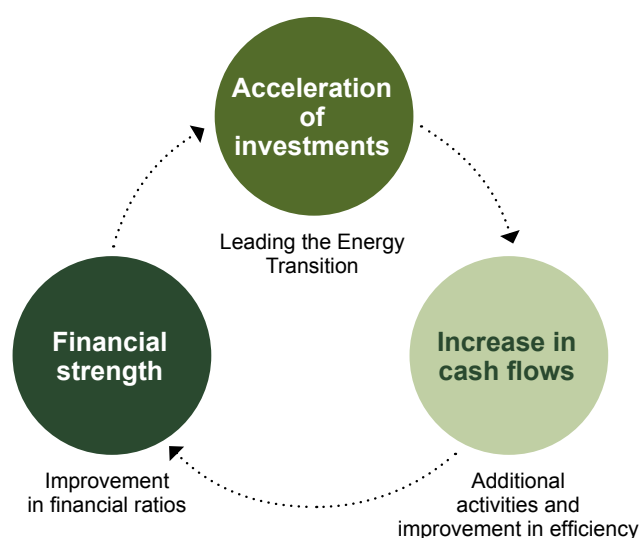
“Action is needed now. Iberdrola’s energy transition started 20 years ago.”

Ignacio Galán, during the World Economic Forum (Davos)

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 stability of 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.



Given the company's position, Iberdrola's business model is distinguished by:

● Iberdrola's Primary Businesses / page 41

● Natural Capital / page 66

● Manufactured Capital / page 60

Focus on regulated businesses	Commitment to clean and competitive energies	Operational efficiency
The company focuses its projects and investments preferably in regulated businesses, renewable assets or assets with long-term contracts.	<ul style="list-style-type: none"> • Generation and production of largely emissions-free electricity. • Large portfolio of wind and solar generation projects. • Public and ambitious goals for reducing emissions. 	<ul style="list-style-type: none"> • A business culture highly focused on innovation and digitisation has allowed our company to be 40% more efficient than the average of the main competitors¹.
International diversification	Financial strength and solidity of the group	Global, committed and qualified workforce
<p>The results obtained reflect the diversification of the group (2019 EBITDA by country):</p> <p>40% in Spain. 16% in the United Kingdom. 19% in the United States. 14% in Brazil. 8% in Mexico. 3% in International.</p>	<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • 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 (<i>Merco</i>) and in Brazil as the best company to work for in Latin America (<i>Great Place to Work</i>)

● Presence by Areas of Activity / page 12

● Financial Capital / page 58

● Human Capital / page 64

Social Dividend

- Iberdrola is focused on the sustainable creation of value, in accordance with the Purpose and Values of the Iberdrola group and with the commitments made in the Code of Ethics.
- The Company conceives of the social dividend as the direct, indirect or induced contribution of value of its activities for all Stakeholders, particularly through its contribution to the achievement of the Sustainable Development Goals (SDGs) approved by the United Nations..

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

2.3 Value Chain

Electricity generation

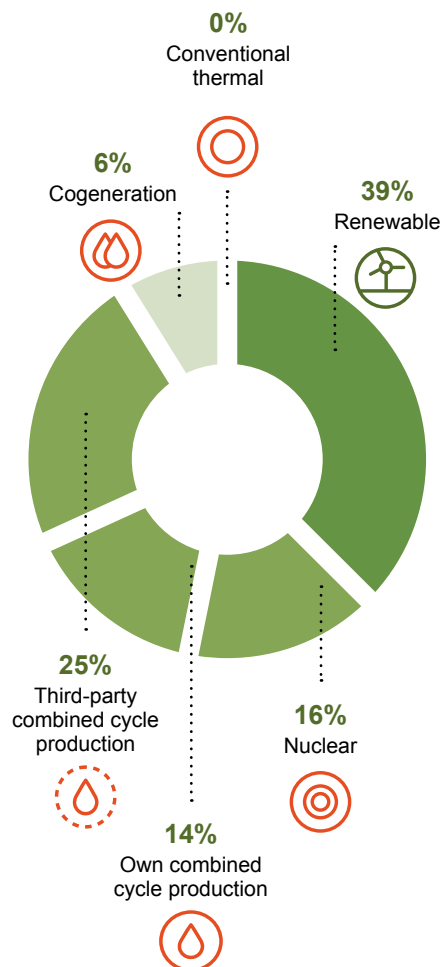
Construction, operation and maintenance of generating plants, and purchase/sale of energy on wholesale markets.

Transmission and distribution of electricity

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

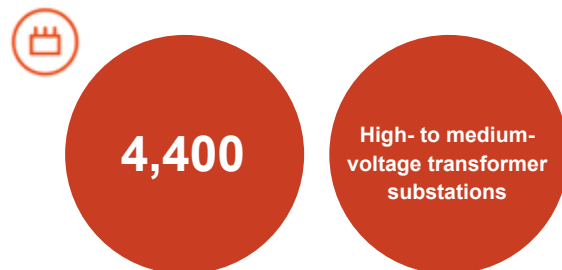
Production plants*

% of 2019 net output

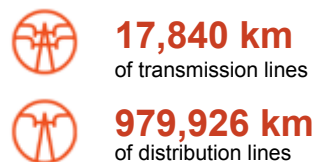


Electric grids*

At 31 December 2019



Overhead lines



Retail sale of electricity and gas

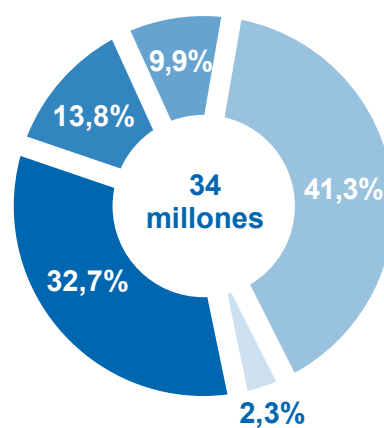
Supply to end users of electricity, gas, products and complementary services.

Consumers



**1.5
million**

Medium- to low
voltage distribution
transformers



■ Spain
■ United Kingdom
■ United States
■ Brazil
■ IEI

Underground lines



1,295 km
of transmission lines



192,452 km
of distribution lines

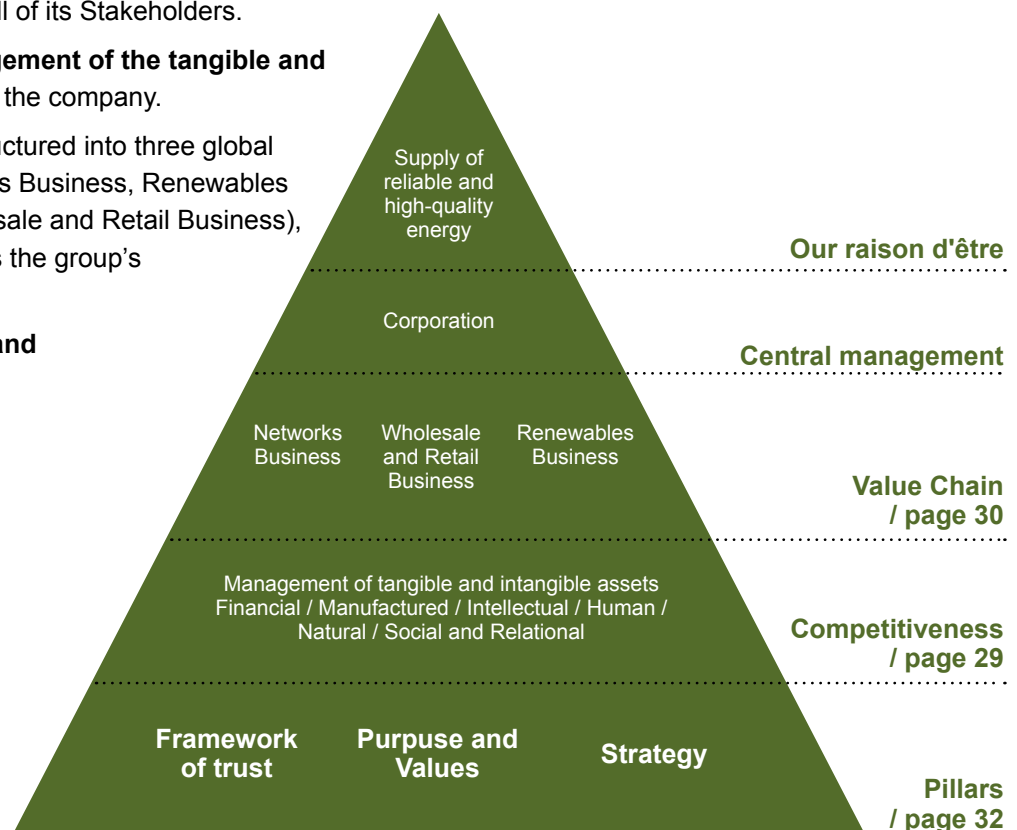
2.4 Iberdrola, a Different Company

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 and direct the company's strategy.
 - Advanced risk control system, to maintain an optimal risk/opportunity balance.
- A pioneering and leading **strategy** that integrates the expectations of all of its Stakeholders.
- **Responsible management of the tangible and intangible assets** of the company.
- An **organisation** structured into three global businesses (Networks Business, Renewables Business and Wholesale and Retail 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 fight against climate change and 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 promoting a social dividend based on:

- **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)

The group 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 company 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 7 million by year-end 2019.

A global renewable leader: more than 32,000 MW in 2019.

Energy efficiency: 65.8 million tons of CO₂ emissions avoided during the last three years.



Iberdrola has set the following objectives:

Be carbon neutral by 2050.

Reduce greenhouse gas (GHG) emissions of absolute scope 1, 2 and 3, which has been approved by the Science-Based Target initiative.

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:

Responsible business model ...

Fights against climate change

- A global renewable leader, with more than 32,000 MW installed.
- 77% of installed capacity¹ free of CO₂ emissions.
- Approval of emission reduction goals scopes 1, 2 and 3 by Science Based Target Initiative.
- Pioneers in adopting the recommendations of the **Task Force on Climate-related Financial Disclosures (TCFD)**.

Rapidly adopts new technologies and commits to innovation

- Drives the development of **smart grids**. Innovative improvement projects.
- Invests in sustainable mobility, in order to install 25,000 charging points in Spain by 2021.

...with positive impacts on all of its Stakeholders...

Economic

- Annually generates more than €31,100 million in Gross Domestic Product (GDP) in the countries in which it operates².
- Contributes more than €6,600 million in investments annually to the capital formation of the world economy².

Environmental

- Invests more than **€3,160 million in renewable generation** during 2019, which has reduced the group's emissions intensity to an overall level of **110 gr / kWh in 2019**.

Social

- Creates close to **400,000 jobs** worldwide (direct, indirect and induced employment)².
- More than **€2,500 million** in employee remuneration.
- Invests **€52.3 million in projects contributing to the community**³.
- Makes **more than €8,700 million in purchases** from its suppliers throughout the world.
- Contributes more than **€8,100 million** in taxes in the countries in which it does business.

(1) Own installed capacity is taken into account.

(2) Data from a Study of Iberdrola's Impact, prepared by PwC, for financial year 2018.

(3) 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> and <i>Price Cap</i> programmes in the United Kingdom and <i>Operation Fuel</i> in the United States.</p> <p>Iberdrola Social Programme 2020 by Fundación Iberdrola España.</p>		<p>Goal: Foster diversity and the social inclusion of vulnerable groups through the corporate volunteering programme.</p> <p>More than 7,000 volunteers participated in the Corporate Volunteering Programme in 2019.</p> <p>III Edition of the Iberdrola Awards for Solidarity..</p>
	<p>More than 20,000 kg of food collected through the <i>Operation Kilo</i> programme promoted in all countries.</p> <p>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.</p> <p>Goal: Install 25,000 electric vehicle charging points in Spain by 2021, within its <i>Smart Mobility</i> plan.</p>
	<p>Iberdrola contributes to reducing the noxious effects on health of greenhouse gases with its commitment to reduce these gases.</p> <p>The company also has goals to reduce accident rates.</p>		<p>89% of the volume of purchases is made from local suppliers.</p> <p>Iberdrola was the first IBEX 35 company to renew the sustainable event certificate (ISO 20121) for its General Shareholders' Meeting in 2019</p>
	<p>Training for our employees: more than 50 hours of training per trained employee in 2019.</p> <p>SDGs to school: Initiative to provide education about the SDGs at schools, with training for more than 3,000 children.</p>		<p>During the construction and operation of offshore wind farms, Iberdrola adopts innovative measures to preserve the neighbouring undersea eco-systems, including the installation of noise mitigation systems for mammals in the construction and relocation phase and/or respect biotopes for the preservation of marine life.</p>
	<p>Included for the third consecutive year in Bloomberg's 2020 Gender Equality Index.</p> <p>Iberdrola supports the Women's Universe (<i>Universo Mujer</i>) programme of the Higher Council for Sport (<i>Consejo Superior de Deportes</i>) (CSD), supporting 16 Spanish female federations.</p> <p>Adoption of the UN Women Empowerment Principles.</p>		<p>Iberdrola has obtained the first AENOR Corporate Environmental Footprint certificate.</p> <p>Goal: Adjustment of 234,000 pylons at distribution lines to protect birds from electrocution between 2018 and 2025 (Aleteo project).</p>
	<p>Iberdrola is one of the utilities with the highest water productivity (revenue/water utilised).</p> <p>Goal: Maintain intensity 50% below the European average for next 5 years.</p> <p>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.</p> <p>It has also been chosen for the sixth consecutive year as one of the most ethical companies in the world, according to the <i>World's Most Ethical Companies 2019</i> ranking prepared by the <i>Ethisphere Institute</i>.</p>
	<p>Approximately 400,000 direct, indirect and induced job positions throughout the world¹. More than €31,100 million in impact on the GDP of the countries in which it does business¹.</p> <p>Iberdrola continues to be the largest corporate issuer of green bonds in the world.</p> <p>Goal: 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.</p> <p>Recognised as LEAD participating company in the United Nations Global Compact.</p> <p>Worked with United Nations during the COP25 Climate Change Summit in Madrid (Chilean Presidency).</p>
	<p>World leaders in smart grids. Promotion of <i>Star +</i> project in Spain and the <i>Smart UK</i> project in the United Kingdom</p> <p>Innovation projects in all businesses, to support energy efficiency and the fight against climate change.</p> <p>Goal: Development of the Innovation and Digitisation Programme.</p>		

(1) Data from a Study of Iberdrola's Impact, prepared by PwC, which is based on 2018 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 this capital to create value for all its Stakeholders

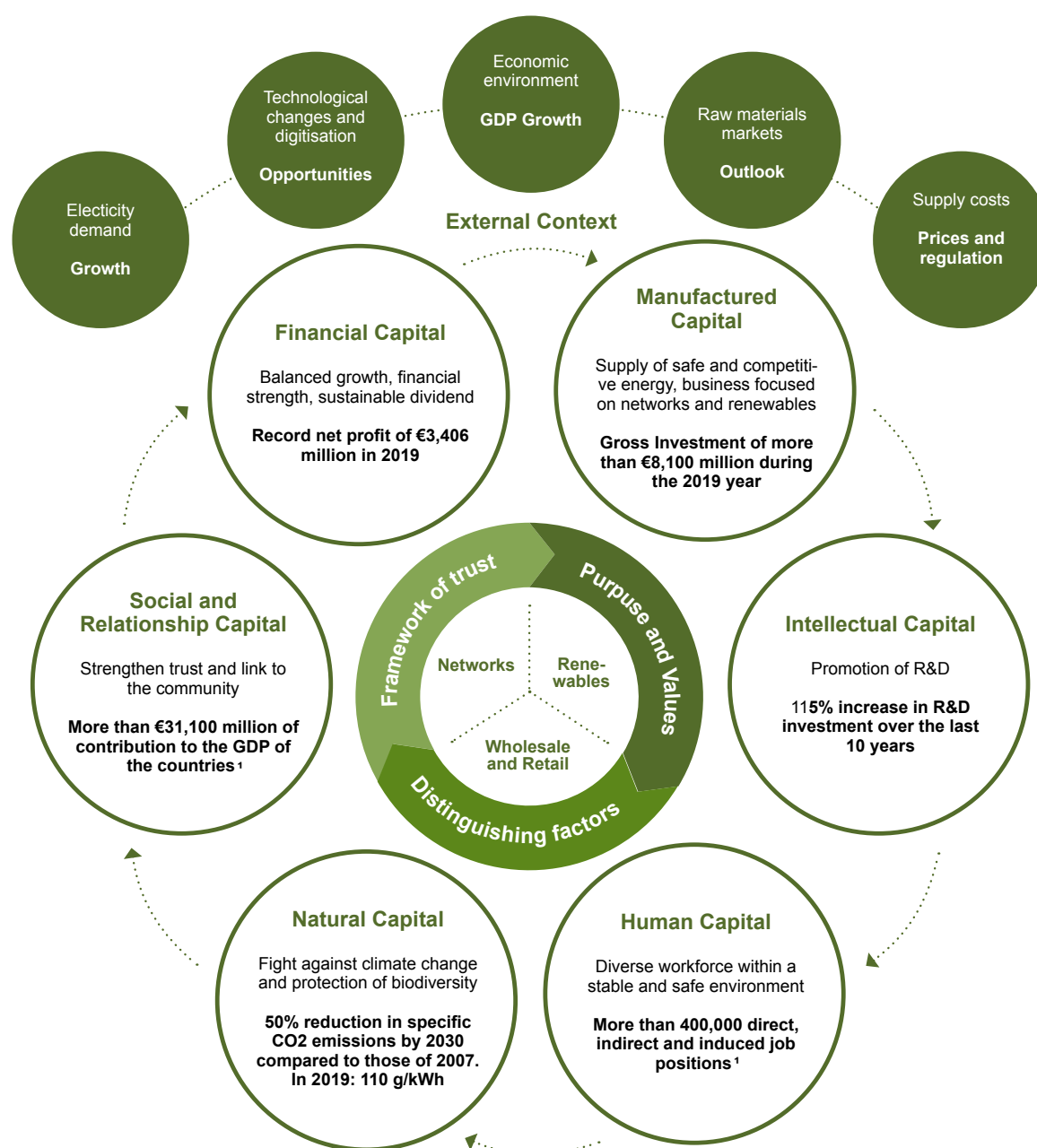
	What is it?	Management approach	Significant aspects
Financial Capital ● Financial Capital / page 58	Financial resources that the company already has or obtains through the capital markets.	Create value for shareholders through sustainable growth.	<ul style="list-style-type: none"> Balanced and diversified growth. Sound financial structure. Operational excellence. Sustainable results and dividends.
Manufactured Capital ● Manufactured Capital / page 60	Tangible assets or goods used by the company to carry out its business activities.	Offer a competitive supply of energy in a safe and reliable environment.	<ul style="list-style-type: none"> Power generation assets. Power transmission and distribution assets. Other assets.
Intellectual Capital ● Intellectual Capital / page 62	Intangible, knowledge-based assets.	Consider innovation as a strategic element of the company.	<ul style="list-style-type: none"> Promotion of R&D. Digitisation for efficiency and development of new products and services. Disruptive technology and business models.
Human Capital ● Human Capital / page 64	Employee knowledge, skills, experience and motivation.	Guarantee the availability of a committed and qualified workforce. Offer an diverse, inclusive and balanced work environment.	<ul style="list-style-type: none"> Global human resources management. "Zero accidents" programme. Talent management. Diversity, equal opportunity and reconciliation.
Natural Capital ● Natural Capital / page 66	Natural resources potentially affected by the company's activities.	Ensure a sustainable use of natural resources and contribute to combating climate change	<ul style="list-style-type: none"> Climate change. Preservation of biodiversity. Management of environmental footprint. Operating excellence and energy efficiency. Circular economy.
Social and Relationship Capital ● Social and Relationship Capital / page 68	Ability to share, relate and collaborate with its Stakeholders, promoting community development and well-being.	Promote relations of trust with Stakeholders, improving the quality of life of people in areas where the group has a presence.	<ul style="list-style-type: none"> Stakeholder Engagement Model. Community support and electricity access programmes. Human rights due diligence system. Foundations of the Iberdrola group. Brand management.

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.



(1) Data from a Study of Iberdrola's Impact, prepared by PwC, which is based on 2018 figures. Includes indirect and induced impacts.

2.6 Comparative Results and Awards

Comparative analysis¹

Comparative economic/financial variables 2019

Growth in EBITDA		
CAGR (%)	Average Comparables ²	Iberdrola
31-Dec.-09 / 31-Dec.-19	-5.4 %	4.5 %

Growth in stock market capitalisation		
Total growth (%)	Average comparables ²	Iberdrola
31-Dec.-09 / 31-Dec.-19	-26.5 %	66.7 %

10 years ago, Iberdrola, S.A. held sixth place among comparable companies in terms of capitalisation. It now is the leader among those in which the government does not hold an interest.

Share price			
Total growth (%)	Average Comparables ²	Eurostoxx Utilities	Iberdrola
31-Dec.-09 / 31-Dec.-19	-36.2 %	-11.4 %	37.6 %

Comparative performance of total shareholder return

Return (%)	Average Comparables ²	Eurostoxx Utilities	Iberdrola
31-Dec.-09 / 31-Dec.-19	2.1 %	28.1 %	82.2 %

Iberdrola's performance

Iberdrola has increased its assets by close to 30% and its revenues by more than 50% over the last 10 years. It has also improved its EBITDA by approximately 50% and its net profit by approximately 20%, with close to a 10% increase in shareholder return and financial strength.

Iberdrola	31-Dec.-09	31-Dec.-19
Assets (€M)	87,367	122,369
Revenues (€M)	24,559	36,438
EBITDA (€M)	6,815	10,104
Net Profit (€M)	2,824	3,406
Dividends ³ (€/share)	0.327	0.356
Net Debt/EBITDA	4.55	3.80

Comparable companies analysed: Engie, EDF, E.ON, Enel, RWE. CAGR: Compound Annual Growth Rate, i.e. weighted average annual growth.

(2) For Engie, EDF, E.ON, Enel and RWE, the 2019 EBITDA figures are the estimates published by Bloomberg, due to the lack of final closing figures on the date of preparation of this document.

(3) Including the bonus for attending the General Shareholders' Meeting

Awards/Recognitions:



To the company:

- Energy Transition Award (S&P Platts): 2019.
- Best Corporate Governance in Spain (World Finance): 2019.
- World's Most Ethical Company Index (Ethisphere Institute): 2019.
- Best Integrated Report Award (Asociación Española de Contabilidad y Administración de Empresas): 2019.
- Gold Plaque of the Royal Order of Sporting Merit (Consejo Superior de Deportes): 2019.
- Award for Contribution to Equality (El Economista newspaper): 2019.
- Healthy Company Certificate (AENOR): 2019.
- Innovation Awards from the United Nations for Iberdrola's Corporate Volunteering programme. 2018.
- Spanish version of European Environmental Award 2018 called by the European Commission and awarded by His Majesty the King.

To the chairman:

- One of the 30 most influential leaders in the fight against climate change (Bloomberg): 2020.
- One of the five best-performing CEOs in the world and the top in the utilities sector (Harvard Business Review): 2019.
- National Innovation and Design Award in the Innovative Career Category (Ministry of Science, Innovation and Universities): 2019.
- Premio León award for business management (El Español): 2019.
- Honourable Mention for his professional career (Colegio Oficial de Ingenieros Industriales de Madrid) 2019.
- Best European Utility CEO (Institutional Investor Research): 2017, for the eleventh time.
- Commander of the Most Excellent Order of the British Empire: 2014.
- Honorary Doctorate from the Universities of Salamanca (2011), Strathclyde (2013) and Edinburgh (2011).

To other members of the company:

- Best utility in the area of Investor Relations (IR Magazine): 2019.
- Best In-House Legal Advisory Service (Forbes): 2019.

Baixo Iguaçu
hydroelectric plant
/ Brazil





3. Iberdrola's Primary Businesses

3.1 Regulatory Environment

European Union

- The publication of all rules of the *Clean Energy for All Europeans Package* concluded in June 2019. 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.
- Adoption of the *Clean Mobility Package*, which develops measures to reduce emissions from the transport sector during the 2021-2030 period, concluded in 2019. The minimum goals for acquisition, leasing and hiring of clean vehicles by the government have been set out in a Directive and Regulations have been approved with goals to reduce emissions for new cars and vans by 37.5% and 31%, respectively, by 2030 compared to 2021 emissions, and by 30% for new heavy goods vehicles compared to 2019 emissions.
- In December 2019, after the inauguration of the new European Commission, there was publication of the Communication on "A Green New Deal", which consists of a package of measures to be implemented in the next 5 years to transform the European Union into a competitive and efficient economy in the use of resources and with net zero emissions by 2050, promoting a fair and inclusive process for this purpose. The related Investment Plan will mobilise at least 1 billion euros from the EU budget and related instruments in sustainable investments during this decade. The legislative development thereof will take place between 2020 and 2021, beginning in March 2020 with the proposed European "Climate Law" that will enshrine a target of reaching net-zero carbon by 2050. This target would also increase the reduction in emissions by 2030 to -50/-55% and would require the revision of all existing legal provisions as well as the development of new laws.

Spain

- In February 2019 Spain sent to the European Commission its first draft of the *National Integrated Energy and Climate Plan* proposing ambitious national goals for decarbonisation of the economy by 2030, mainly through electrification with renewable energy. It has been supported by Brussels and applauded as an example of good practices. The final document must be approved in 2020.
- As a result of the transfer of powers to the National Markets and Competition Commission (*Comisión Nacional de los Mercados y la Competencia*) (CNMC) pursuant to RDL 1/2019, it has been working on a number of Circulars on issues relating to the market, network remuneration and tolls.
- The government still needs to develop the legal provisions within its purview, including the methodology for calculating and assigning charges and the Statute for Electointensive Customers (*Estatuto de electrointensivos*).

United Kingdom

- In June 2019 the British government amended the Climate Change Act to introduce a new legally binding objective of "net zero emissions" of greenhouse gases by 2050 (the prior goal was a reduction of at least 80% compared to 1990). At the same time, the Scottish government established a "net zero emissions" goal by 2045.
- After the general elections of 12 December 2019, the new Johnson government approved in Parliament the application of the EU bill for the Withdrawal Agreement revised with the EU-27 in October 2019. The United Kingdom left the EU on 31 January 2020, and negotiations regarding the future relationship between the United Kingdom and the EU are expected to move forward during the year. The British government maintains its contingency plans to deal with any risk of a "no deal" situation by the end of 2020, including a plan for the energy sector.

United States and Canada

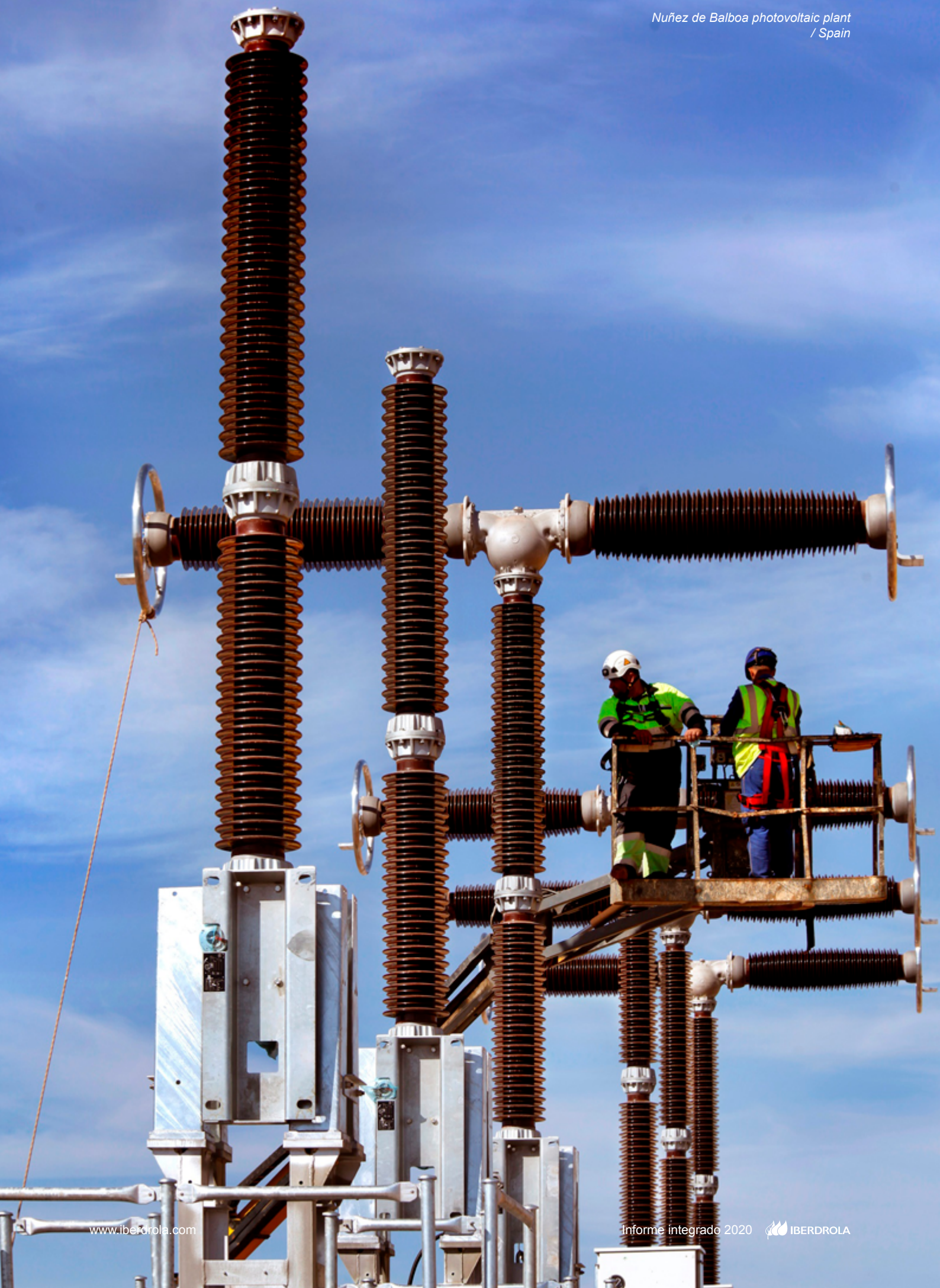
- On 16 July 2019 the Senate ratified a protocol to the tax treaty between the United States and Spain. The new protocol eliminates the 10% withholding tax on dividends, reduces taxes on interest, royalties and capital gains, and adds provisions for more expeditiously handling tax disputes through binding arbitration. It entered into force on 27 November 2019.
- In June 2019 the Environmental Protection Agency (EPA) published the *Affordable Clean Energy* (ACE) rule, replacing the 2015 *Clean Power Plan* (CPP) that never became effective. It allows the states to develop their own plans to reduce GHG emissions for existing coal plants based mainly on efficiency improvements at the plants and the application of new technologies. The states have three years to develop and submit their plans. This rule is being challenged in the federal courts by more than 20 entities, and a decision is not expected before 2020.
- In 2019 some states like Maryland, New York and Connecticut have updated their long-term offshore wind objectives, thus committing to the development of this technology.
- The regulator has approved an 8% increase in the Energy Development Account (CDE) budget to R\$21.9 thousand million for 2020. 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.
- Legislative and court initiatives continued during 2019 to reduce the litigation in the Brazilian electric sector due to disputes between the hydroelectric generators and the government regarding hydrological risk. 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, a deficit is occurring in the short-term market settlements, and therefore in the income of the distributors. Neoenergia has a net creditor position.

Mexico

- In March 2019 SENER changed the Terms for the strict legal separation of CFE. On 25 November the Terms were published to define the generation assets and contracts that the CFE must reassign to each of the Generation Subsidiaries (*Empresas Productivas Subsidiarias de Generación*).
- On 26 November 2019, the *National Investment Agreement in Infrastructure by the Private Sector*, with an investment of 859 thousand million pesos over the six-year period in 147 private investment projects was approved in order to maintain the confidence of domestic and foreign investors. 6 electric energy projects with an investment equal to 63 thousand million pesos will be announced in 2020.

Brazil

- The Ministry of Mines and Energy (MME) diagnosed the needs for modernisation of the electricity sector during 2019. It has analysed everything from the formation of prices in the market in the short term to capacity mechanisms to encourage the expansion of generation and the sustainability of distribution. Beginning next year, it is expected that measures will be developed allowing for implementation of the required changes.
- In August 2019 the MME confirmed the schedule for implementation of hourly spot prices in the Brazilian market. Beginning in January 2020 the hourly spot price formation model will be used to guide the programming of the system's operation, although it will not be used for the formation of settlement prices in the short-term market until 2021.



3.2 Networks

Regulatory environment of the business

Spain

- 2019 saw the conclusion of the process to revise remuneration for the distribution activity for the second regulatory period (2020-2025). The new circulars approved by the CNMV provide a new methodology for calculating the continuing financial remuneration rate (WACC), based on remunerating audited investments, recognising efficient operating expenses and establishing incentives to improve losses and the quality of supply. The remuneration rate for the distribution activity is set at 6.003% for 2020 and 5.58% for the remaining years.
- In December 2019 a Ministerial Order was published extending the electricity access tariffs beginning 1 January 2020 on a temporary basis until the publication of new network tariffs and new charges.

United Kingdom

- Ofgem continues the process of designing the RIIO2 regulatory framework. The new periods will be 5 years instead of the current 8 years, and the cost of equity, which will be decided in 2020, is linked to the CPIH (inflation) index. RIIO-T2 for transmission is in a more advanced state of development and will enter into force in 2021, while RIIO-D2 relating to distribution will apply beginning in 2023.
- 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.

United States

- New tariffs entered into force in January 2019 for the gas distribution company CNG (Connecticut), and will be in effect for the next 3 years, with financial profitability (ROE) of 9.3%, an equity percentage of 54% and planned investments of \$150 million.
- New tariffs entered into force in February 2019 for the gas distribution company BCG (Massachusetts), and will be in effect for the next 3 years, 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 by the regulator and the entry into force is expected during the first quarter of 2020. The same conditions set in 2014 were maintained during 2019, with an ROE of 9.45% and an equity percentage of 50%.
- The tariff conditions for the gas distributors of the State of New York (NYSEG and RG&E) were maintained during 2019, with a recognised ROE of 9.0%. In May 2019 a new 1-year tariff proposal was presented and is now being negotiated with the regulator and would enter into force in April 2020.

Brazil

- In August 2019 the 5th Tariff Review of Elektro was approved and will be in effect for the next 4 years beginning on 27 August 2019. The regulatory asset base (RAB) is R\$3,900 million and is expected to increase to R\$5,800 million by the end of the regulatory period, with an investment effort of R\$2,800 million during the period.
- In April there was an annual period adjustment for Coelba, Cosern and Celpe that mainly reflects the change in the General Price Index and recognises the improvement in supply quality.
- Neoenergia won a transmission projects in the auction by the Brazilian regulator ANEEL in December 2019 for the construction of a 210 km line and a 1,000 MVA substation.
- Neoenergia has been awarded a total of 11 projects in auctions from 2017, 2018 and 2019 for a total investment of approximately R\$8,000 million.
- The Energy Research Office (*Empresa de Pesquisa Energética*) has also published the schedule of new auctions (two per year), which will take place until the end of 2021.

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 energy transition towards a cleaner model favouring a more efficient integration of renewable energy (centralised and distributed) and the penetration of electric vehicles through the use of smart grids.

Significant risks

- Operational risks: impacts on supply as a result of meteorological events and work-related and third-party accidents at owned facilities.
- Technological and cybersecurity risks affecting the security of the facilities and service to our customers.

Principal activities 2019

- **Spain:** After the deployment of 10.8 million smart meters, which was completed in 2018, the digitisation of the low-voltage network is being extended to favour the penetration of renewables, which extension is expected to be completed in 2020.
- **United Kingdom:** Implementation of investments set out in RIIO-T1 and RIIO ED1. Joined the *Low Carbon Strategic Partnership*, focused on the role of electricity networks in favouring the energy transition. Investment of £20 million within the *Green Economy Fund* to finance 33 local projects in Scotland to favour decarbonisation and £8 million to accelerate the deployment of electric vehicle recharging infrastructure.
- **United States:** Progress in obtaining permits for the *New England Clean Energy Connect (NECEC)* project awarded in 2018, with a planned investment of \$950 million, for 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:** Progress as planned in the construction of 10 transmission projects awarded in the 2017 and 2018 auctions, completing the startup of one of these projects in 2019.

Customer service

- In Spain, the new brand i-DE Redes Eléctricas Inteligentes, S.A.U. has been launched to favour identification by customers and avoid confusion with the retailers of the group. The digital channels have also been renewed, providing customers with all of their consumption information in real time.
- A record quality level was once again reached in Brazil, with a 10% decrease in the Equivalent Duration of Interruption (DEC) compared to 2018.
- 2019 was a year with strong storms in all of our distribution areas, which required tremendous efforts to restore supply. The good performance of the electric grid in view of the strong "cold drop" (*gota fría*) in the southeast of Spain during September is noteworthy.
- The companies UI and CMP received the *EEI Emergency Recovery Award* for their extraordinary response to the strong storms of May 2018 and October 2019, respectively.
- SPEN achieved the prestigious BSI (British Standards Institution) Kitemark quality certification mark, becoming the first utility to receive this mark. At the end of November 2019, SPD and SPM are in 1st and 3rd place in customer service among UK distributors, according to the regulator.

Operational excellence

- The adjusted evolution of operating expenses continues in order to maintain and improve efficiency ratios in all countries.
- New plans and models have been launched to end electricity fraud in electricity consumption in Spain and Brazil, and also to comply with the parameters defined by the regulators.
- They improve the loss indicators in Brazil as a result of the fraud reduction plan.

Digitisation of the network

- In Spain the *Smart Cities* initiative has launched in order to contribute to the country's main municipalities advancing in their transition towards smart cities. Collaboration agreements have been reached with eight government administrations, including the municipalities of Madrid and Murcia and the Provincial Council of Castellón, to expand the possibilities of a smart and digitalised grid.
- Six Electric Mobility Control Centres have also been created to monitor and evaluate the impact of electric vehicles on the distribution network.

Key figures of the Networks Business

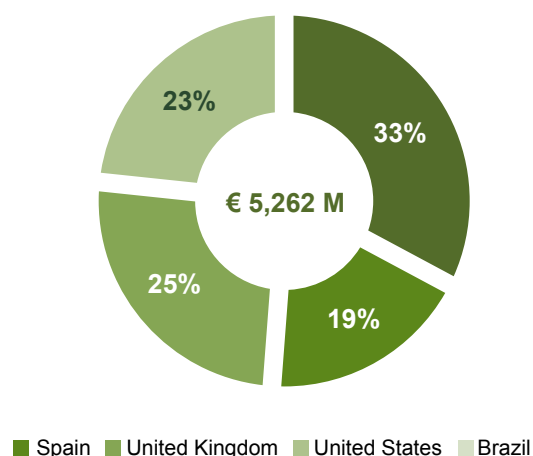
Item	Unit	Spain		United Kingdom		United States		Brazil		Total	
		2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Gross margin	€M	2,117	2,109	1,311	1,222	2,875	2,780	1,828	1,530	8,131	7,641
EBITDA	€M	1,711	1,709	987	919	1,330	1,331	1,234	955	5,262	4,915
Distributed electricity	GWh	93,516	93,881	33,670	34,659	38,441	39,579	67,875	65,290	233,502	233,409
Supply Points (Electricity) ¹	Millions	11.1	11.1	3.5	3.5	2.3	2.3	14.1	13.8	31.0	30.7
Gas supply	GWh	--	--	--	--	64,234	65,140	--	--	64,234	65,140
Supply Points (Gas)	Millions	--	--	--	--	1.0	1.0	--	--	1.0	1.0
Gross investments	€M	537	458	736	625	1,435	1,165	916	811	3,624	3,059
Workforce	No. of people	3,574	3,743	3,000	2,963	5,375	5,325	11,310	10,360	23,259	22,391

Quarterly Results Report

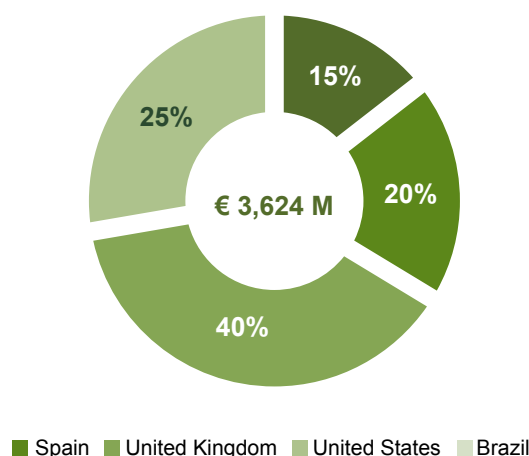
International Financial Reporting Standard (IFRS) 11 has been applied to the financial information.

(1) Supply points in Spain include Conquense and other small distributors.

EBITDA of the Networks Business by geographical area 2019



Gross investments of the Networks Business by geographical area 2019



East Anglia ONE offshore
wind farm substation
/ United Kingdom



3.3 Renewables

Regulatory environment of the business

Spain

- In November the Ministry for the Ecological Transition published Royal Decree Law 17/2019, which establishes the remuneration rate for renewable facilities based on the weighted average cost of capital (WACC). The current pre-tax rate of 7.389% for facilities prior to RDL 9/2013 will remain in effect until the end of 2031, provided that the developer thereof does not have existing litigation or commits to end any such litigation. Otherwise, or for facilities after RDL 9/2013, a value of 7.09% is set until 2025. The approval of the other remuneration parameters is expected during 2020.

RDL 17/2019 also provides that if facilities are closed, sustainability and employment standards will be taken into account for awarding permits for new projects.

United Kingdom

- 12 Contracts for Difference (CfD) were awarded in September for a total capacity of 5.8 GW. 5.46 GW (6 contracts) were awarded to offshore wind and 300 MW to other renewable technologies.

United States

- At the federal level, a one-year extension of tax credits for wind was approved in December 2019. Facilities that begin construction in 2020 can choose between a 60% Production Tax Credit (PTC) or an 18% Investment Tax Credit (ITC).
- The industry also maintains clean energy incentives at the state level, with various states increasing their Renewable Portfolio Standard (RPS) targets.

Brazil

- The construction of the Oitis Wind Farm Complex, located in the States of Piauí and Bahia, was approved in 2019. It will consist of 12 wind farms with an installed capacity of 566 MW. 30% of all energy generated by these two wind farms was awarded in an "A-4" auction held on 28 June 2019.

Mexico

- The mechanism for the purchase and sale of Clean Energy Certificates (*Certificados de Energías Limpias*) (CELs) continues in effect to encourage new clean power generation projects, but in October 2019 the Secretary of Energy approved changes to the requirements for granting CELs in order for the CFE's clean generation plants in existence before the Reform to be able to verify CELs for generation. This measure eliminated in practice the need for CFE Suministro Básico to purchase CELs in the Long-Term Auctions, in order not to increase the Basic Supply tariffs for domestic customers.

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

Objectives, risks and principal activities

Objectives

- Occupational Safety and Health.
- Efficiency in operations to optimise the operation of the assets.
- Efficiency in development and construction costs to maximise the competitiveness of all renewable projects.
- Profitable growth from various technologies in the countries that are strategic for the group, and in new countries of interest.
- Develop a robust portfolio that covers the company's growth plan.

Significant risks

- Regulatory risk: changes in regulations in the countries in which it operates.
- Operational risk: availability rate of facilities and potential incidents with environmental impact.
- Market risk: changes in prices of energy in short-term markets.
- Risk of access to evacuation networks and limits on production due to technical restrictions of the networks.
- Technological and cybersecurity risks affecting the facilities.

Principal activities 2019

- 2,791 MW of installed capacity was added during the year:
 - Onshore wind: 235 MW in Spain, 186 MW in Mexico, 832 MW in the United States and 4 MW in Greece.
 - Offshore wind: 420 MW in the United Kingdom.
 - Photovoltaic solar: 500 MW in Spain.
 - Hydroelectric: 612 MW in Brazil and 2 MW in Spain.
- More than 7,000 MW are also under construction, of which more than 2,500 MW are onshore wind in Spain, the United States, Brazil and Mexico, and more than 3,500 MW are photovoltaic solar in Spain, Mexico, the United States and Portugal. Construction of the Tâmega hydroelectric complex, with 1,158 MW, continues in Portugal.
- Growth continues 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. Iberdrola was also recently awarded the 804 MW *Park City* project in Connecticut.

Load factor

Maximising the load factor of facilities and availability, through operating and maintenance measures, as well as other external factors, optimising generation with renewable sources.

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 and photovoltaic projects in Spain, the United Kingdom, the United States, Brazil, Mexico and International (Continental Europe, Australia and South Africa) and offshore wind projects in France, Germany, the United Kingdom and the United States.

Key figures of the Renewables Business

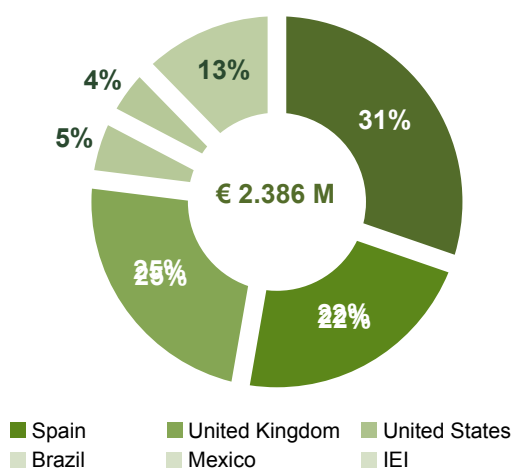
		Spain		United Kingdom		United States		Brazil		Mexico		IEI		Total	
Item	Unit	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Gross margin	€M	1,251	1,580	678	644	852	835	174	178	113	88	378	286	3,446	3,611
EBITDA	€M	736	919	525	518	591	573	125	129	86	65	323	241	2,386	2,445
Load factor ¹	%	15.9	18.7	24.8	22.1	29.1	29.7	29.0	31.3	29.5	31.2	31.6	26.9	21.3	22.6
Gross investments	€M	778	375	907	427	1,396	386	102	180	93	291	50	141	3,326	1,800
Workforce	No. of people	1,567	1,537	418	355	752	710	225	192	136	125	257	166	3,355	3,085

⊙ Quarterly Results Report

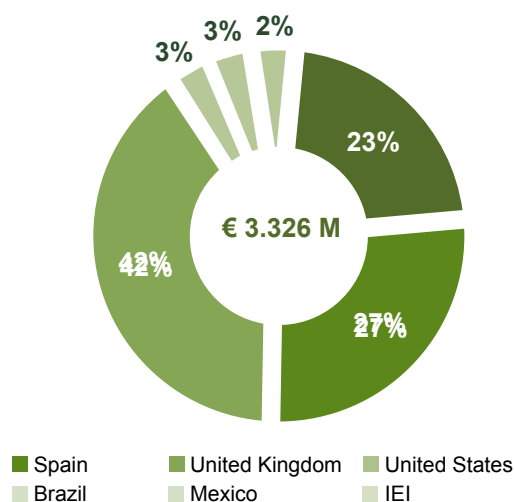
International Financial Reporting Standard (IFRS) 11 has been applied to the financial information

(1) The load factor includes all renewable technologies.

EBITDA of the Renewables Business by geographical area 2019



Gross investments of the Renewables Business by geographical area 2019





3.4 Wholesale and Retail

Regulatory environment of the business

Spain

- Royal Decree 750/2019, establishing a fixed unit rate of €7.98/MWh for the public non-tax financial obligation by means of which ENRESA's service to the nuclear plants in operation is funded, was published in December 2019.
- Royal Decree 244/2019, which governs the administrative, technical and financial conditions for the self-consumption of electric power, was published in April 2019. This Royal Decree expanded the definition of self-consumption, including the concept of "facilities close through the network", developed collective self-consumption, simplified government procedures and allowed for the remuneration of surpluses for small facilities.

Mexico

- The methodology for determining the values of the electricity tariff beginning in 2020 was approved on 16 December 2019 without changes, for which reason tariffs are expected to remain stable in comparison with the figures for 2019. The resolution determining the transmission and distribution tariffs was also published.

United Kingdom

- In June 2019, Ofgem published new market access requirements for incoming retailers relative to their financial capacity, ability to comply with legal provisions and market rules, willingness to provide a high-quality service to customers and management capacity of the management team and the main shareholders.
- In October 2019 the government re-established the capacity mechanisms after the European Commission concluded its investigation holding that the mechanism complies with the rules on State Aids, because it is necessary to guarantee supply, is in line with the energy policy goals of the EU, and does not distort competition within the single market.

Brazil

- *Portaria* (Implementing Regulation) No. 389, establishing the guidelines for the auctions of exclusive A-4 and A-5 generation for thermal plants to be held in 2020, was published in October 2019. The supply period is 15 years, beginning in January 2024 and January 2025, respectively.
- *Portaria* No. 465, which provides that consumers with a capacity above 1.5 MW since January 2021, above 1 MW since January 2022 and above 0.5 MW since January 2023 can purchase conventional energy from any retailer, was published in December 2019. ANEEL and CCEE must submit a study before 31 January 2022 on the regulatory measures required to allow the opening to the free market of consumers with a capacity below 0.5 MW beginning in 2024.

Objectives, risks and principal activities

Objectives

- Occupational Safety and Health.
- Competitive supply and excellence in service to customers.
- 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.

Principal activities 2019

- **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:** At year-end 2019 a cumulative total of 1.5 million smart meters had been installed.

- **Mexico:** Entry into commercial operation of 2,655 MW (878 MW Escobedo CC, 911 MW Topolobampo II CC and 866 MW El Carmen CC). Approximately 1,300 MW thermal under construction.
- **Europe:** Growth of retail activity and connection to customers through *Smart Solutions*. 1.5 million contracts in portfolio reached during 2019.

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.
- Technological and cybersecurity risks affecting the security of the facilities or the information of our customers.

Efficiency

- Optimisation of production and increase in availability of thermal facilities.
- Facilitating operations in complementary markets.
- Operational improvements in the customer service and management processes.

Prices

- Management of fuel price risks through appropriate hedging of all generation.

Growth

- Mexico: upon startup of the Topolobampo III CC in 2020, the company will have an installed capacity of more than 10,000 MW, strengthening its position as the largest private producer of electricity in the country.
- 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 renewable energy.
- Retail development in Mexico concurrently with the energy reform.
- Sustained growth of retail activities of electricity, gas and *Smart Solutions* in the rest of Europe.

Key figures of the Wholesale and Retail Business

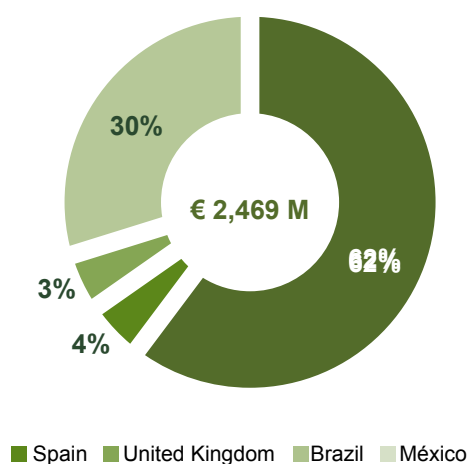
Item	Unit	Spain		United Kingdom		Brazil		Mexico		IEI*		Total	
		2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Gross margin	€M	2,932	2,396	684	863	92	134	935	756	45	19	4,688	4,168
EBITDA	€M	1,558	1,001	110	307	64	92	762	638	(25)	(26)	2,469	2,038
Electricity contracts	Millions	10.1	10.1	2.8	3.0	0.0	0.0	0.0	0.0	0.6	0.3	13.5	13.5
Gas contracts	Millions	1.0	1.0	1.9	2.0	0.0	0.0	0.0	0.0	0.2	0.1	3.1	3.1
Smart solutions contracts	Millions	5.7	5.3	1.9	1.4	0.1	0.1	0.0	0.0	0.7	0.4	8.4	7.1
Contracts total	Millions	16.8	16.5	6.6	6.4	0.1	0.1	0.0	0.0	1.5	0.7	25.1	23.7
Gross investments	€M	318	218	218	201	31	12	380	682	85	26	1,032	1,139
Workforce	No. of people	2,646	2,695	1,552	1,588	128	98	997	855	191	122	5,514	5,358

⦿ Quarterly Results Report

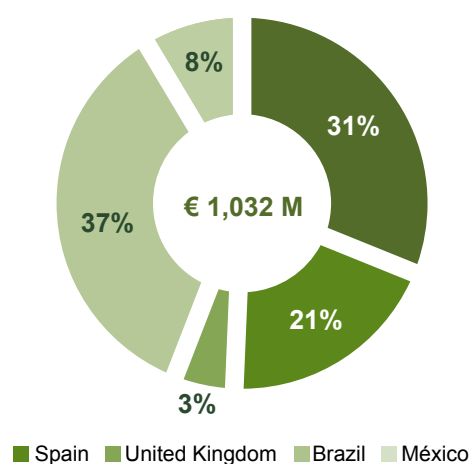
International Financial Reporting Standard (IFRS) 11 has been applied to the financial information.

* IEI - Iberdrola Energía Internacional

EBITDA by geographical area 2019



Gross investments of the Wholesale & Retail Business by geographical area 2019





4. Our Assets

The group'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:

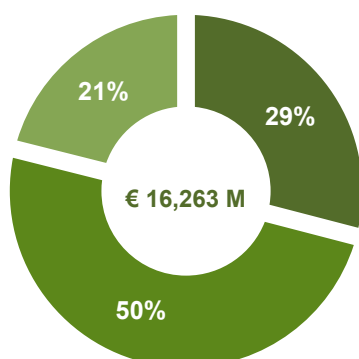
- Financial capital
- Manufactured capital
- Intellectual capital
- Human capital
- Natural capital
- Social and relationship capital

4.1 Financial Capital

	Management Approach	Results 2019
Balanced growth	<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"> • Ensure a return on capital through projects and investments preferably in regulated businesses, renewable assets or assets with long-term contracts. • Increase geographic diversification, further balancing the contribution of the countries in which it does business. • Tailor investment levels to the actual needs of each market. 	<ul style="list-style-type: none"> • Net investments of €7,242 million, of which 85% has been assigned to the Networks and Renewables businesses. • Investments in Networks assets have been boosted by the long-term regulatory frameworks established in all of the countries, and have increased 25.1% in the United Kingdom, 23.6% in the United States, 22.3% in Spain and 13.8% in Brazil. • In Generation, there has been a startup of approximately 5.4 GW of capacity since the beginning of 2019. • Funds From Operations have increased 10.0%, reaching €8,060 million thanks to all the investments, exceeding investments by more than €820 million.
Solid financial structure	<ul style="list-style-type: none"> • 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. • The financial policy seeks improvement in solvency ratios, balancing an increase in debt with the generation of additional cash flow from new investments. • 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. 	<ul style="list-style-type: none"> • Gross margin of €16,263 million (+5.4%). • Net profit of €3,406 million (+13.0%), in line with forecasts for the year. • EBITDA increased by almost 8.1% to €10,104 million, thanks to the good operational performance of all of the businesses, especially the performance of the networks business. • Adjusted net financial debt is €37,769 million, increasing €3,620 million over the year, as a result of the strong investment process implemented by the group and the effect of the first implementation of IFRS 16. • Liquidity of €14,300 million, which covers more than 18 months of financing needs.
Operational excellence	<ul style="list-style-type: none"> • 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. • The implementation of best practices in all areas will allow for additional savings and an increase in synergies at the global level. 	<ul style="list-style-type: none"> • Net operating expenses increased 4.2% to €4,330 million, 2.7% excluding the effect of exchange rates. This increase is mainly explained by the effects of growth (including Wholesale and Retail in Mexico, and Wikingier).
Sustainable results and dividends	<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • Shareholder remuneration of 0.356 euro per share, equal to a dividend yield of 3.87%. • Flexible dividend offering tax benefits, the repurchase of shares to avoid dilution, adding the cash payment option.

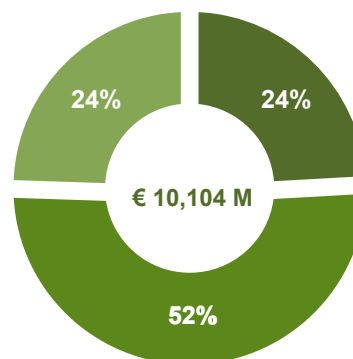
Create value for the shareholder with sustainable growth

Gross margin by business 2019



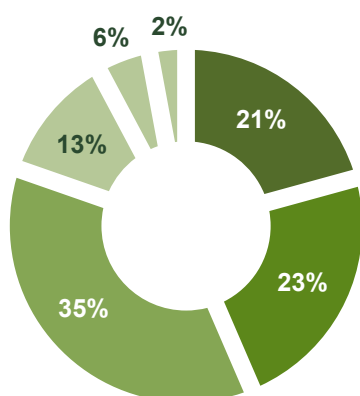
■ Wholesale and retail ■ Networks ■ Renewables

EBITDA by business 2019



■ Wholesale and retail ■ Networks ■ Renewables

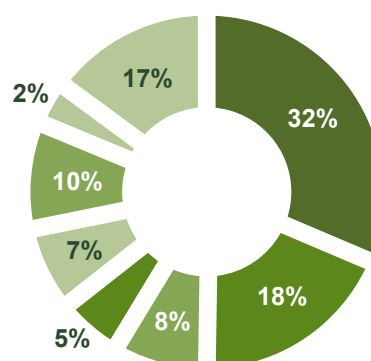
Gross investment by geographical area 2019



■ Spain ■ United States ■ México
■ United Kingdom ■ Brazil ■ IEI

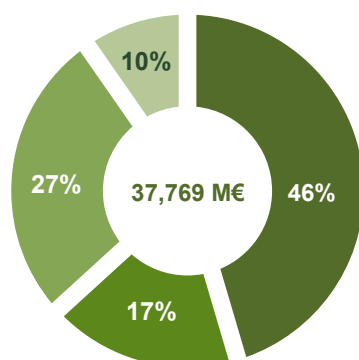
Diversification of investments, with a heavy concentration outside of the euro zone.

Bank borrowings, gross by product type 2019



■ EUR market bonds ■ USD market bonds ■ GBP market bonds
■ Other Bonds ■ Notes ■ Project finance ■ Bank loans ■ Multilaterals

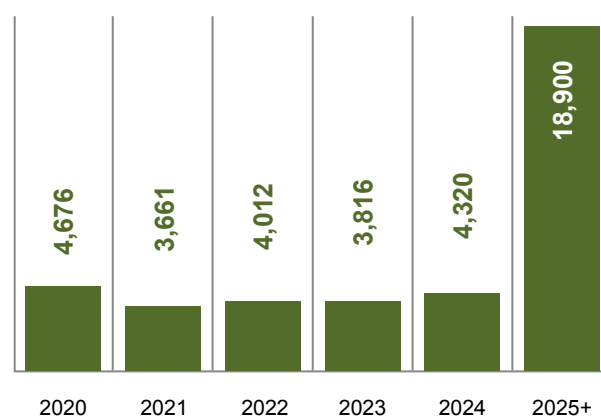
Structure of adjusted net debt broken by currency in 2019



■ Euro ■ Pound ■ Dollar ■ Reais and others

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

Maturity of financial debt (€M)



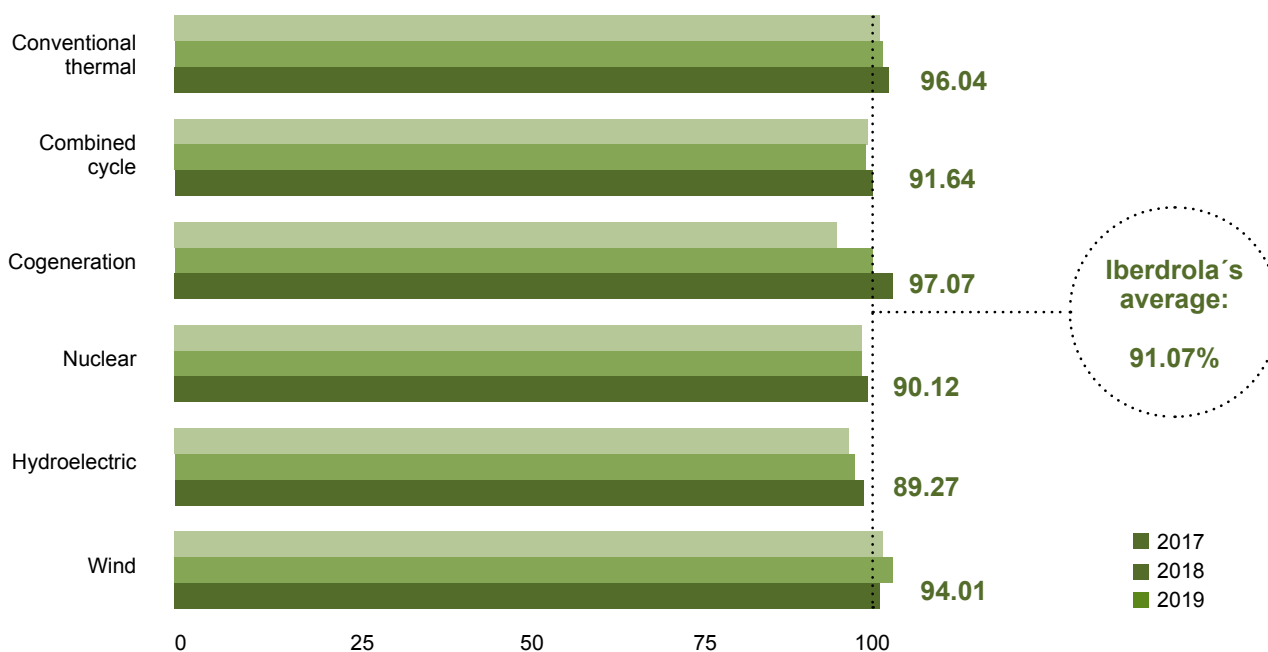
Comfortable maturity profile.
Excludes credit lines

4.2 Manufactured Capital

	Size	Principal activities 2019
Electric power generation assets	<ul style="list-style-type: none"> 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), 11 photovoltaic plants, more than 50 thermal power stations using various technologies, 5 of which are nuclear, and other facilities built and operated according to the best practices. 	<ul style="list-style-type: none"> The year ended with additional installed capacity of 5,446 MW, of which more than half (2,791 MW) are renewable, including the Nuñez de Balboa photovoltaic plant in Spain, the Baixo Iguaçu hydroelectric plant in Brazil, and the Montague, Patriot and Karankawa wind farms in the United States. The remaining 2,655 MW is related to the combined cycles in Mexico (866 MW El Carmen, 911 MW Topolobampo II and 878 MW Escobedo). At the same time, 49 MW of capacity has left the boundary due to the sale of two wind and solar plants in the United States. 40% of the 714 MW <i>East Anglia ONE</i> offshore wind project in the United Kingdom was sold.
Power transmission and distribution assets	<ul style="list-style-type: none"> Iberdrola's electricity transmission and distribution networks comprise over 1.1 million km of distribution and transmission lines, more than 4,400 substations and 1.5 million transformers, built and operated to supply a high-quality, reliable service to 30.99 million electricity supply points. Iberdrola also has more than 40,000 kilometres of gas pipelines for the transport and distribution of gas in the United States. Iberdrola is a pioneer in the development of innovative projects to improve the reliability of electric supply. 	<ul style="list-style-type: none"> In Spain, regulatory commitments required the deployment of smart meters for customers of less than 15kW (Type 5) after 2018, with the deployment of these meters for Type 4 customers (15 kW to 50 kW) during 2019. There are currently more than 10.97 million smart meters. There is continued deployment of smart meters in the United Kingdom, with more than 1.5 million installed. In the United States progress continues to be made in securing permits for the 233-km-long <i>New England Clean Energy Connect</i> (NECEC) construction project. In Brazil a 500 kV static compensator was placed into service in São Paulo in 2019 and construction is advancing on almost 5,000 kilometres of transmission lines and 30 substations in 14 states.
Other assets	<ul style="list-style-type: none"> Iberdrola manages approximately 1,323,000 m² of offices and work centres throughout the world, with a total of 843 properties, of which 266 are located in Spain, 89 in the United Kingdom, 167 in the United States, 301 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. 	<ul style="list-style-type: none"> Construction of the Iberdrola Campus at San Agustín del Guadalix has been completed, cementing its position as the group's centre of excellence, training and events. Real estate consolidation continues along the east coast of the United States, with real estate activities in the states of NY, MA, ME and CT to improve the efficiency and modernisation of the asset portfolio. The integration and first phase of consolidation of the headquarters of Neoenergia has been completed. There is also work on the process of internalising the main functions of the Networks Business. The construction of a new corporate headquarters in Mexico DF for approximately 500 employees has commenced. Iberdrola's has consolidated its presence in the rest of the world, increasing its footprint in Paris, Berlin, Rome, Milan, Lisbon, Dublin and Melbourne.

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

Average availability factor of Iberdrola's generation facilities

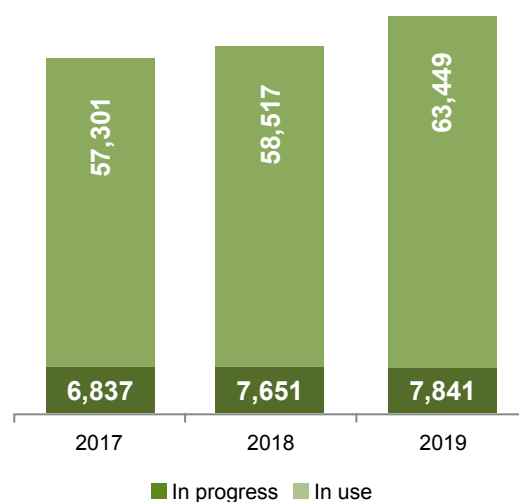


Quality of electricity supply

Average power outage duration		2019	2018
Spain	TIEPI (min)	45.20	44.60
United Kingdom	CML (min)	33.47	35.51
United States	CAIDI (h)	1.93	2.07
Brazil	DEC (h)	11.02	12.24
Power outage frequency		2019	2018
Spain	NIEPI (n°)	0.94	0.91
United Kingdom	CI (ratio)	39.46	43.32
United States	SAIFI (índice)	1.17	1.22
Brazil	FEC (frecuencia)	5.47	5.81

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.

Fixed assets (€M)



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.

4.3 Intellectual Capital

	Management approach	Principal activities 2019
Promotion of R&D	<ul style="list-style-type: none"> Iberdrola continues to wager on innovation as one of its main pillars for successfully facing the future energy scenario, promoting energy efficiency, decarbonisation and the electrification of the economy. Ignacio Galán, the chairman & CEO of the Iberdrola group, has received the National Innovation and Design Award in the Innovative Career Category from the Ministry of Science, Innovation and Universities. 	<ul style="list-style-type: none"> €280 million of R&D investment in 2019, a 5% increase over 2018. Expansion of Iberdrola's Universities Programme, <i>Iberdrola U</i>, with the inclusion of Yale University in the United States, Pernambuco University in Brazil and Hamad bin Khalifa University in Qatar. Wager on internal talent through the launch of <i>INVENTA</i>, the global platform for the management of innovative campaigns and ideas. Launch of two <i>start-up challenges</i>, where companies throughout the world submit potential solutions to specific problems of the energy industry. Expansion of the Innovation Programme with <i>Proveedores Iberdrola Bizkaia</i> (Iberdrola Biscay Suppliers), to finance innovative projects of Biscayan suppliers allowing for the development of products and services in the energy industry.
Efficiency and new products and services	<ul style="list-style-type: none"> New developments driving flexibility, operational efficiency and the safety of facilities, as well as a reduction in our environmental impact through the implementation of disruptive technologies and the reduction of emissions. Design of new products that guarantee an efficient, agile and high-quality service and ensure an improvement in the experience of its more than 16 million customers. 	<ul style="list-style-type: none"> Development of domestic and international R&D projects to promote sustainable development, renewable energy and emerging technologies. There has been a launch of the <i>Asistente Smart Iberdrola</i> allowing customers to disaggregate the electricity consumption of their home appliances. Customers with electric vehicles can manage their home recharging point using the <i>Smart Mobility Hogar</i> app. It will also be possible to locate and reserve recharging points on the web using the <i>Iberdrola Public Charge App</i>. Using the <i>Smart Solar App</i>, each customer will be able to monitor generation, self-consumption and injection into the grid from their solar panels.
Disruptive technology and business models	<p>Through the <i>Iberdrola-PERSEO</i> international start-up programme, investments are made in technologies and new disruptive businesses models, which ensure the sustainability of the energy model. Since its creation, more than €65 million have been invested through the programme worldwide.</p> <p>Lines of activity:</p> <ul style="list-style-type: none"> Technologies favouring the integration of renewable energies. Aggregation and management of distributed energy resources (batteries, solar, etc.). Innovative solutions for customers (demand-side management, digital solutions, etc.). Advanced technologies for operation and maintenance of energy assets. Electromobility: charging infrastructures and new solutions. Energy efficiency, including efficient thermal solutions. 	<ul style="list-style-type: none"> Iberdrola has been recognised by the European Commission within the framework of the <i>Start-up Europe Partnership</i> initiative, which has named Iberdrola for the third consecutive year as one of the top 12 European companies that work best with start-ups, and also giving it the special "<i>Start-up Procurement Award</i>". There were more than 15 pilot projects with start-ups in technological areas like Artificial Intelligence, Big Data, Internet of things (IOT) and blockchain in 2019. Investment in the company Wallbox, dedicated to the development of electric mobility solutions, and in Balantia, which develops solutions for improvement in the area of energy efficiency. These investments are an important contribution to Iberdrola's wager on the areas of electric mobility and energy efficiency.

🕒 Innovation Report

Highlight the value of the company's intangible assets

Main R&D research projects

Smart grids

- *ATELIER* arises with the goal of developing Positive Energy Districts in eight European cities where Smart solutions for cities will be implemented and tested.
- In *COORDINET*, transporters, distributors and consumers of electricity will define a European energy platform allowing for a bidirectional flow of energy.
- As regards the integration of electric vehicles into the grid, the *ASSURED* project intends to develop rapid recharging solutions for heavy-load electric vehicles.

Renewable energy

- There has been a launch of the European *ENERXICO* project, the goal of which is to prepare computational fluid dynamics (CFD) models for future exascale computers and advance in the use of simulation models.
- There has been a continuation of the *ROMEO* and *ASPA* projects to develop new models and tools for the early detection of failures based on AI/big data techniques.
- In offshore wind, the construction of *East Anglia One* offshore wind farm in the United Kingdom is nearing completion and will enter into operation in 2020.

Clean generation

- The *OCTAVE* project, giving greater flexibility to combined cycle plants and facilitating the integration of renewables into the energy mix, has been completed.
- *REDEMIS* has commenced, to improve environmental performance in combined cycle startup, shut-down and load changing.

Customers

- *Energy Wallet* allows the purchase of 6-, 12- or 24-month green energy packages knowing the final price. from the renewable plant selected by the customer. It can be used at different addresses and managed from a mobile phone.
- *Smart Home* includes a wide range of web-connected devices, wagering on energy management, and the *Asistente Smart Iberdrola* allows for the disaggregation of consumption.
- *Smart Mobility* is a comprehensive solution that includes the purchase of a charging point, installation and warranty, operation by means of an app, and a personalised supply contract.

Iberdrola, at the forefront of digital transformation

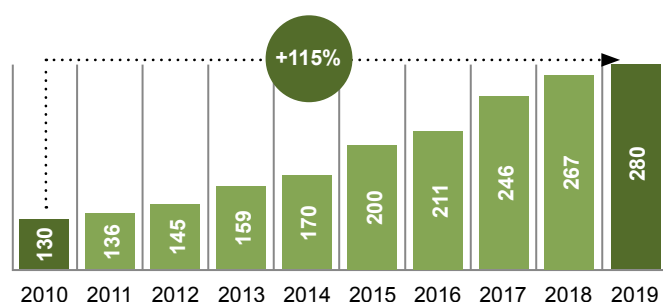
Iberdrola's roadmap has digitisation as one of the keys of the future energy scenario.

Iberdrola participate in proofs of concept and multi-sector working groups, in addition to its R&D projects.

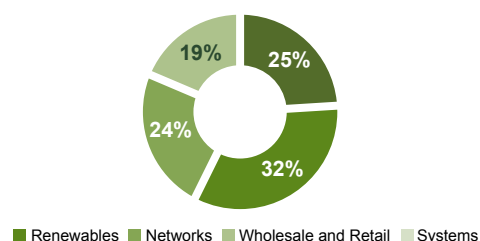
It leads working groups of the *World Economic Forum* (WEF), including *Cyber Resilience*, and participates in others, including *Digitization* and *Blockchain for Energy*. We are also members of *Euroelectric Blockchain Platform*, the *ERT Digital Transformation Working Group*, the multi-sector consortium of *Alastria* and the *Digitisation Committee* of the Spanish Chamber of Commerce.



Investments in R&D (€M): 2nd most innovative company in Europe, and 3rd in the world¹



% R&D investment by strategic area



(1) Industry classification by the EU R&D Scoreboard, with a total of 23 companies.

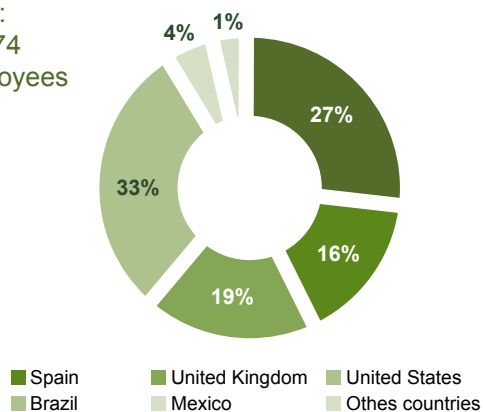
4.4 Human Capital

	Management approach	Principal activities 2019
Global human resources management	<ul style="list-style-type: none"> • Achieve the goals of competitiveness and business efficiency in a climate of social peace, fostering stable, high-quality employment. • Harmonise human resources processes and make inroads with implementing the Iberdrola culture in all countries, respecting specific local conditions. 	<ul style="list-style-type: none"> • Management of an appropriate labour relations framework that can be adapted to suit business and social requirements. • Review of the human resources processes, conforming them to the purpose and values. • Improvement in the digitisation of the goals, selection and on-boarding process. • Strengthening of new forms of collaborative internal communication. • Inclusion of Neoenergia within OneHR, extending and unifying practices and processes.
Goal of “accident reduction”	<ul style="list-style-type: none"> • 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. • 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. 	<ul style="list-style-type: none"> • 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. Conformance of global standards to the new ISO 45001 standard. • Monitoring of proactive and reactive indicators among the group's companies. • Creation of improvement groups (GPGs) for improving Indicators, Safety Culture and Digitisation in order to promote innovation, safe behaviour, best practices and lessons learned. • Implementation of the <i>Zero Accident Plan</i> at Neoenergia to reduce the accident rate.
Talent management	<ul style="list-style-type: none"> • Drive staff qualifications, preparing employees to work in a multicultural environment and making continual efforts to improve their employability. • Develop alternatives to compensate for factors stemming from the ageing of the workforce. • Maintain a team of competent, committed and motivated professionals, which is key for the sustained success of the business. • Manage talent on an integrated basis in order to train future leaders, preparing them now to assume larger responsibilities. 	<ul style="list-style-type: none"> • Strengthen and measure the impact of leadership development programmes for team leaders in all countries. • Review and simplification of the skills and leadership model towards principles of values-based behaviours. • Implementation of self-assessment and career recommendation tools. • Launch of new international mobility portal. • Launch of skills development programmes for specialists (technical career). • Alignment of high potentials identification process with the remunerative cycle. • New edition of the “Early Career” international mobility programme.
Diversity, equal opportunity and reconciliation	<ul style="list-style-type: none"> • Diversity, equal opportunity and reconciliation • Guarantee a social model committed to professional excellence and the quality of life of our employees. • Develop labour relations based on equal opportunity, non-discrimination and the promotion of diversity. • Create a high-quality labour environment by committing to reconciliation. • Contribute to achieving the SDGs for the 2015-2030 horizon through the <i>Corporate Volunteering Programme</i>. 	<ul style="list-style-type: none"> • Inclusion of Iberdrola in the 2020 <i>Bloomberg Gender-Equality Index</i> for the second consecutive year. • Launch of awareness-raising, training and communication initiatives that contribute to improving gender diversity within the group. • International cultural exchanges. • Corporate Volunteerism Activities to improve the quality of life and the integration of vulnerable groups (<i>International Volunteering Day</i>, the <i>INVOLVE</i> international volunteering programme, <i>Lights and Action</i> and <i>Operation Kilo</i>). • Volunteerism for environmental protection, including climate change workshops, reforestation, cleaning and recovery of natural environments. • Volunteering to disseminate the SDGs.

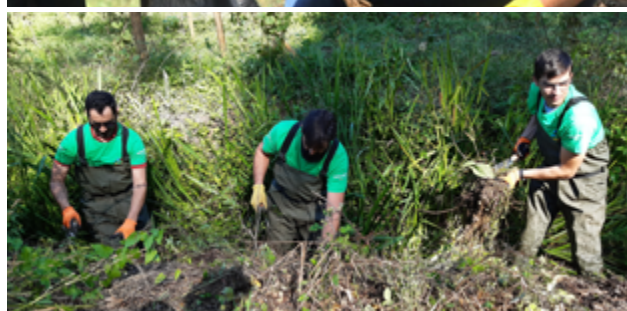
Ensure the availability of a committed, qualified and diverse workforce in a safe and stable environment

Geographic diversification of the workforce

2019:
35,374
employees

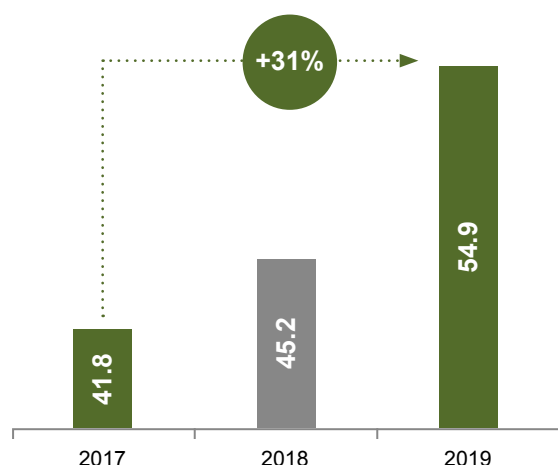


Social commitment



Various corporate volunteer activities by employees around the world
(Photos: Brazil, Mexico and Portugal)

Hours of training per employee trained:

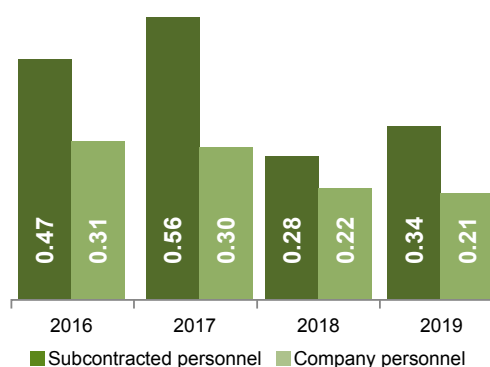


Iberdrola committed to leadership



Graduation of 3rd MBA in the Global Energy Industry class.

Improvement in accident ratios (2016-2019)¹:



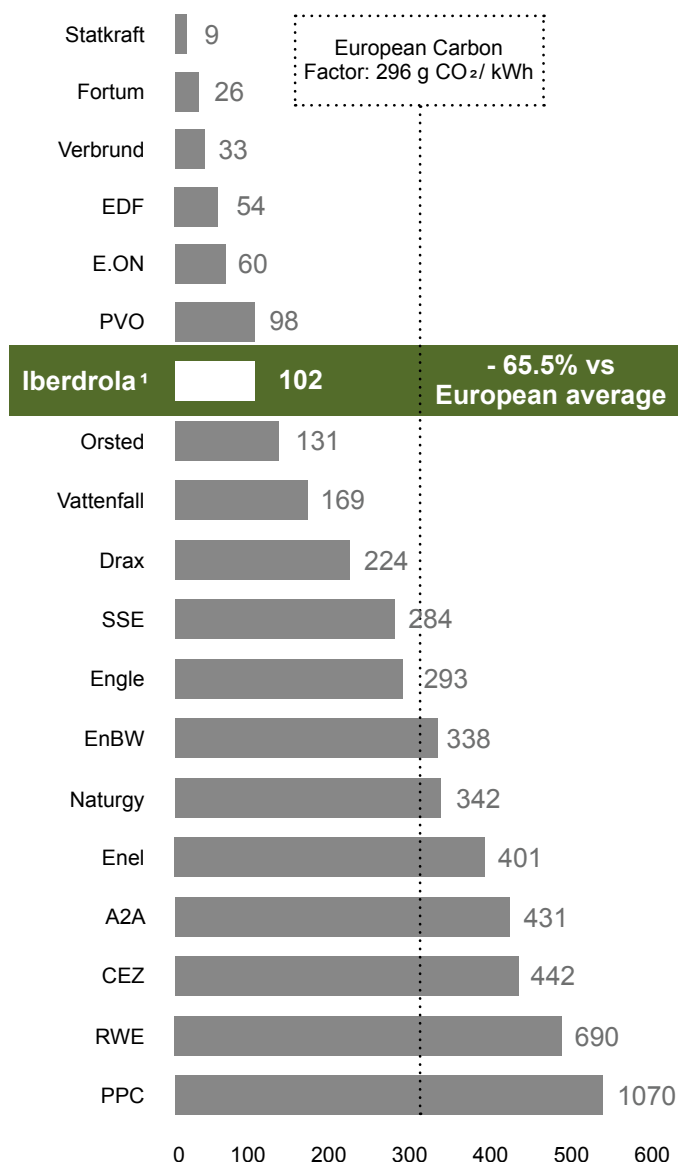
4.5 Natural Capital

	Management approach	Principal activities 2019
Protect the environment and stop the loss of biodiversity	<ul style="list-style-type: none"> • Conserve and recover the ecosystems associated with our activities, coordinating the biodiversity plans of the businesses in affected areas. • Improve the compatibility of Iberdrola's infrastructure with protection of the environment. • Avoid discharges and pollution of water and soil, all in line with Iberdrola's <i>Biodiversity Policy</i> and <i>Environmental Policy</i>. • Iberdrola commits to continuously improve biodiversity protection standards in order to reach a net positive balance at all new generation infrastructure that it deploys by 2030, applying mitigation hierarchy principles and avoiding the construction thereof in protected areas. 	<ul style="list-style-type: none"> • Acquisition of ISO-TS 14072 Certificate for Corporate Environmental Footprint (CEF) 2018. • Climate Change Adaptation Report for activities in Spain. • Sustainable 2019 General Shareholders' Meeting: ISO 20121 certification as a sustainable event for fourth consecutive year. • Renewal of all certificates updating to the new ISO 14001:2015 standard. • Participation in Natural Capital's working group with companies in the industry. • Biodiversity Action Plans.
Combat climate change and its effects	<ul style="list-style-type: none"> • Prevent pollution and the emission of greenhouse gases (GHGs) through practices that reduce or eliminate the production of pollutants at source. • Reduce the emissions of non-GHGs into the air. • Gradually replace equipment using substances that reduce the ozone layer. • Promotion of awareness-raising campaigns regarding air quality. • New GHG emissions-free facilities (renewable, wind, hydroelectric, etc.). 	<ul style="list-style-type: none"> • Emissions in Spain were 94 gr CO₂ / kWh. • Approval of SBTi Targets regarding the group's emissions. • Commitment to reduce specific emissions, and very active participation in the Madrid Climate Change Conference (Spain). • Sustainable Mobility Plan.
Guarantee sustainable modes of production and consumption	<ul style="list-style-type: none"> • Continuous improvement in operational performance. • Implementation of actions to increase energy efficiency. • Decrease in consumption of natural resources. • Inclusion of environmental variable in the design of infrastructure (Eco-design). • Improvement in control and management of waste generated. 	<ul style="list-style-type: none"> • Innovative activities in environmental management and control. • Assurance of quality in environmental management. • Efficient management of water consumption. • Improvement in withdrawal and consumption of inland water at all generation facilities. • Reuse and recycling of water. • Awareness campaign on use of plastic. • Improvement in reuse and recycling of waste. • Active awareness-raising on the circular economy.
Revitalise alliances with Stakeholders for sustainable development	<ul style="list-style-type: none"> • Strengthen transparent dialogue with Stakeholders in order to work together in seeking solutions to environmental problems. • Manage environmental compliance by suppliers. • Transparently report on environmental results and activities. • Optimisation of and innovation in environmental management systems. 	<ul style="list-style-type: none"> • Make or provide information for the various reports relating to this capital (<i>Sustainability Report</i>, <i>Corporate Environmental Footprint Report</i>, etc.). • Public-private cooperation with the Basque Government on environmental issues. • SDG Acceleration Day at the San Agustín de Guadalix Campus in partnership with REDS, IS Global and ITD-UPM.

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

Specific CO₂ emissions from facilities in Europe

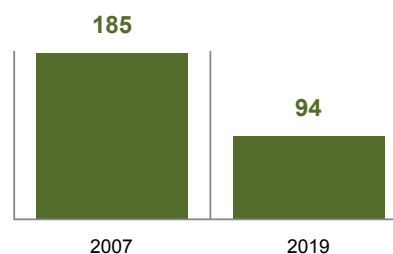
(Carbon factor in g of CO₂/MWh)



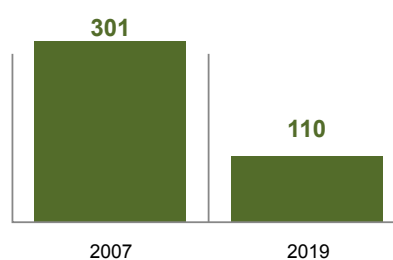
European carbon factor 2018: 296 g CO₂/kWh¹

Source: "Facteur carbone européen Comparaison des émissions de CO₂ des principaux électriciens européens" PwC France. Dec. 2019.

Intensity of emissions in Spain (g CO₂/kWh)

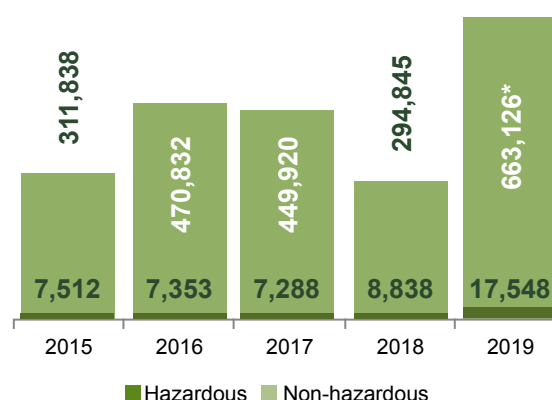


Overall intensity of the group's emissions (g CO₂/kWh)¹



(1) Calculated on total own production.

Volume of recovered, reused or recycled waste (t)



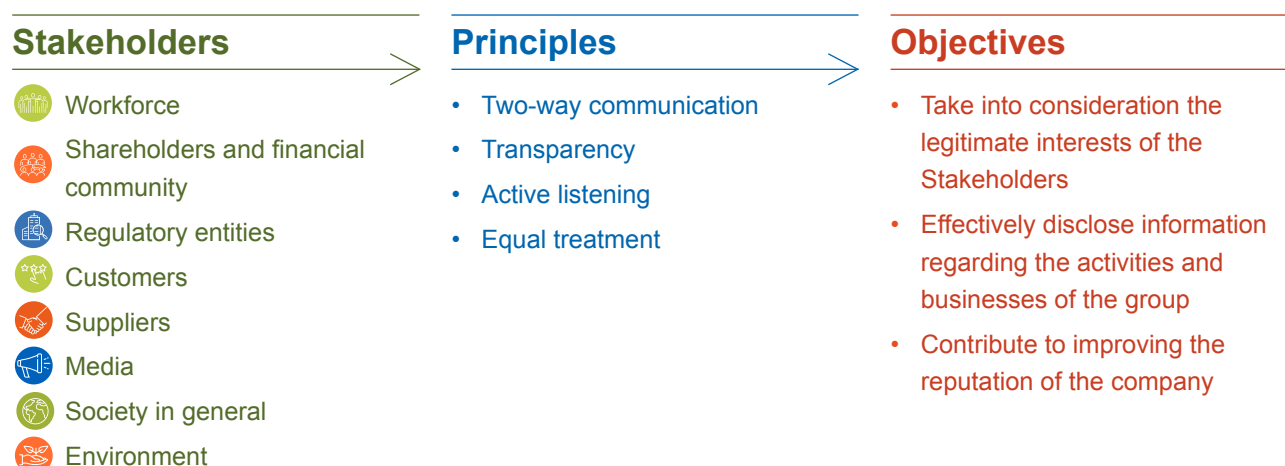
(*) Increase as a result of the reuse of construction land at facilities in the United States.

4.6 Social and Relationship Capital

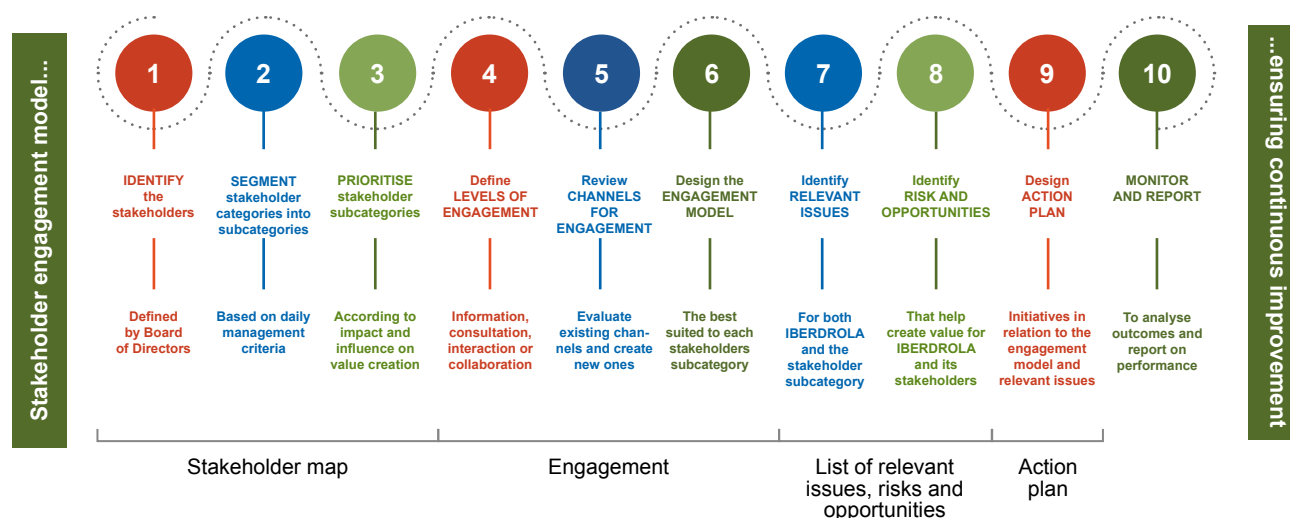
Stakeholder engagement

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.



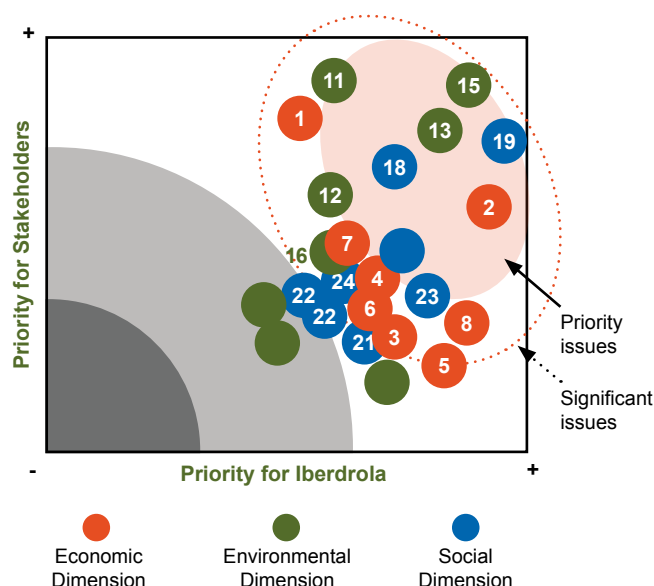
Key figures

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

- 70 categories of sub-stakeholders
- More than 40 different channels of communication, increasingly digital.
- More than one hundred relevant issues, with numerous related 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". And also aligned with the latest materiality study performed by an independent firm based on external information sources.

Materiality matrix 2019



Priority issues

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

Significant issues

- 1. Socially responsible investment
- 12. Integration of renewable energy within the electric system
- 7. Smart grids and supply quality
- 16. Availability and management of water
- 4. Ethics and integrity (anti-corruption and free competition)

- 24. Connectivity, digitisation and cybersecurity
- 23. Attraction, development and retention of human capital
- 6. Public policy
- 8. Green financing
- 3. Transparency
- 21. Human rights
- 5. Responsible supply chain
- 20. Impact on local communities

Other significant issues

- 22. Vulnerable customers
- 14. Management of biodiversity
- 9. Management of natural capital
- 10. Circular economy

Good Practices

Stakeholders Panel on CSR

Iberdrola has launched a permanent Stakeholders Panel on CSR, made up of major opinion leaders in this area. Its goals include:

- Knowing the opinions of CSR experts regarding global trends and relevant CSR issues.
- Using these opinions as a benchmark for guidance when Iberdrola designs strategies and makes decisions in this area.

Global internal communication campaign: ten new guidelines on stakeholder engagement

- | | | | |
|---|---|----|---|
| 1 | Know in detail what stakeholders you engage with | 2 | Check that the communication channels available to them are working properly |
| 3 | Listen to them about the issues that concern them | 4 | Analyse the risks and opportunities of these issues |
| 5 | Provide specific responses to the issues that most interest and concern them | 6 | Give them clear and simple explanations of why we do things the way we do |
| 7 | Ask whether they approve of our decisions and how we can improve | 8 | Fulfil your commitments and collaborate with them whenever possible |
| 9 | In short, take them into consideration whenever making decisions that affect them | 10 | And always keep, your stakeholders' best interests in mind and think about what they might need |

Community support and electricity access programmes

Primary programmes

Activities 2019

- Contribution of €52.3 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: €54 million of procurement from companies in operation for less than 5 years, and €65 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 more than €40 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 2019, the programme had reached 7 million users.

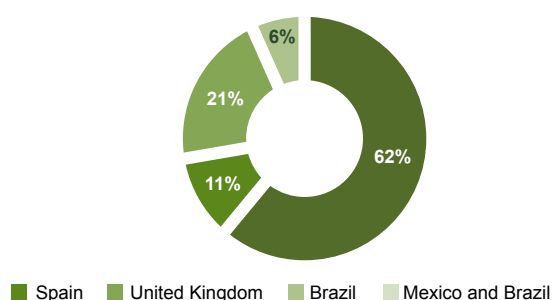
Foundations of the Iberdrola group

Activities 2019

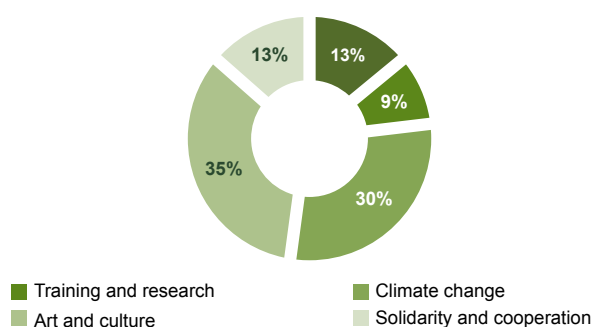
- Iberdrola has strengthened the operation of its foundations in Spain, the United Kingdom, the United States, Brazil and Mexico.
- Overall investment dedicated to activities in all countries in 2019 increased to a total of €9.2 million.
- A new *Master Plan* has been prepared for the 2018-2021 period, 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 more than 80,000 beneficiaries.
- In Art and Culture, there are three major programmes:
 - Lighting: The most important have been the Cathedral of Santiago (in progress) and the Grand Staircase of the General Navy Headquarters (Spain), the National Museum of Art (Mexico), the illumination of the façade of the Cascudo Memorial Chamber (Brazil) and the *Luces de Esperanza* (Lights of Hope) project in Mexico.
 - Restoration: Includes the *Gabinete de descanso de los Reyes* (Their Majesties' Retiring Room) (Prado Museum), the Altarpiece of Villamentero de Campos and the church of San Martín de Castañeda in Spain.
 - Museums: Promote the restoration and exhibition of works, including: El Prado in the Streets (Prado Museum), *Sorolla en pequeño formato*, *Sorolla Dibujante* (Sorolla Museum).
- Biodiversity and climate change includes the MIGRA program to protect birds in danger of extinction, the LIFE project with SEO Birdlife in Spain, Sussex Wildlife Trust (in the United Kingdom), National Fish and Wildlife Foundation (NFWF) at Avangrid, the Cañón de Fernández Project (Mexico) and the CORALIZAR project in Brazil.
- In the area of Cooperation and Solidarity, there have been more than 70 partnerships in the five countries with an impact on more than 100,000 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 2019

Contribution by region (%)



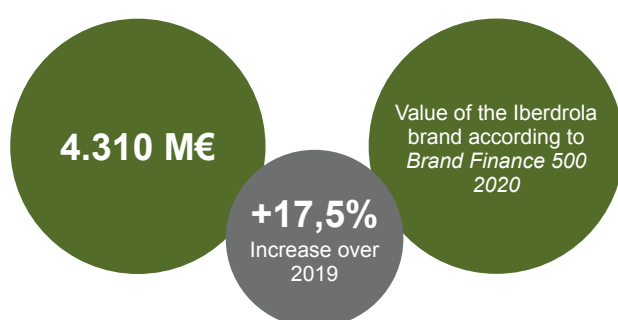
Contribution by programme (%)



Corporate reputation

Soundness and strength of the brand

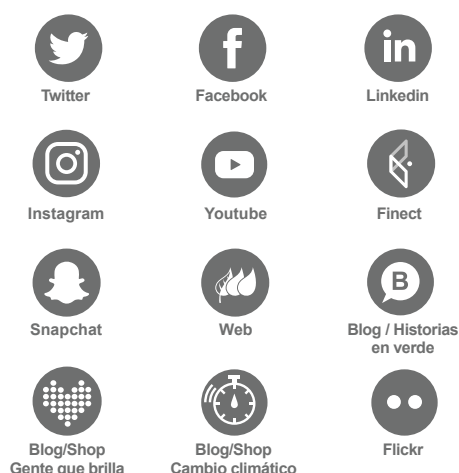
- Management of the brand so that it transmits the essence of the Iberdrola group's Purpose and reflects the company's strategy to commit to the environment and to Sustainable Development.
- Consolidation of an international brand, strengthening communication and alignment under a single brand positioning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



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 the company's global reputation, which is also influenced by the social perception of the electricity sector.
- Iberdrola therefore manages and constantly measures 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 its activities.

- Management: Reputation is mainly managed through two elements:

Proactive management of the Stakeholders through the Stakeholder Engagement Model, which allows one to know expectations and needs, to analyse risks (including reputational risks) and to establish specific action plans, as explained at the beginning of this section.

The communication plans, the Sustainable Development Plan and numerous other specific actions focused on each of the company's eight Stakeholder groups.

- Measurement: Reputation is monitored and measured through a specific scoresheet that includes variables from reputational rankings, Stakeholder surveys and various sustainability indexes, among other things.

- Iberdrola reviews and updates its *Reputational Risk Framework Policy*, which is the main reference point for the control and management of this risk, on an annual basis. The company also has internal processes that allow it to respond to potential reputational crises.





5. A Framework of Trust

5.1 Corporate Governance Model

Foundations of the corporate governance model

A. Corporate Governance System

Iberdrola is a multinational leader in the energy sector committed to ethics, zero tolerance for corruption and crime, transparency, the fight against climate change, and good governance, and which has integrated the Sustainable Development Goals into its strategy.

The purpose of the group, its *raison d'être*, is none other than “to continue building together each day a healthier, more accessible energy model, based on electricity”.

Position	Director	Status	Date of last appointment	Ending date
Chairman & CEO	José Ignacio Sánchez Galán (Salamanca, Spain, 1950)	Executive	29-03-2019	29-03-2023
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	29-03-2019	29-03-2023
Director	Georgina Kessel Martínez (Mexico City, Mexico, 1950)	Independent	13-04-2018	13-04-2022
Director	Denise Mary Holt (Vienna, Austria, 1949)	Independent	29-03-2019	29-03-2023
Director	José W. Fernández (Cienfuegos, Cuba, 1955)	Independent	29-03-2019	29-03-2023
Director	Manuel Moreu Munaiz (Pontevedra, Spain, 1953)	Independent	29-03-2019	29-03-2023
Director	Xabier Sagredo Ormaza (Portugalete, Spain, 1972)	Independent	29-03-2019	29-03-2023
Lead independent director	Juan Manuel González Serna (Madrid, Spain, 1955)	Independent	31-03-2017	31-03-2021
Director / Business CEO	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
Director	Sara de la Rica Goiricelaya (Bilbao, Spain, 1963)	Independent	29-03-2019	29-03-2023

B. Governance model

The model differentiates between the duties of strategy and supervision and those of guidance and effective management. It is 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

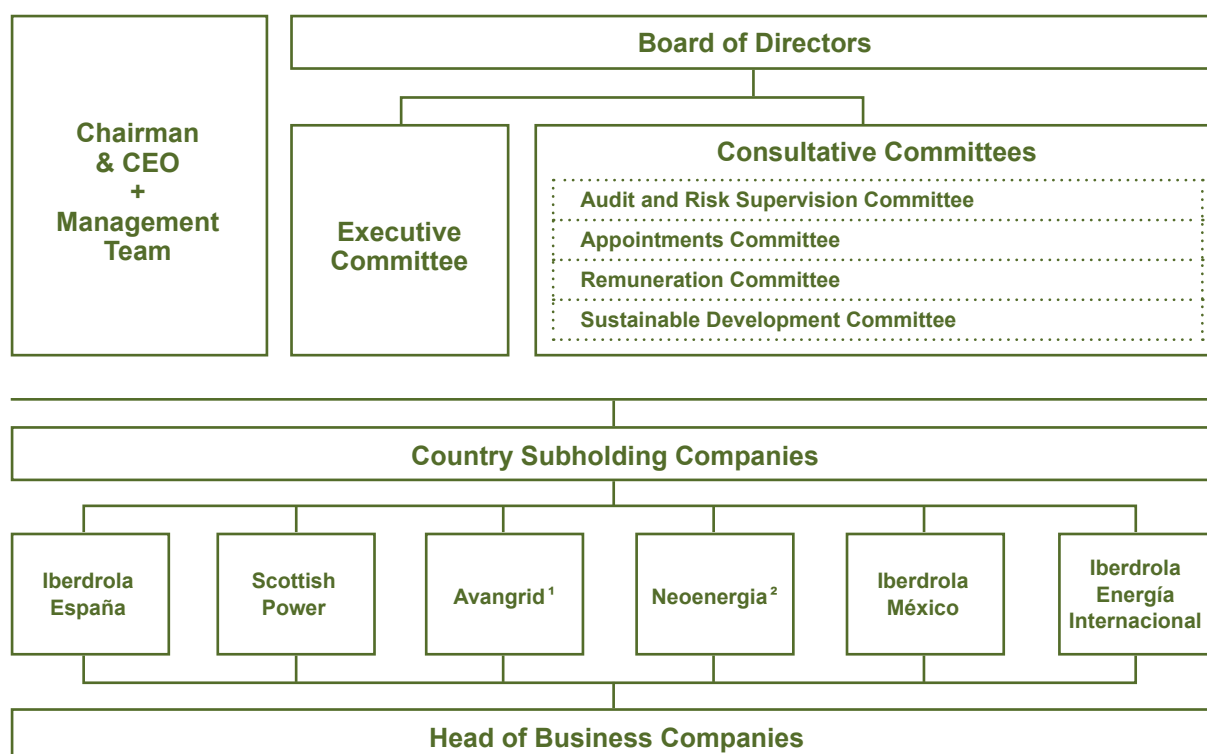
companies, which group together equity stakes in the head of business companies and centralise the provision of common services. Each of these companies has its own CEO.

- 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. and Neoenergia, S.A. 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.

Corporate and governance structure of Iberdrola, S.A.



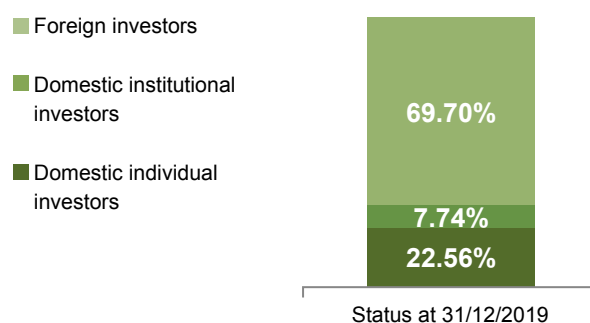
(1) Company listed on the New York Stock Exchange.

(2) Company listed on the New Market segment of BOVESPA (Brazil).

C. Equity structure

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

Investment funds, pension funds and other foreign institutional shareholders account for 69.7% of the capital.



External corporate governance awards/recognitions / page 39

Iberdrola, at the forefront of corporate governance

A. Corporate governance strategy

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

- Zero tolerance towards corruption and fraud
- 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 contribution to the Sustainable Development Goals
- Active listening to the legitimate interests of the Stakeholders
- Prudent and balanced management of risks

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.

71.4% of the directors are independent.

Remuneration policy

Director Remuneration Policy approved by the shareholders at the General Shareholders' Meeting.

Executive directors' variable remuneration tied to objectives.

Clause on cancellation and reimbursement of variable remuneration (*malus and claw-back clauses*)

Operation of the Board

71.4% of the directors are independent.

System of checks and balances, including a lead independent director.

Gender diversity: six women on the Board. A female vice-chair of the Board, and two female Committee chairs.

Diversity of skills, experience, nationality and origin.

Annual evaluation of the governance bodies by an independent expert.

Sustainable development and corporate reputation

Sustainable Development Committee

Sustainable development policies focused on the maximisation of the social dividend, promotion of the SDGs and Stakeholder engagement.

Climate Action Plan and adoption of the recommendations of the *Tax Force on Climate-related Financial Disclosures (TCFD)*.

General Shareholders' Meeting conceived of and certified as a sustainable event.

Corporate Governance System

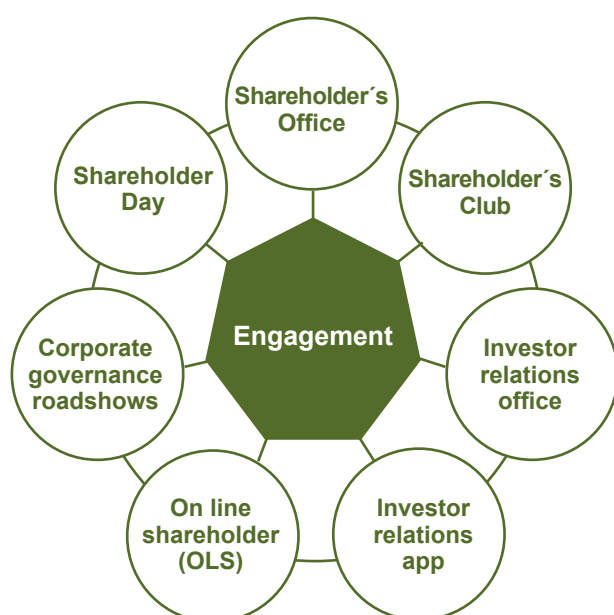
Ethics / page 86

Sustainable Development / page 87

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.

The quorum in attendance at the 2019 General Shareholders' Meeting was 74.12%. e asistencia del 74,12 %.



All blocks of shareholder resolutions for the 2019 General Shareholders' Meeting were approved with an affirmative vote above 98%

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 and on market terms	According to their duties and 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 2020

Operational / Financial	Net Profit.
	Shareholder remuneration.
	Financial strength.
	Efficiency in costs.
	Installed capacity.
	Project portfolio.
Sustainable Development.	Female presence in management positions.
	Presence on relevant sustainability indexes.
	Training.

Parameters to which the multi-annual variable remuneration of executive directors is tied (2020-2022)¹

Net profit.
Financial strength.
Total shareholder return.
Sustainable Development Goals (the Fight against Climate Change, the drive for Sustainability in the Supply Chain and Commitment to Salary Equality between Men and Women).

(1) Pending approval by the shareholders at the General Shareholders' Meeting to be held in 2020.

Principal activities of the Board of Directors.

Key topics in 2019

Balanced growth	Alignment of <i>Outlook 2018-2022</i> with challenges and trends in the sector
	Review of results and level of achievement of <i>Outlook 2018-2022</i>
	Approval of the budgets for financial year 2020
	Performance and expectations of each of the businesses of the group
	IPO of Neoenergia
	Potential opportunities for investment in strategic markets
Sustainable remuneration of shareholders	Shareholder remuneration in line with <i>Outlook 2018-2022</i>
	Implementation of the <i>Iberdrola Flexible Remuneration</i> optional dividend system for 2019
	Renewal of the <i>Iberdrola Flexible Remuneration</i> system for the coming financial year
Social dividend	Change in corporate philosophy: definition of Purpose , update of corporate values and update of the <i>General Sustainable Development Policy</i> and of the <i>Human Resources Framework Policy</i> .
	Supervision of the group's activities having an impact on Stakeholders , and alignment with the Sustainable Development Goals .
	Analysis of Talent Management trends and best practices.
	Approval of the <i>Statement of Non-Financial Information. Sustainability Report 2018</i>
	Publication of the <i>Fiscal Transparency Report</i>
	Publication of the <i>Gender Equality Report</i>
	Climate Action Plan , TCFD recommendations, participation in the UN Climate Action Summit 2019 and in COP25
Financial strength	Approval of major financial transactions of the group
	Monitoring of the financing policy and principal transactions in the capital markets
	Divestments from non-strategic assets



Control of corporate risks

Review and update of **Risk Policies** and approval of guidelines on risk limits for 2019

Monitoring of **risk control and management systems** and of level of compliance with the **Corporate Tax Policy**

Corporate governance and compliance

Re-election of the **chairman** as executive director, CEO and member of the Executive Committee

Appointment, re-election and classification of directors

Evaluation of candidates

Selection and composition of the governance bodies

Appointment of **independent directors** at the various country subholding companies

Analysis of the latest **corporate governance trends**

Continuous update of the **Corporate Governance System** to conform to internal rules, regulations and best practices

Review of corporate governance **policies**

Contacts between **directors** and **shareholders**

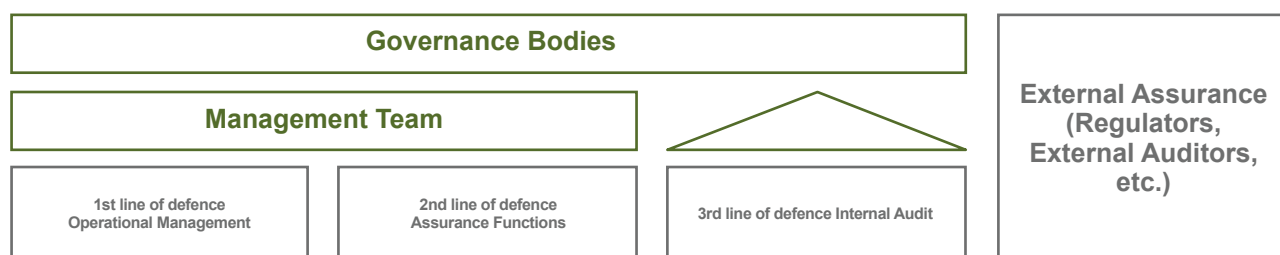
Acknowledgement of the **Annual Compliance System Effectiveness Report 2018** prepared by the Compliance Unit

The Board of Directors has focused its work on defining strategy, monitoring the implementation and control of risks and advancing best corporate governance practices.

5.2 Three Lines of Defence

Internal control 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 an assurance system 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.



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

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.

📍 Significant Risks Facing Iberdrola's Primary Businesses/ pages 46, 50, 54

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.

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 Cybersecurity Division within the Corporate Security Division, through the supervision, monitoring and reporting of cybersecurity risks; (iii) the Compliance Unit, which is responsible for proactively ensuring the effective operation of the Compliance System; and (iv) 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).

Iberdrola adopts the three lines of defence model to ensure effective and integrated management of its internal control system.

📍 Comprehensive Risk Control and Management Service / page 82

📍 Compliance Unit / Page 86

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.

The 2019 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 Assessment*) 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 28-Mar-2019)
- 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.

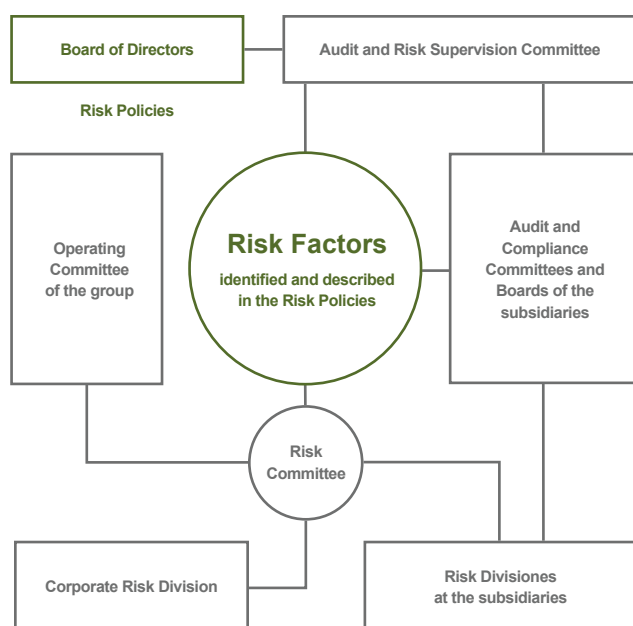
5.3 Risks

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.

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 (key risk maps) and threats and the various exposures of the group, as well as of compliance with the approved risk policies, limits and indicators.



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.

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 to the shareholders.
- 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.
- Contribute to meeting the SDGs, with a special focus on goals seven and thirteen.

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, establishment of approval criteria, and monitoring of exposures in order to minimise credit losses.

Market risk

- Analysis and approval of detailed limits and monitoring of exposures 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.
- Continuous monitoring and detection of emerging risks and other non-financial risks, including risks relating to the environment, society and governance of the group, including fraud and corruption (ESG). The impact of such risks may be diverse in nature, whether economic or reputational.

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

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.*
- *Occupational Safety and Health Risk Policy.*



ERM management system

- Strategic positioning towards risk.
- Responsibilities to manage risk.
- Proactive and preventive actions.
- Quantitative and qualitative limits.
- Quarterly report on key risks and monitoring of risk limits and indicators.

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 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 the strategy of the company.

Market risks: exposure to volatility in variables like prices of electricity and other energy commodities, emission rights, 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 as to the behaviour of variables intrinsic to the business (characteristics of demand, weather conditions, 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: losses resulting from external events, inadequate internal procedures, technical failures, human error, climate change, etc.

Reputational risks: potential negative impacts on the company's reputation arising from situations or events that fail to meet the expectations of its Stakeholders.

Risk factors and mitigation measures

● < 15 €M ● 15 - 50 €M ● > 50 €M of annual impact

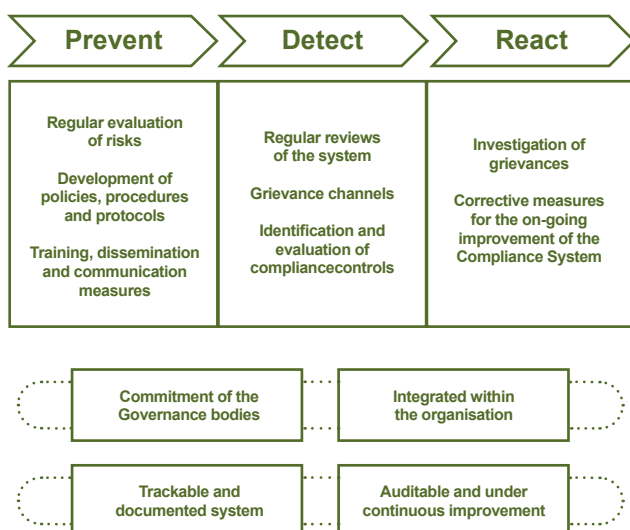
Price and demand risks			
Changes in the price of electricity	The main variable affecting the results of the group's Wholesale and Retail Businesses as regards market prices is the price of electricity, which relatively corresponds to the price of fuel and applicable emission rights, required to produce 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 Renewables Businesses of Spain, the United Kingdom, Brazil and Mexico is transferred to the Wholesale and Retail Business of such countries to be managed.		
	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.		
	Possible impact of a 5% change in the price of electricity and/or of energy commodities and CO ₂	Spain	● Integrated Wholesale, Renewables and Retail risk
		United Kingdom	● Integrated Retail and Renewables (power from wind farms with ROCs) risk
		Mexico	● The PPAs with the CFE do not have a market risk
Brazil		● Integrated Wholesale, Renewables and Retail risk	
United States		● For windfarms exposed to the market	
Change in demand	Wholesale, Retail and Renewables: moderate short-term impact, given the characteristics of the group's generation facilities and the structure of the long-term power purchase agreements.		● Possible impact of 1% reduction in demand for each country
	Networks: no impact, except for the Brazilian subsidiaries in between tariff periods.		
Resource risks			
Change in hydroelectric resources - Spain	<ul style="list-style-type: none">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	Lower hydroelectric production - Spain	● Renewables Business - Spain
Change in wind resources - group	<ul style="list-style-type: none">Mitigated thanks to the high number of facilities in operation and the geographic dispersion thereof.	Lower wind output - group	● Renewables Business - group
	<ul style="list-style-type: none">In the medium-to-long term, years with more wind are offset by years with less wind		
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">Main sources: amounts outstanding (customers, suppliers, banks, partners, etc.) and cost of replacement.Retail: cost of late payments/defaults has been kept to moderate levels, close to 1% of global invoicing.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 through the tariffs.		
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 risks relating to commercial trade between the EU and the United Kingdom).		
Climate change risk	<p>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.).</p> <p>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.</p>		



5.4 Ethics

Compliance System

Iberdrola's Compliance System is made up of all of the rules, formal procedures and significant actions intended to ensure the company's conduct in accordance with ethical principles and applicable law and to prevent improper conduct or conduct that is contrary to ethics, the law or the Corporate Governance System that might be committed by the professionals thereof within the organisation.



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 its last review, in April 2019, the Code of Ethics strengthened the obligation of the group's professionals to report to Compliance the commission of any illegal act or any impropriety. The obligation of suppliers to comply with the Code of Ethics and with the Corporate Anti-Corruption Policies is also included.

Compliance Unit

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 its last review, in April 2019, the Code of Ethics strengthened the obligation of the group's professionals to report to Compliance the commission of any illegal act or any impropriety. The obligation of suppliers to comply with the Code of Ethics and with the Corporate Anti-Corruption Policies is also included.

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 scope of 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 include 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 2019, 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 2019 it also renewed the UNE-ISO 37001 and UNE 19601 certifications provided by AENOR in 2017. Furthermore, the companies of the Spain subgroup also renewed these certifications in 2019.

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.



5.5 Sustainable Development

Organisation of sustainable development and 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.

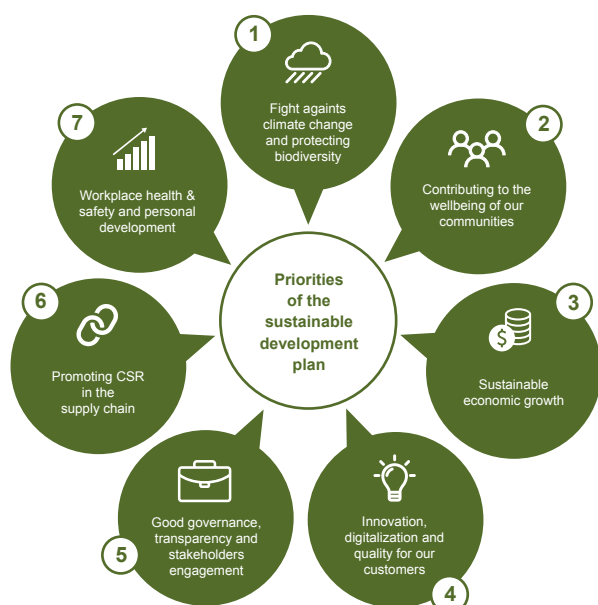
The corporate Sustainable Development Committee and the Sustainable Development Committees of the country subholding companies coordinate social responsibility within the Iberdrola group. The Board of Directors' Sustainable Development Committee performs the work of supervision within its purview.

"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 the process of transition 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 has taken 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.



External awards/recognitions

Only European electric utility included for the past 20 years



Only Spanish electric company selected in 2020 as one of the 100 most sustainable companies in the world.



A rating in CDP Climate Change.



Iberdrola chosen as CDP Supplier Engagement Leader



Iberdrola selected AAA



Iberdrola selected in various Euronext Vigeo Eiris indices.



Classified as "Silver Class" in the electricity sector.



Leader among Spanish utilities in various reports: electricity, gas and water.



Iberdrola classified as Prime.



Iberdrola classified as the top utility in the world in report on status of sustainability reporting 2019.



Iberdrola among top 25 scoring companies.



Iberdrola among the top four utilities.



Only Spanish electrical utility included in all editions



Iberdrola selected in various sustainability indices.



Iberdrola selected for the Emission Transparency Index.







6. About this Report

This report, which Iberdrola directs to both its shareholders and all other Stakeholders, has been prepared using the integrated report concept in accordance with 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.
- Information regarding the Outlook 2020-2022 is available in the *Integrated Report, February 2019*.
- 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 were approved by the Board of Directors at its

meeting held on 24 February 2020, 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 2019*.
- 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 2019*.
- 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.

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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 2019 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 forward-looking information and statements about Iberdrola and its affiliates. Such statements include projections and estimates and their underlying assumptions, statements regarding plans, objectives and expectations with respect to future operations, capital expenditures, synergies, products and services, and statements regarding future performance. Forward-looking statements are statements that are not historical facts and are generally identified by the words “expects”, “anticipates”, “believes”, “intends”, “estimates” and similar expressions.
- Although Iberdrola believes that the expectations reflected in such forward-looking statements are reasonable, investors and holders of Iberdrola shares are cautioned that forward-looking information and statements are subject to various risks and uncertainties, many of which are difficult to predict and generally beyond the control of Iberdrola, that 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 discussed or identified in the documents filed by Iberdrola with the *Comisión Nacional del Mercado de Valores* and which are available 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 the forward-looking statements included herein are qualified by the cautionary statements above and are based on information available on the date of approval hereof. Except as required by applicable law, Iberdrola does not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Integrated Report, February 2020

Publisher: IBERDROLA, S.A.

Spain

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Glossary of terms and abbreviations

Term	Definition	Term	Definition
AENOR:	Asociación Española de Normalización y Certificación (Spanish Association for Standardisation and Certification). Pages 35, 39, 86.	NECEC	New England Clean Energy Connect. Pages 17, 46, 60.
ANEEL	<i>Agência Nacional de Energia Elétrica</i> (National Electrical Energy Agency). Pages 45, 53.	IFRS	International Financial Reporting Standard. Pages 5, 47, 51, 55.
CCEE	<i>Câmara de Comercialização de Energia Elétrica</i> (Electric Power Trading Chamber). Page 53.	NYSEG	New York State Electric and Gas Corporation. Page 45.
CELS	Clean Energy Certificates (<i>Certificados de Energías Limpias</i>). Page 49.	SDGs	Sustainable Development Goals. Pages 29, 34, 35, 64, 66, 70, 76, 82, 87.
CEO	Chief Executive Officer. Pages 35, 39.	Ofgem	Office of Gas and Electricity Markets (United Kingdom). Pages 45, 53.
CfD	Contracts for Difference. Page 49.	ILO	International Labour Organization. Page 11.
CFE	<i>Comisión Federal de Electricidad</i> (Federal Electricity Commission). Pages 43, 49, 84.	GDP	Gross Domestic Product. Pages 34, 35, 37.
CNMC	National Commission on Markets and Competition (<i>Comisión Nacional de los Mercados y la Competencia</i>) (CNMC). Pages 42, 45.	PIEC	Integrated Energy and Climate Plan (<i>Plan Integrado de Energía y Clima</i>). Page 42.
CNMV	National Securities Market Commission (<i>Comisión Nacional del Mercado de Valores</i>). Pages 3, 76.	PTC	Production Tax Credit. Page 49.
COSO	Committee of Sponsoring Organizations of the Treadway Commission. Page 80.	RAB	Regulated Asset Base. Page 45.
CPIH	Consumer Prices Index including owner occupiers' housing costs. Page 45.	RDL	Royal Legislative Decree (<i>Real Decreto Legislativo</i>). Pages 42, 49.
CSD	Higher Council for Sport (<i>Consejo Superior de Deportes</i>) Page 35.	RG&E	Rochester Gas and Electric. Page 45.
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization. Pages 9, 10, 29, 38, 47, 51, 55, 58, 59.	RIIO-D1	Revenue=Incentives+Innovation+Outputs. Distribution 1. Page 45.
ENRESA	Empresa Nacional de Residuos Radiactivos, S.A. Page 53.	RIIO-T1	Revenue=Incentives+Innovation+Outputs. Transmission 1. Pages 45, 46.
ESG	Environmental, Social and Governance. Page 82.	ROE	Return on equity. Pages 10, 45.
FFO	Funds from operations. Page 10.	RPS	Renewable Portfolio Standard. Page 49.
GHG	Greenhouse Gases. Pages 43, 66.	SBTi	Science Based Targets. Pages 27, 66.
GRI	Global Reporting Initiative. Page 3.	ICFRS	Internal Control Over Financial Reporting System. Pages 80, 81.
CEF	Corporate Environmental Footprint. Page 66.	SENER	Mexican Ministry of Energy. Page 43.
IEI	Iberdrola Energía Internacional. Pages 23, 51, 55.	SPD	ScottishPower Distribution. Pages 45, 46.
IIRC	International Integrated Reporting Council. Pages 3, 57, 89, 90.	SPM	ScottishPower Manweb. Pages 45, 46.
IPCC	Intergovernmental Panel on Climate Change. Page 26.	CAGR	Compound Annual Growth Rate. Page 38.
ITC	Investment Tax Credit. Page 49.	TCFD	Task Force on Climate-related Financial Disclosure. Pages 27, 34, 76, 78.
LBG	London Benchmarking Group. Pages 34, 70.	EU	European Union. Pages 42, 53, 84.
MME	Ministry of Mines and Energy. Page 43.	WACC	Weighted average cost of capital. Pages 45, 49.

