

# Letter from the Chairman & CEO

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Iberdrola will continue to apply its business model based on its commitment to clean technology, the deployment of smart networks and the design of innovative products and solutions for its customers using the most advanced technology.

Iberdrola has for many years now been of the opinion that the basic indicator of a company's success is its ability to respond to the challenges posed by this new era. For us, to grow means to be prepared to move forward and to improve, to have the courage to discover new horizons.

In line with this philosophy, our company focuses its efforts on defining and implementing a strategy that addresses the challenges posed and capitalises on the opportunities offered by the new energy scenario. This Integrated Report provides a detailed description of the context in which the company will conduct its business and the pillars that will underpin its lines of action in the coming months and years.

The Iberdrola group will continue to promote a business model focused on the achievement of a safe and competitive energy system through the growth of clean energies. Our commitment to the fight against climate change is as firm as the facts supporting it.

The energy sector continues to be in the midst of transformation, mainly as a result of the more rapid pace of the decarbonisation and electrification of the global economy. These changes entail a significant increase in electric power demand, which will reach 60% by 2040, according to the International Energy Agency. This will make it essential to have more renewable energy and more networks, requiring an investment of 19 billion euros during that period.

Meanwhile, technological advances and increased connectivity will require more energy infrastructure with smart solutions. Only thus will it be possible to meet new customer needs, such as the integration of electric vehicles, which is expected to reach 280 million units worldwide by 2040, according to the International Energy Agency.

#### Outlook 2018-2022

These trends are clear evidence of the wisdom of the model that Iberdrola has been applying for almost two decades, based on a commitment to clean technologies, more and smarter networks, and on designing innovative products and solutions for its customers.

It is on that basis that, in February 2018, we released our outlook for the 2018-2022 period, during which the Company will invest 32,000 million euros in profitable long-term growth projects. Of the total investments, 90% will go to regulated activities with long-term contracts and 75% will be invested in projects that are already secured or are highly likely. Under the plan, by 2022, the group will increase its renewable installed capacity by 24% to 36,000 MW,

and will boost its storage capacity by 25% to 100 GWh, equal to 100 million 1 kWh batteries.

As for the networks business, its regulated assets base will grow by 38% to 40,000 million euros; and in the wholesale business in Mexico we will increase our capacity by more than 80%, to 10,600 MW. Finally, we will increase solutions for our customers by 9 million, reaching 32 million by 2022, thanks to new products and services and to digitisation.

We will do all this while keeping operational excellence very much in mind; it has been at the core of our model during our entire history and has made us leaders in efficiency<sup>(1)</sup> compared with our European competitors.

However, we don't want to fall into complacency because our constant is to grow, to overcome challenges, to never relax in our comfort zone. For this reason, and because we know we have room for progress in this area, our goal in the coming years must be to even further exceed the limits of efficiency, thanks to advances in digitisation and the implementation of best practices.

As a result of this strategy, Iberdrola will continue to grow and to increase results in order to achieve EBITDA of between 11,500 million and 12,000 million euros by 2022, along with net profit of between 3,500 million and 3,700 million euros. And, as prior years, shareholder remuneration will grow in line with results, which, according to our estimates, should reach a dividend of approximately 0.4 euro per share by 2022.

Finally, the company will continue to strengthen its financial position, generating funds from operations of 42,000 million euros during the period, and achieving an FFO/net debt ratio of 24% by 2022.

#### Increasing our social dividend

This new investment plan will allow Iberdrola to deepen its commitment to its sustainable business model. This also entails increasing its social dividend, a concept representing the value that the group generates for all its Stakeholders in the regions in which it does business. We will engage in our activities while always striving to be by the side of people, especially those who need it the most, and to protect our environment, one that we must preserve for future generations.

In coming years, the company will continue to be firmly committed to the creation of stable and high-quality employment. We currently give four times more training hours per employee per year than the average for European companies<sup>(2)</sup>.

Along these lines, we will continue to contribute to strengthening the talent of our human team, always in an environment of inclusive, gratifying and balanced work. In fact, our wager on equality has

made us the only electric utility in continental Europe to be included in the Bloomberg Gender Equality Index. Gender equality cannot be a goal; it must be a reality. And we must all be agents of that change.

We are aware of our important role as an engine for economic development in all the countries in which we have a presence. The company generates 10 euros<sup>(2)</sup> in the GDP of each region for every euro of profit that it makes. And that is something that we want to continue to promote through our procurement from local suppliers (which totalled 8,700 million euros in 2017) and our tax contribution (7,000 million euros during the last financial year). Overall, Iberdrola employs 400,000 people worldwide<sup>(2)</sup>.

Our customer base will benefit from all the advantages afforded by cutting edge technologies and digitisation. Thus, we will be able to offer our customers a better quality of service, a larger catalogue of products and services tailored to their individual needs, and more competitive prices.

We also want to continue to contribute to environmental protection and biodiversity. As a world leader in renewable energy and in the fight against climate change, Iberdrola will continue to promote the cleanest energy sources in order to continue to reduce CO<sub>2</sub> emissions –which are already 32% lower than those of the European electricity sector– to 50% below 2007 levels by 2030.

Innovation –an area to which we allocated 250 million euros in 2017– will be one of our main tools to develop new clean and efficient generation technologies. We will continue to invest in R&D&I, which will allow us to maintain our position as one of the four electric companies worldwide that invest the most in this area<sup>(2)</sup>. We firmly believe that support for research is as necessary as it is urgent because advancement in knowledge must be a constant and essential process of discovery.

As part of our social dividend, we will also continue to promote other activities that we carry out via our foundations in those countries in which we have a presence, particularly in the areas of community service (helping those who need it most and mitigating the vulnerability caused by social exclusion), art and culture, and biodiversity, with the ultimate goal of continuing to work for the good of our environment in the future.

All of these efforts are fully consistent with the achievement of the Sustainable Development Goals (SDGs) established by the UN for 2030. Because of its activities, Iberdrola focuses on the supply of affordable and clean energy (goal 7) and the fight against climate change (goal 13). At the same time, it contributes directly to clean water (goal 6), innovation (goal 9), life on land (goal 15), partnerships for the goals (goal 17), and indirectly to the other goals.

(1) Net operating expense to gross margin ratio.

(2) PwC study "Economic, social and environmental impact of Iberdrola worldwide" (based on 2016 data).