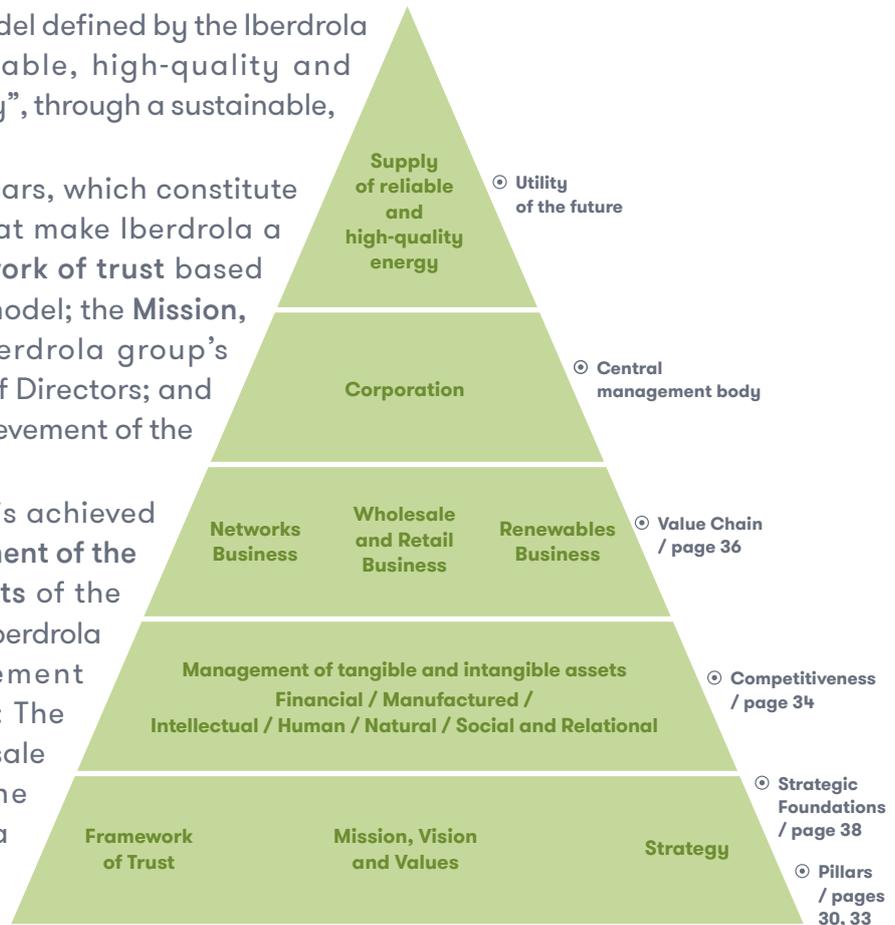


## 2.2 Business Model

The purpose of the business model defined by the Iberdrola group is the “supply of reliable, high-quality and environmentally-friendly energy”, through a sustainable, long-term industrial enterprise.

The model is built on three pillars, which constitute the **distinguishing factors** that make Iberdrola a different company: A **framework of trust** based on an advanced governance model; the **Mission, Vision and Values** as the Iberdrola group’s culture defined by the Board of Directors; and a **strategy** focused on the achievement of the group’s goals.

The model’s competitiveness is achieved through **responsible management of the tangible and intangible assets** of the company. To apply this model, Iberdrola has structured its management into three global businesses: The Networks Business, the Wholesale and Retail Business and the Renewables Business, with a Corporation as the group’s central management unit.



### Framework of trust

To ensure the sustainability of its business model, Iberdrola has implemented:

- A Corporate Governance System consistent with best international practices.
- Corporate ethics, internalised by the management units and the organisation as a whole.
- Social responsibility policies, which respond to the expectations of Stakeholders.
- An advanced risk control system, to maintain an optimal “risk/opportunity” balance, taking advantage of opportunities and mitigating risks.

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### Mission, Vision and Values

“We want to be a global energy leader and create a better future for people, known for our commitment to ethical principles, safety, quality and the environment...”

This Vision is based on twelve Values:

- Sustainable creation of value
- Ethical principles
- Good corporate governance and transparency
- Development of our workforce
- Social commitment
- Sense of belonging
- Safety and reliability
- Quality
- Innovation
- Respect for the environment
- Customer focus
- Institutional loyalty

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## Iberdrola cultivates a responsible and sustainable business model, serving society and people

A responsible business model...	Fights against climate change	<ul style="list-style-type: none"> <li>• World leader in wind capacity, with 16,077 MW installed.</li> <li>• 66.7% of all installed capacity does not produce CO<sub>2</sub> emissions, with the intensity of emissions being 32% lower than the European average in 2017.</li> <li>• Pioneers in adopting the recommendations of the <i>Task Force for Climate Change Risks Financial Disclosure (TCFD)</i>.</li> </ul>
	Rapidly adopts new technologies and commits to innovation	<ul style="list-style-type: none"> <li>• Drives the development of <b>smart grids</b>. Has deployed more than 11 million smart meters throughout the world.</li> <li>• Invests in efficient storage using pumped storage hydroelectric plants (4,400 MW currently installed with this technology).</li> <li>• <b>Big data</b> projects to provide the best solutions to its customers.</li> </ul>
...with positive impacts on all of its Stakeholders...	Economic	<ul style="list-style-type: none"> <li>• Annually generates approximately <b>€31,000 million in Gross Domestic Product (GDP)</b> in the countries in which it operates<sup>(1)</sup>.</li> <li>• It contributes more than <b>€6,600 million in investments annually</b> to the capital formation of the world economy<sup>(1)</sup>.</li> </ul>
	Environmental	<ul style="list-style-type: none"> <li>• Invests more than <b>€2,900 million in renewable generation (2014-16)</b>, meaning:               <ul style="list-style-type: none"> <li>– Avoids the emission of more than <b>63 million tonnes of CO<sub>2</sub> over three years</b>.</li> <li>– Reduces its specific emissions to <b>187 gr / kWh in 2017</b>. The company's commitment is to <b>reach 150 gr / kWh by 2030</b>.</li> </ul> </li> </ul>
	Social	<ul style="list-style-type: none"> <li>• Creates close to <b>400,000 jobs</b> worldwide (direct, indirect and induced employment)<sup>(1)</sup>.</li> <li>• Invests <b>€63 million in projects contributing to the community</b><sup>(2)</sup>.</li> <li>• Makes <b>almost €8,700 million in purchase</b> from its suppliers throughout the world.</li> <li>• Contributes more than <b>€7,100 million in taxes</b> in the countries in which it does business.</li> </ul>
...leading to the creation of sustainable economic value.	<p><b>Balanced growth:</b> €32,000 million between 2018 and 2022, focused on business and countries with stable and predictable regulatory frameworks; 90% of which will be dedicated to regulated activities or long-term contracts.</p>	
	<p>The company's <b>sustainable growth in results</b>, reaching a Net Profit of between €3,500 and €3,700 million by 2022 (using current exchange rate estimates).</p>	
	<p><b>Financial strength:</b> Financial strength: Funds from operations (FFO) will grow 34% during the period, to €42,000 million. It is estimated that the FFO/Net Debt ratio will reach 24% by 2022.</p>	
<p><b>Sustainable dividend:</b> Shareholder remuneration will grow in line with the increase in results, maintaining a pay-out ratio between 65% and 75%.</p>		

(1) Data from a Study of Iberdrola's Impact, prepared by PwC, based on 2016 figures.

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

## Iberdrola contributes to achieving the Sustainable Development Goals (SDGs)...

Iberdrola has committed to the Sustainable Development Goals 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 linked the SDGs to its business strategy. The company has thus prioritised the SDGs taking into account its business model, defining 3 levels of contribution:



Iberdrola has set ambitious challenges relating to the Goals selected as its principal focus:

- **Goal 13 Climate action:** 50% reduction in the intensity of CO<sub>2</sub> emissions by 2030 compared to those in 2007; reaching carbon neutrality by 2050.

By year-end 2017, 66.7% of its installed capacity was emission-free.

- **Goal 7 Affordable and clean energy:** Bring electricity to 4 million people who today lack access to this energy source by 2020.

By year-end 2017, we had reached 3.9 million people who benefited from access to electricity through projects carried out in various countries of Latin America and Africa.

### ... And supports the recommendations of the TCFD

Iberdrola supports the recommendations of the *Task Force on Climate-related Financial Disclosures (TCFD)* to disclose financial information relating to climate change. The company believes that this initiative will facilitate Stakeholders' evaluation of the risks and opportunities arising from climate change. For these reasons, Iberdrola supported the initiative in April, and in September 2017 joined a group of ten companies that were the first to assume the commitment to implement the recommendations of the TCFD within a period of three years. Some aspects relating to the key elements defined in the recommendations are summarised below.

#### Governance

Iberdrola's Board of Directors considers climate change to be a significant element for the company. Since 2010, the Corporate Social Responsibility Committee of the Board is in charge of reviewing aspects relating to climate change, among other things, and makes regular reports.

The inclusion in the company's bylaws of the concept of "Social Dividend" and the consideration thereof as an essential value for establishing the group's strategy means, among other things, the legacy of a clean and sustainable planet for future generations. There is also a link between the long-term incentive plan and the achievement of goals that support SDGs 7 and 13.

#### Strategy

Climate change has been a key element for defining the company's strategy. Iberdrola treats climate change not only as a risk factor, but also as a source of organic growth during the transition towards a low-carbon economy. Iberdrola is currently the world leader in wind power, and 66.7% of its installed capacity is emission-free.

In the coming months, it will work on the disclosure of climate scenarios and a new Adjustment Plan to validate long-term needs through an integrated process directed towards reducing future vulnerability to climate change. The group's strategy also includes communicating and raising awareness regarding climate change.

#### Risk management

The company recognizes the seriousness of the threat that global warming entails, which must be faced in a collective and coordinated manner by governments, multilateral agencies, the private sector and society as a whole. Climate change could entail various risks in the medium term, both transitional and physical (according to the types defined by the TCFD). Chapter 5.3 offers additional information about the group's risk management.

#### Metrics and objectives

Iberdrola's Sustainability and Integrated Reports include significant indicators to report on climate-related aspects, including the amount of emissions, the intensity of emissions, the use of energy, energy intensity, energy combination, use of water, source of water, cover and use of land, R&D&I and Capex in the development of products, services and/or technology with low carbon emissions.