



Our Assets

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

In this report, Iberdrola's assets are identified in accordance with the IIRC classification system:

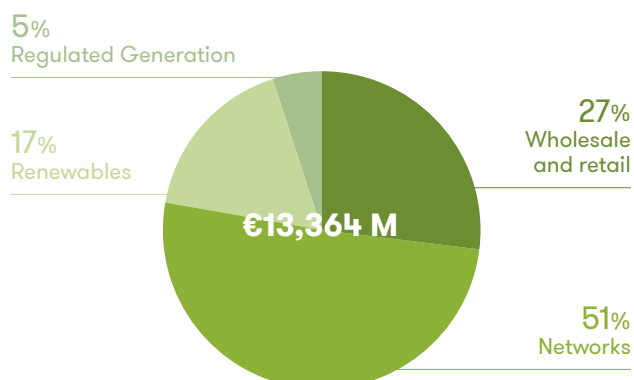
- **Financial capital**
- **Manufactured capital**
- **Intellectual capital**
- **Human capital**
- **Natural capital**
- **Social and relationship capital**

4.1 Financial Capital

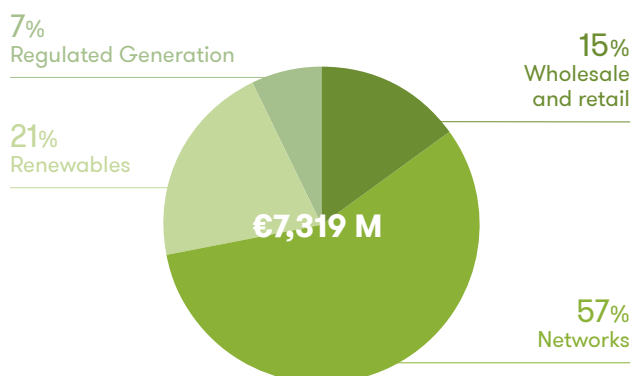
| | Management approach | Results | 2017 Outlook |
|--|--|---|---|
| Balanced growth | <p>The company has an investment policy consistent with its strategic vision and financial policy. The main goals are:</p> <ul style="list-style-type: none"> • Ensure a return on capital through projects and investments preferably in regulated businesses, renewable assets or 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"> • Total investment of €5,891 million, with almost 88% channelled into regulated businesses or long-term contracts. • Almost €900 million was invested in the Networks Business in the United States and €2,300 million in Renewables, mainly in onshore wind farms in the United States and the <i>Wikingier</i> (Germany) and <i>East Anglia 1</i> (United Kingdom) offshore wind farms. The investments in Mexico reached €700 million, including the construction of 3,400 MW at the Topolobampo 2 and 3, Escobedo and El Carmen facilities. All of them will commence operations between 2018 and 2020. | <ul style="list-style-type: none"> • Strict investment criteria based on earnings security, project profitability and strategic fit. • Investments continue to be concentrated on regulated activities and long-term contracts. • Net investment of more than €32,000 million over the 2018-2022 period, of which approximately 90% will be dedicated to regulated businesses, renewables or long-term contracts. • By business, Networks will absorb 50%, €15,500 million. Investments in dollars will represent 38%, followed by 25% in euros, 19% in pounds and 18% in Brazilian reais. |
| 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 €13,364 million (+3.5%). • Net profit of €2,804 million (+3.7%). The positive impacts of the tax reform in the United States and the gain from the Siemens-Gamea merger offset non-recurring aspects like the low hydraulicity in Spain, storms in the United States, and write-offs in the gas business in the United States. Efficiency measures were also provisioned. • Adjusted net financial debt is €32,856 million, increasing €3,626 million over the year, as a result of the inclusion of Neoenergia (€2,817 million) and the investments made during 2017. • Liquidity of €8,616 million, which covers more than 24 months of financing needs. | <ul style="list-style-type: none"> • During the 2018-2022 plan, the company will continue to grow and increase in profitability, reaching EBITDA of between €11,500 million and €12,000 million by 2022, and net profit of between €3,500 million and €3,700 million. • Net investments of approximately €32,000 million, financed by cash flow generation (FFO) of €42,000 million. • The new investment cycle will be funded while maintaining financial discipline: growth in cash flow, new financing schemes and rotation of assets. • Optimisation of the liquidity position to cover financing needs for 18 months in a stress scenario. |
| 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 20.3% to €4,170.6 million, mainly impacted by the consolidation of Neoenergia (€259.3 million), the costs of storms in the United States (€106.5 million) and the efficiency plans that have been provisioned (€162.4 million). Excluding such impacts and the exchange rate impact, NOE would have increased by 7.1%. | <ul style="list-style-type: none"> • Additional efficiencies thanks to data analytics and artificial intelligence. Specific plans to transfer best practices to the networks processes in Brazil and the United States. • Cumulative efficiency improvements of more than €1,000 million on homogenous terms, to achieve incremental EBITDA of ~€350 million by 2022. |
| 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 0.317 euro per share, equal to a dividend yield of 4.9%. • Flexible dividend offering tax benefits, the repurchase of shares to avoid dilution, adding the cash payment option. | <ul style="list-style-type: none"> • Increase of dividend to 0.323 euro per share, with a charge to 2017 profits. • Maintenance of the flexible dividend programme, adding the cash payment option. • Target of maintaining the number of shares at 6,240 million, neutralising the capital increases associated with implementation of the flexible dividend programme. • Growing shareholder remuneration, in line with the increase in results, converging on a pay-out ratio of between 65% and 75%. |

Create value for the shareholder with sustainable growth

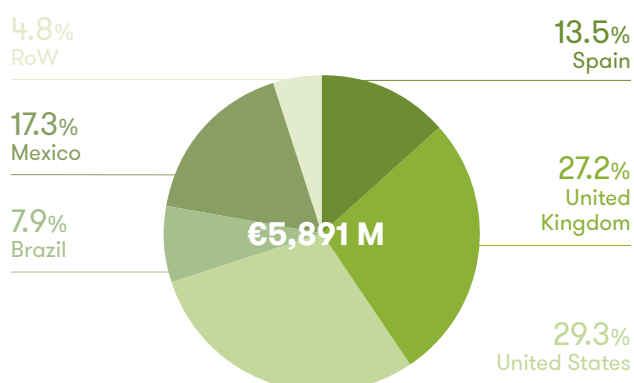
Gross margin by business 2017



EBITDA by business 2017

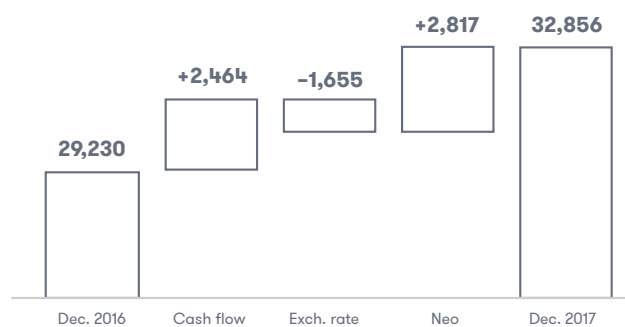


Investment by geographic area 2017



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

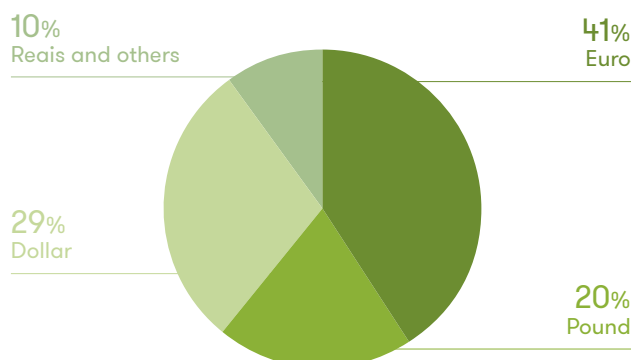
Net Debt (€M)



* Including 1,000 €M of hybrid green bond

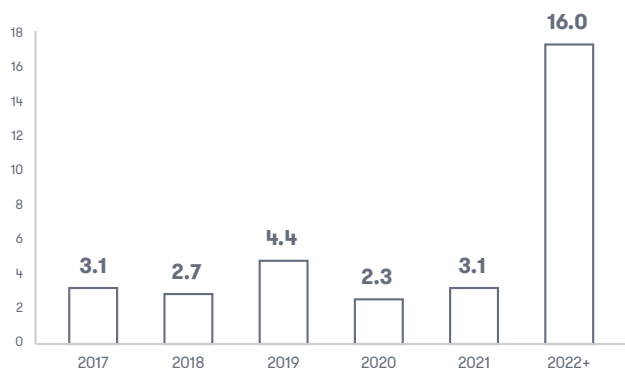
Net financial debt adjusted by treasury stock cumulative hedges at 31 December 2017 is €32,856 million, increasing €3,626 million over December 2016 mainly as a result of the integration of Neoenergia (€2,817 million), the investments made during 2017, and the worse operating conditions, partially offset by the exchange rate effect.

Debt structure by currency in 2017



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

Maturity of financial debt (€M)



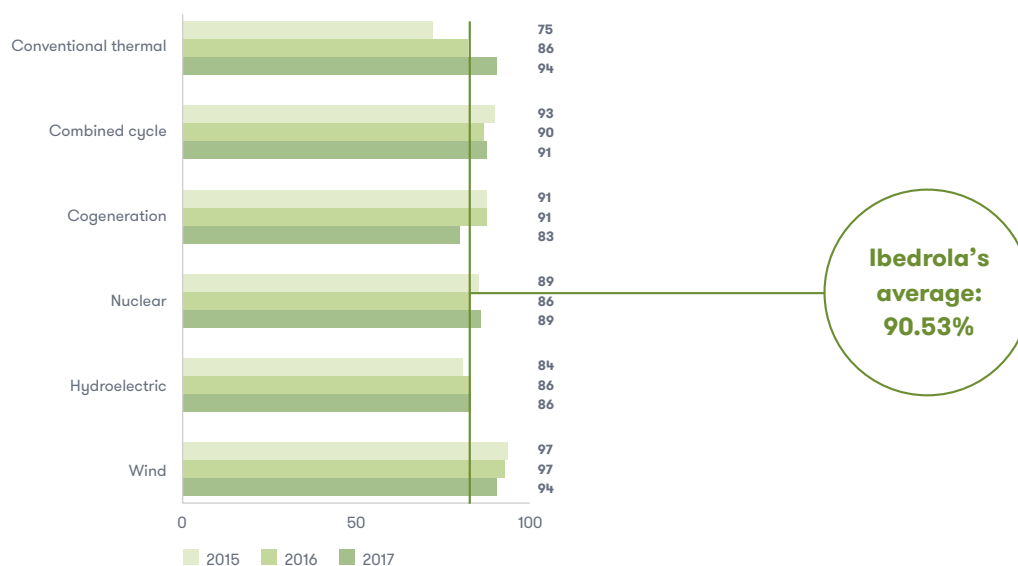
Comfortable maturity profile. Excludes credit lines and Neoenergia.

4.2 Manufactured Capital

| | Size | Principal activities 2017 | Outlook |
|---|--|--|---|
| Electric power generation assets | <ul style="list-style-type: none"> Iberdrola's generation assets comprise nearly 300 windfarms, almost 90 hydroelectric power plants (in addition to the mini-hydro plants), 7 solar farms, 37 thermal power stations using various technologies, 5 of which are nuclear, and other facilities built and operated according to the best available practices. | <ul style="list-style-type: none"> ISO 9000 certification has been renewed for the operation of windfarms in Spain and the United Kingdom. The Topolobampo III plant, a 779 MW combined cycle plant, has been awarded. The year ended with additional installed capacity of 1,398 MW, of which 1,164 MW are renewable, including the 350 MW Wikinger offshore wind farm. | <ul style="list-style-type: none"> Construction continues on 1,485 MW of onshore wind, 237 MW of photovoltaic and 714 MW of offshore wind within the East Anglia One project. The project for an additional 496 MW of offshore wind at St. Brieuc (France) has commenced. In Mexico, construction continues on almost 3,600 MW in combined cycles. In Portugal, there is continued construction of the Tâmega hydroelectric complex, with 1,158 MW. In Brazil, work continues on the construction of the hydroelectric plants. |
| Power transmission and distribution assets | <ul style="list-style-type: none"> Iberdrola's electricity transmission and distribution networks comprise over 1 million km of distribution lines, more than 4,000 substations and 1.5 million transformers, built and operated to supply a high-quality, reliable service to 30.3 million supply points. Iberdrola also has more than 40,000 kilometres of gas pipelines for the transport and distribution of gas in the United States. | <ul style="list-style-type: none"> In Spain, more than 10.3 million smart meters have been installed (97.6%) and 73,800 transformer centres have been digitised (88%). The <i>Western Link</i> project entered into operation in monopole configuration in the United Kingdom. There is continued deployment of smart meters in the United Kingdom, increasing the rate ahead of the goals established by the British regulator Ofgem. In Brazil, the ANEEL auctions have awarded the construction of close to 1,650 kilometres of transmission lines, 2 new substations and 11 expansions, with an investment of R\$ 2,800 million. | <ul style="list-style-type: none"> The projects awarded in the auctions in Brazil will be placed into service between 2020 and 2022. In 2018 it is expected that there will be deployment of 1.8 million smart meters in New York and automation of the network, putting Avangrid at the forefront of the REV initiative. Progress with the digitisation of the network to lead the transformation towards a Distribution System Operator. |
| Other assets | <ul style="list-style-type: none"> Iberdrola manages approximately 1,600,000 m² of offices and work centres throughout the world, with a total of 816 properties, of which 266 are located in Spain, 106 in the United Kingdom, 173 in the United States, 251 in Brazil and 20 in the rest of the world. These properties, which follow the same corporate criteria in the interior spaces, are designed, built and operated in accordance with the strictest sustainability and efficiency standards. | <ul style="list-style-type: none"> Consolidation of the Iberdrola Campus as a centre for Iberdrola's training and events. It has the space and means necessary to hold training at different levels and to host conventions, seminars, workshops and working meetings for the entire Iberdrola group. Commencement of construction on phase II of the Iberdrola Campus. Culmination of the transfer of all Scottish Power employees to the new corporate headquarters in Glasgow, from where almost 1,700 employees have been doing their work this year. Inauguration of the new corporate headquarters of Avangrid at 180 Marsh Hill Road, Orange, CT. | <ul style="list-style-type: none"> The merger of Neoenergia is planned for completion during 2018, and which is expected to lead to significant improvements in real estate management operations. Avangrid plans to increase consolidation of the real estate portfolio of offices in the various states in which it does business. Hand-in-hand with the Wholesale and Retail Business, and motivated by the expansion of Retail, we expect to open new offices in Paris, Rome and Milan in 2018. At Iberdrola, we are committed to the modernisation of work spaces, for which reason we will continue to develop new spaces for collaboration within the corporate buildings. |

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

Average availability factor of Iberdrola's generation facilities



Quality of electricity supply

Average power outage duration

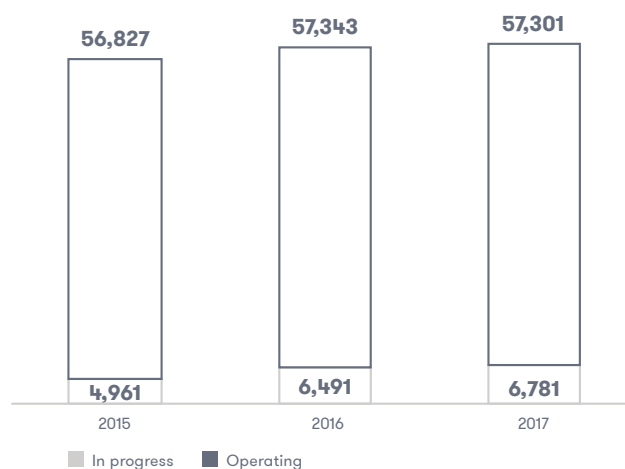
| | | 2016 | 2017 |
|----------------|-------------|-------|-------|
| Spain (*) | TIEPI (min) | 54.0 | 52.7 |
| United Kingdom | CML (min) | 33.8 | 31.0 |
| United States | CAIDI (h) | 1.84 | 1.91 |
| Brazil | DEC (h) | 17.14 | 15.96 |

Power outage frequency

| | | 2016 | 2017 |
|----------------|-----------------|------|------|
| Spain | NIEPI (number) | 1.04 | 1.14 |
| United Kingdom | CI (ratio) | 42.7 | 36.0 |
| United States | SAIFI (index) | 1.15 | 1.15 |
| Brazil | FEC (frequency) | 7.44 | 7.15 |

TIEPI: Installed Capacity Equivalent Interrupt Time.
 CML: Customer Minutes Lost Per Connected Customer.
 CAIDI: Customer Average Interruption Duration Index.
 DEC: Equivalent Duration of Interruption by Consumer Unit.
 NIEPI: Installed Capacity Equivalent Interrupt Number.
 CI: Customer Interruptions Per 100 Connected Customers.
 SAIFI: System Average Interruptions Frequency Index.
 FEC: Equivalent Frequency of Interruption by Consumer Unit.
 (*) Excludes 18.8 min due to persistent strong rains suffered in Spain in the month of January, deemed to be force majeure.

Property, plant and equipment (€M)



4.3 Intellectual Capital

| | Management approach | Principal activities 2017 | Outlook |
|--|--|---|--|
| Promotion of R&D | <ul style="list-style-type: none"> Iberdrola is a leading multinational group in the energy sector thanks to an innovative strategy based on a strong commitment to clean energy, smart grids, efficient energy storage, the development of custom-tailored solutions for customers, and digital transformation. | <ul style="list-style-type: none"> More than €246 million of investment in R&D&I in 2017, a 17% increase over 2016. Launch of the <i>Iberdrola University Programme</i>, which gathers together all activities with the academic world. University chairs, R&D&I projects, training and the <i>Young Entrepreneurs initiative</i>. Wager on internal talent through the <i>Accelerator project</i>, identifying key factors of the utility of the future. Strengthening of the <i>Innovation with Suppliers Programme</i>. Receipt of <i>Best Digital Transformation Award</i> in 2017. | <ul style="list-style-type: none"> Compliance with <i>R&D&I 2015-2017 Plan</i> and definition of new <i>R&D&I Plan 2018-2022</i>. Iberdrola will continue to wager on innovation as one of the foundations for successfully facing the future energy scenario, promoting energy efficiency, decarbonisation and the electrification of the economy. The wager on digital transformation will be key, with a planned investment of €4,800 million between 2018-2022. |
| Efficiency and new products and services | <ul style="list-style-type: none"> Continuous optimisation of our operations, management of the lifecycle of facilities and equipment, reduction in operating and maintenance costs, and decreasing environmental impact. Development of new and competitive products and services that adapt to an increasingly global and digitised market, the main goal of which is to meet the needs of customers. | <ul style="list-style-type: none"> There are currently more than 200 projects to promote sustainable development, the encouragement of renewable energies and emerging technologies. Improvement of the customer experience, increasing customer engagement. Launching innovative campaigns and projects towards increased personalisation of content and offers based on consumption. Delivery of proactive communications in real time and use of online self-service, with quick and simple online contracting. | <ul style="list-style-type: none"> As a result of its commitment to innovation, digitisation and the on-going search for excellence and quality, Iberdrola has designed unique products and services for its more than 16 million customers. It will continue investing to offer customers two-way communication and a personalised service that exceeds their expectations and meets their specific needs. |
| Disruptive technology and business models | <p>Through the <i>Iberdrola-PERSEO</i> international start-up programme, there has been more than €50 million invested since 2008 in technologies and new disruptive business models, which ensure the sustainability of the energy model. Lines of activity:</p> <ul style="list-style-type: none"> Technologies favouring the integration of renewable energies: flexibility and storage. 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. | <ul style="list-style-type: none"> Iberdrola was recognised by the European Commission among corporations best working with start-ups within the framework of the <i>Start-up Europe Partnership initiative</i>, also receiving the special <i>Start-up Procurement Award</i> prize for its innovation with suppliers programme. Investment in the equity of the U.S. company <i>Innowatts</i>, focused on the development of digital solutions and innovation for the energy sector through its analysis and artificial intelligence platform. It has offices in Houston, Silicon Valley and India, and it has offices and more than 14 million smart meters in its artificial intelligence platform. Investment in the company <i>Iluméxico</i>, dedicated to lighting and electrification in rural areas of Mexico. This investment is a very significant contribution to reducing the number of people without access to electricity, with an estimated 250,000 people who can benefit from this initiative in the coming years. | <ul style="list-style-type: none"> Ensure Iberdrola's access to the energy technologies of the future. Foster entrepreneurship and the development of an innovative entrepreneurial fabric within the energy sector. Investment in initiatives with a high social and job creation component. Establish alliances with key technology providers for Iberdrola (<i>Open Innovation Ventures</i>). |

Highlight the value of the company's intangible assets

Main R&D&i research projects

- Renewable energy**
 - There are noteworthy projects to improve the efficiency of assets. These include the European *ROMEO* project for the early detection of failures in the turbines based on “big data” techniques.
 - In the offshore wind area, the installation of turbines at the *Wiking* offshore wind farm, as well as the substation, with an innovative design, have been completed.
 - Projects for the integration of renewable energies include *ESS2GRID*, which analyses the use of battery storage systems at renewables facilities.
- Smart grids**
 - The *UPGRID* project has been completed, strengthening the operation and maintenance of low-voltage grids in view of the risks of integrating distributed generation. There is also *GRIDSTORAGE*, developing an advanced micro-grid and storage model.
 - In the United Kingdom, the *Fusion* and *LV Engine* projects are directed towards the optimisation of low-voltage grids to achieve a more flexible system.
- Clean generation**
 - There has been completion of the *CO₂ Formare* project to avoid macrofouling of the cooling systems of the generation plants, reducing environmental impact.
 - The *Prexes* project has been successfully carried out, with the development of a model for predicting expansion in concrete hydraulic structures.
- Customers**
 - Customised plans (*Planes a tu Medida*), in which customers can choose the 8 hours of the day that best suit their consumption (at a lower price), which can be different for each day of the week.
 - *Smart solar*: Distributed generation solution for self-consumption, providing a personalised online offer based on an analysis of consumption and the location of the facility.
 - In the United Kingdom, there is *PowerUp*, which allows consumers to buy gas or electricity in packages up to 180 days in advance at a pre-established price.

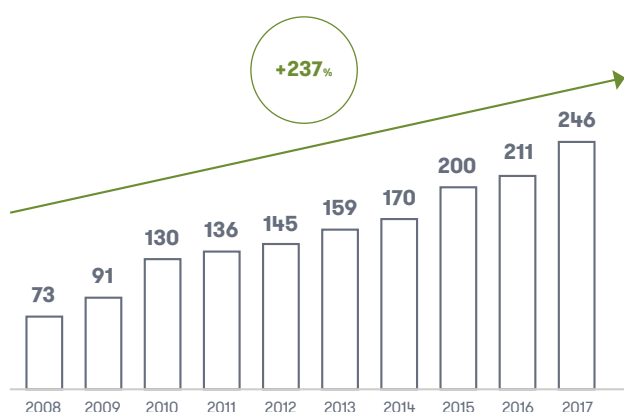
Transferring knowledge and attracting talent - Universities

Iberdrola has launched a *University Program*, which focuses its efforts on strengthening the relationship between the company and the academic world, aimed at attracting talent and transferring knowledge. Iberdrola has signed agreements with major universities in the countries in which it has a presence.

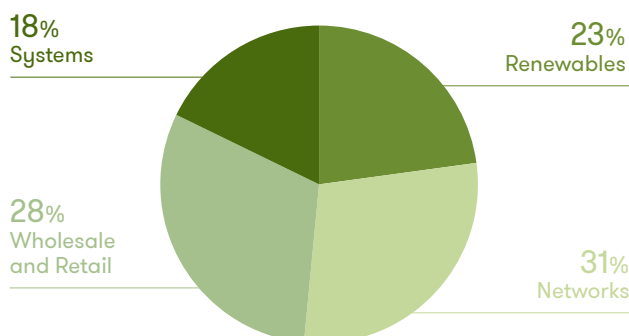
The programme includes development of the *Young Entrepreneurs* initiative, to develop talent and the entrepreneurial skills of the students. There were 5 “hackathons” and “bootcamps” in 2017 with 800 entrepreneurs and the collaboration of more than 100 mentors.



Investments in R&D&i (€M)



% R&D&i investment by strategic area



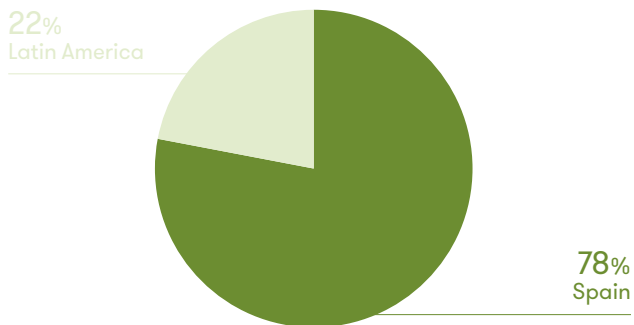
4.4 Human Capital

| | Management approach | Principal activities 2017 | Outlook |
|--|---|--|---|
| 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. • Homogenise the variable remuneration process throughout the group. | <ul style="list-style-type: none"> • Consolidate the Human Resources function at Neoenergía, extending and unifying best practices. • Strengthen the commitment to social responsibility, fostering ethical and responsible behaviour. |
| 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 approval of a system of global prevention standards in accordance with the group’s policy. Assessment of level of conformance to global standards. • Monitoring of proactive and reactive indicators among the group’s companies for the global scorecard. • Establishment of goals for the management of occupational health and safety at subcontractors. • Identification and application of best safety practices. Exchange of lessons learnt. Creation of groups to promote safe behaviour. | <ul style="list-style-type: none"> • Continue the assessment of the level of level of conformance to global standards and the implementation of improvement groups to promote safe behaviour. • Expand the number of certifications within the group in accordance with OHSAS 18001. • Integrate Neoenergía into the culture and model of the Iberdrola group. • Improve the management of contractors from the viewpoint of occupational safety and health: qualification of contractors and evaluation of performance. • Engage in global campaigns to raise awareness on certain types of common accidents. |
| 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. | <ul style="list-style-type: none"> • Revise the international mobility model. • Launch the leadership development programme for team leaders in Spain. • Implementation and monitoring of a plan for development of high-potential leaders. • Encouragement of mobility through a strengthening of the process for publishing internal vacancies at the global level and initiatives like job swaps. • Definition of the global recruitment and selection process. • Integrate Neoenergía into the talent management processes. | <ul style="list-style-type: none"> • Revise and/or launch leadership development programme for team leaders in Mexico, the United States, the United Kingdom and Brazil. • Attract the best talent, strengthening excellence in our selection processes and improving our presence on social media and at leading universities. • Integrated talent management in order to train future leaders, preparing them now to assume larger responsibilities. • Launch Climate Survey at the global level. |
| Diversity, equal opportunity and reconciliation | <ul style="list-style-type: none"> • Guarantee a social model committed to professional excellence and the quality of life of our employees. • Development of labour relations based on equal opportunity, non-discrimination and respect for diversity. • Create a high-quality labour environment by committing to reconciliation, and promote a position of leadership in these areas in the countries in which it does business similar to that enjoyed in Spain. • Align the <i>Corporate Volunteering Programme</i> with the Sustainable Development Goals defined by the United Nations. | <ul style="list-style-type: none"> • International cultural exchanges. • Corporate Volunteerism Activities to improve the quality of life and the integration of vulnerable groups, including <i>International Volunteering Day</i>, the <i>INVOLVE</i> international volunteering programme, the project for improving the electricity situation of refugee camps in Ethiopia, and the <i>Lights and Action</i> project to improve youth employability through energy efficiency. • Implementation and execution in Spain and Mexico of a volunteer project regarding the fight against climate change. Sustainable Development Goals. • Promotion of flexible workday for 75% of the workforce, together with the encouragement of stable and high-quality employment (98% of workforce with permanent contracts). | <ul style="list-style-type: none"> • New selection tool (based on equal opportunity) to homogenise the selection processes at the global level. • Continue to foster improvements in the quality of people’s lives through social-welfare activities in all of the countries in which the group has a presence. • Promote the internationalisation of social programmes and strengthen ties among the employees of the company at the global level. Strengthening of the global volunteer community. • Contribute to achieving the Sustainable Development Goals defined by the United Nations for the 2015-2030 horizon. |

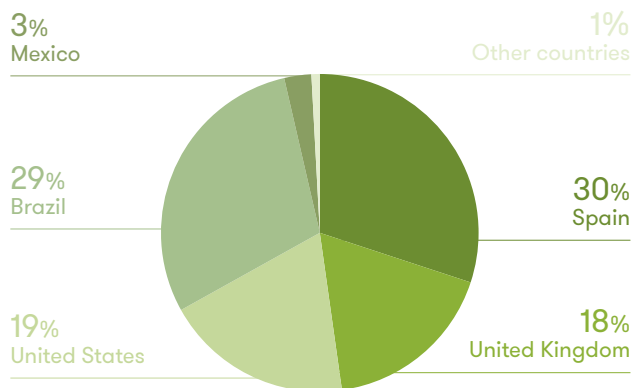
Ensure the availability of a committed, qualified workforce in a safe and stable environment

Growth and geographic diversification of the workforce

2006: 16,155 employees



2017: 34,255 employees



© Key Figures / page 12

Social commitment



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

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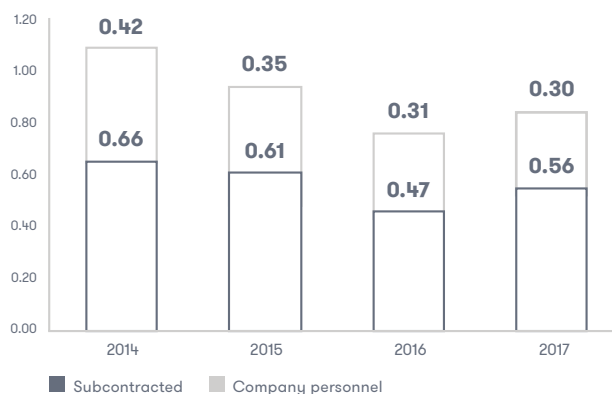
Iberdrola strengthens its commitment to women's sport



Renewal in 2017 of agreements with the *Universo Mujer* programme.

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Injury rate (2014-2017)⁽¹⁾



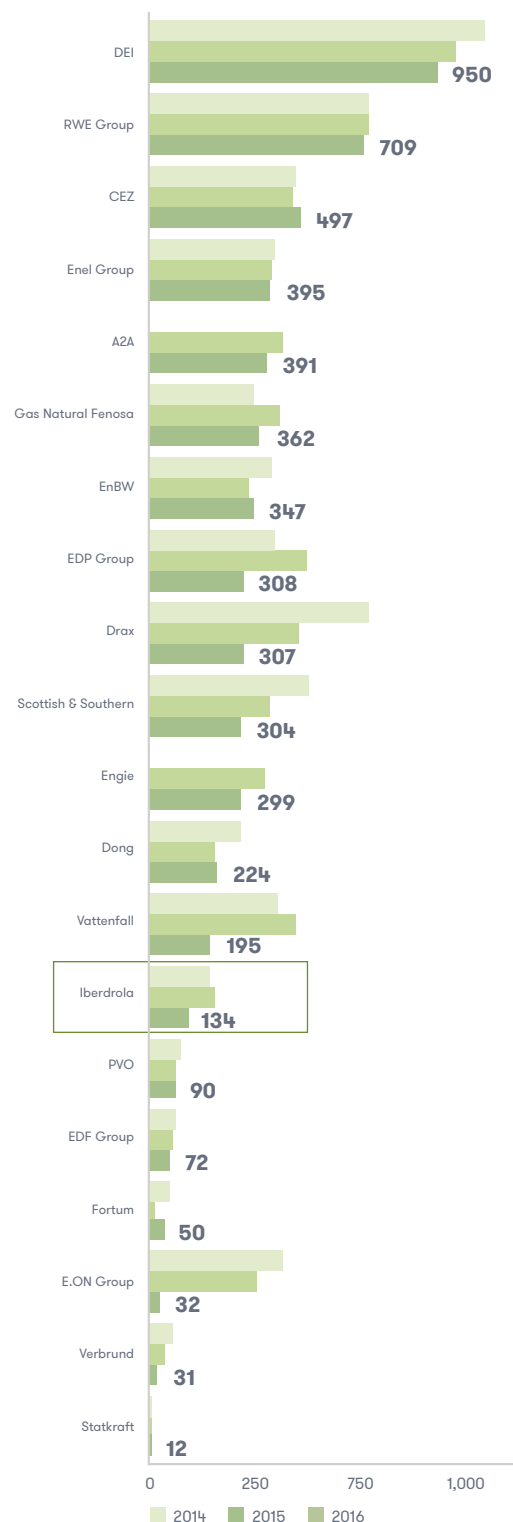
(1) Neoenergia data has been 100% consolidated for all periods.

4.5 Natural Capital

| | Management approach | Principal activities 2017 | Outlook |
|---|--|---|---|
| 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>. • Promote the protection of ecosystems in the surroundings of the facilities. | <ul style="list-style-type: none"> • Sustainable General Shareholders' Meeting 2017: <ul style="list-style-type: none"> – ISO 20121 certification. – Shareholders Day 2017 Environmental Declaration (<i>Erronka Garbia Certificate</i>). • Acquisition of ISO-TS 14072 Certificate for Corporate Environmental Footprint (CEF) 2016. • Energy efficiency project for the facilities of Iberdrola España. • Climate Change Adaptation Report for activities in Spain. • Biodiversity Report, 2014-2017 Edition. | <ul style="list-style-type: none"> • Adaptation to ISO 14001 2015 standard. • Development of a strategic plan for climate change adaptation. • Environmental guidelines linked to impacts of the CEF. • Restoration, recovery, improvement and maintenance of surroundings and habitats. • Integrate the concept of natural capital. |
| 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"> • 42% reduction in intensity of CO₂ emissions per kWh produced since 2007. • Thermal emission factor has decreased from 391 g/thermal kWh generated in 2016 to 388 g/kWh generated in 2017. • Increase in emission-free installed capacity to 66.7%. • New commitment to reduce emissions, and active participation in the Bonn Climate Change Conference (Germany). • Sustainable mobility plan to promote and develop electric cars. | <ul style="list-style-type: none"> • Achieve a 50% reduction in emissions intensity by the year 2030 in comparison to 2007. • Be carbon neutral by 2050. • Develop innovation projects geared towards reducing pollution. • Active participation in achieving the Sustainable Development Goals approved in September 2015 (goals 6, 7 and 13). |
| 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 of efficiency at buildings. • Improvement in withdrawal and consumption of inland water at all generation facilities. • Reuse and recycling of water. • Improvement in reuse and recycling of waste. | <ul style="list-style-type: none"> • Development and promotion of ecodesign initiatives. • Life-cycle and green purchasing analysis. • Life Cycle Costing. • Study of implementation of ISO 50001, Energy Efficiency, in Spain. • The circular economy as strategic cornerstone. |
| 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"> • Preparing or providing information for the following reports: <ul style="list-style-type: none"> – Sustainability Report 2017. – Greenhouse Gas Report. – CEF Report 2016. – Biodiversity Report. • 85% of suppliers have ISO 14001 environmental certification. • Public-private cooperation with the Basque Government on environmental issues. | <ul style="list-style-type: none"> • <i>Environmental transparency and communication:</i> <ul style="list-style-type: none"> – <i>Corporate Environmental Footprint Report</i> by country. – Development of new EPDs (Environmental Product Declarations) • Communication of environmental performance, development of methodology. |

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

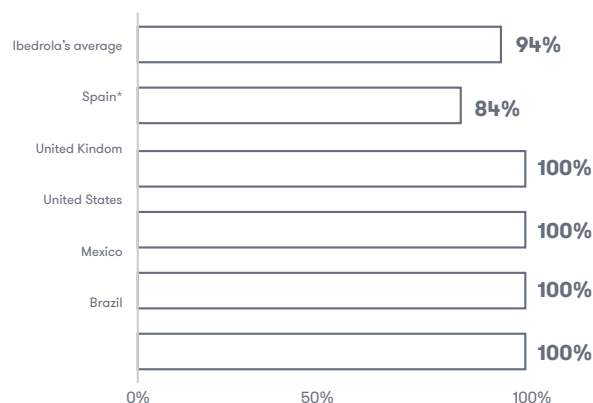
CO₂ emissions at companies in the sector (Carbon factor in kg of CO₂/MWh)



European carbon factor 2016: 275 kg CO₂/MWh
 Source: "Facteur carbone européen Comparaison des émissions de CO₂ des principaux électriciens européens" PwC France. Jan. 2018

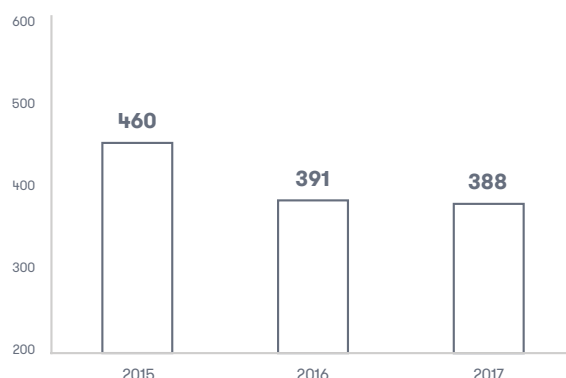
(1) The 134 kg CO₂ in this chart refers to emissions from Iberdrola's facilities in Europe during 2016. The other companies only include the European space.

Production of Iberdrola plants using local energy sources in the countries in which it operates

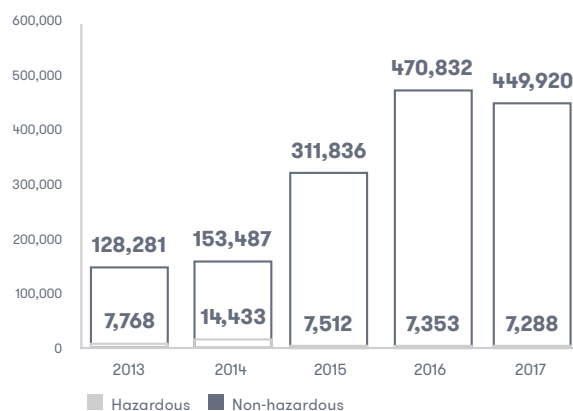


* Nuclear fuel acquired from the Spanish company Enusa is considered a local source.

Intensity of emissions at the thermal plants of the group (CO₂/MWh)



Volume of recovered, reused or recycled waste (t)



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4.6 Social and Relationship Capital

Stakeholder relations

Iberdrola cultivates a responsible and sustainable business model, which puts Stakeholders at the centre of decisions. The company’s intent is to build relations of confidence with its various Stakeholders, as well as to deepen their engagement and sense of belonging to Iberdrola. The *By-Laws* as well as the *Mission, Vision and Values* of Iberdrola and its *Stakeholder Relations Policy* clearly express this intent.

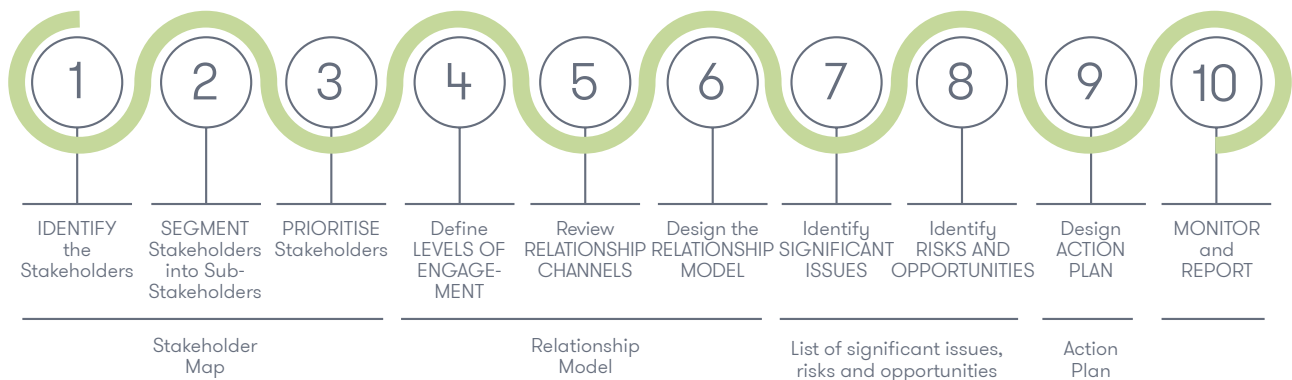
Iberdrola’s Stakeholders. Relationship principles and goals

| | | | |
|--------------------------------------|--|--------------------|---|
| Workforce | | Suppliers | |
| Shareholders and financial community | | Media | |
| Regulatory entities | | Society in general | |
| Customers | | Environment | |
| Principles | <ul style="list-style-type: none"> • Two-way communication • Transparency • Active listening • Equal treatment | | Objectives <ul style="list-style-type: none"> • Take into consideration the legitimate interests of the Stakeholders. • Effectively disclose information regarding the activities and businesses of the group. • Contribute to improving the reputation of the company. |

Global Stakeholder Relations Management Model

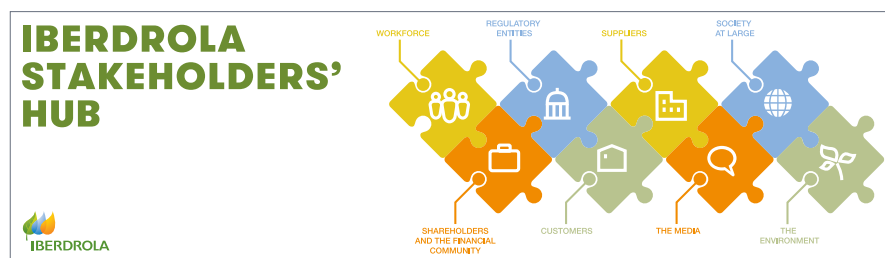
Iberdrola has a new *Global Stakeholder Relations Model* that began to be implemented in 2017. This model is based on the AA1000 Stakeholder Engagement Standard (AA1000SES) 2015 and on its three requirements of inclusiveness, materiality and responsiveness, as well as the most stringent international standards in this area.

The Model itself constitutes a process of structured continuous improvement in the following three phases:



Iberdrola implements this Model in the management of its eight Stakeholder groups in five leading countries, at the Generation and Renewables facilities and in the various geographic areas of the Networks Business.

Iberdrola Stakeholders' Hub



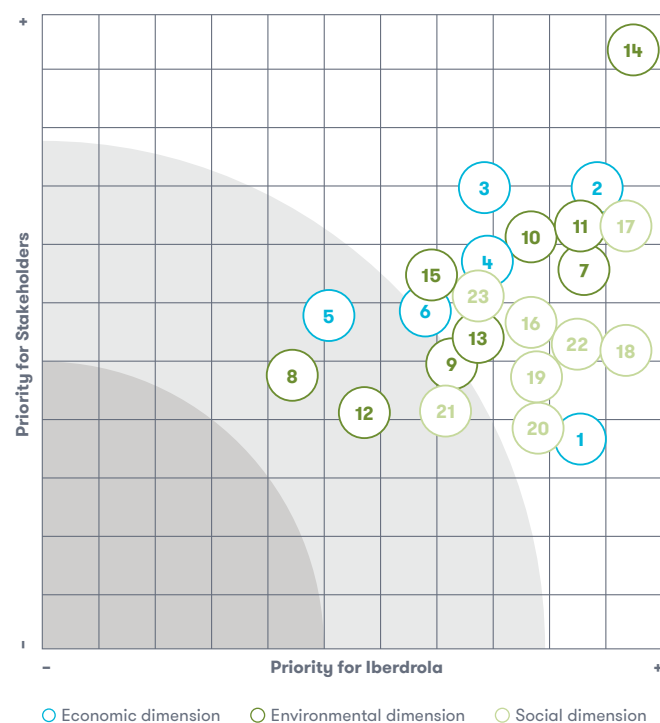
Iberdrola has an internal coordination body called the Iberdrola Stakeholders' Hub, which was created in 2017 to facilitate the implementation of the *Global Stakeholder Relations Model*, and in which the areas responsible for managing the eight Stakeholder groups participate. Representatives from the various countries are gradually being included.

Channels of communication with Stakeholders

Iberdrola has numerous channels of communication with its Stakeholders, from conventional channels accessible to everyone (telephone, email inboxes, communications, etc.), to other more specific channels (many of them digital) to address the particular nature of each Stakeholder group. Iberdrola's websites and social media channels are also essential mediums for interaction. The most important channels of communication can be found in the *Sustainability Report 2017*.

Most significant issues for Stakeholders

Implementation of the *Global Stakeholder Relations Model* allows for internal identification of the issues that are most important to these groups. Both the priority issues and Iberdrola's response are also described in the *Sustainability Report 2017*. The process of understanding significant issues is completed with a *Materiality Study* prepared by an independent firm, the priorities matrix of which is the following:



Material issues

1. Socially responsible investment
2. Economic performance
3. Ethics and integrity (anti-corruption, free competition and fiscal responsibility)
4. Responsible supply chain
6. Electric and gas infrastructure
7. Management of natural capital
9. Innovation and new business models
10. Integration of renewable energy within the electric system
11. Climate change
13. Management of biodiversity
14. Energy transition
15. Availability and management of water
16. Customer satisfaction
17. Diversity and equal opportunity
18. Occupational health and safety
19. Impact on local communities
20. Human rights
22. Attraction, development and retention of human capital
23. Connectivity, digitisation and cybersecurity

Other issues identified

5. Public policy
8. Circular economy
12. Environmental performance: "Eco-efficiency"
21. Vulnerable customers

Examples of good practices

Stakeholder panels in the United Kingdom

The Networks Business in the United Kingdom holds regular panels with Stakeholders, attended by representatives of domestic, local, industry and third sector (civil society) institutions, among others.

Customer Experience project in Spain.

The Wholesale and Retail Business launched the *Customer Experience* in Spain to evaluate the customer experience throughout the relationship cycle with Iberdrola. Focus groups, interviews, panels and surveys are carried out within this framework.

Supplier of the Year Award

The Procurement Area organises local and global awards to promote and recognise excellence, internationalisation, innovation and social responsibility among its suppliers.

Community support and electricity access programmes

Primary programmes

Activities 2017

- Contribution of €63 million to the community in the countries in which Iberdrola operates, measured according to the London Benchmarking Group (LBG) international standard.
- *International corporate volunteering programme*, offering various volunteering opportunities to employees in Spain, the United Kingdom, the United States, Brazil and Mexico.
- Entrepreneurial support: over €38 million of procurement from companies in operation for less than 5 years, and €70 million in venture capital for new initiatives with high technological value.
- Programmes and pricing to aid vulnerable groups in Spain, the United Kingdom, the United States and Brazil.
- Rural electrification programmes in Brazil, to which €278 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 Everyone

- The Sustainable Development Goals (SDGs) 2015-2030, approved at the UN Sustainable Development Summit in New York, entail the recognition of energy as an engine of sustainable growth.
- The *Electricity for All* programme is Iberdrola's response to this 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 4 million beneficiaries of this programme by 2020. At year-end 2017, the programme had reached 3.9 million users.

Economic value distributed (€M)

| Item | 2016 | 2017 |
|--|-------|-------|
| Procurement from suppliers | 7,508 | 8,648 |
| Payments to providers of capital | 2,692 | 2,916 |
| Payments to government administrations | 2,740 | 2,723 |
| Employee remuneration | 2,260 | 2,517 |

© Sustainability Report

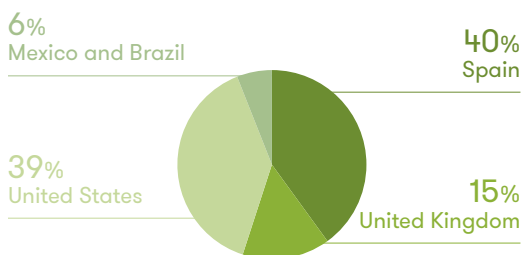
Foundations of the Iberdrola group

Activities 2017

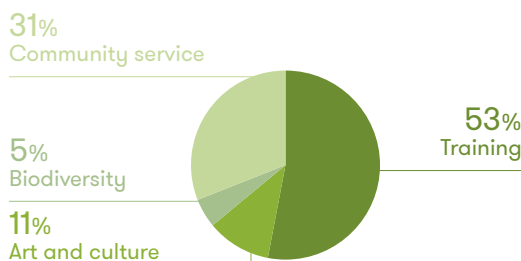
- Iberdrola has strengthened the operation of its foundations in Spain, the United Kingdom, the United States, Brazil and Mexico.
- Overall investment dedicated to activities in all countries has increased to a total of €13.5 million.
- As regards the activities themselves, four areas (Training and Research, Art and Culture, Sustainability and Biodiversity, and Cooperation and Solidarity) have been cultivated in all of the countries.
- In the training area, Iberdrola's *Scholarships and Research Assistance Programme* gave a total of 176 scholarships for students in the five countries in 2017.
- In Art and Culture, 313 restoration and illumination projects have been undertaken, including the Chapel of the Holy Chalice of the Cathedral of Valencia and the Fort of Five Points in Pernambuco. There are also collaborative efforts with the Prado Museum, the National Museum of Scotland and the Rochester International Art Festival.
- In Biodiversity and Climate Change, there is the *MIGRA* programme to protect birds in danger of extinction, in collaboration with the Royal Society for the Protection of Birds Scotland (RSPB) and multiple collaborative efforts with educational and environmental centres in the United States.
- In the area of cooperation and solidarity, there has been a strengthening of the social programme in Spain and the United States. There has been a direct impact on more than 200,000 people in all five countries.
- In 2017 the Foundations Committee, as a body coordinating all of their activities, and the corresponding Boards of Trustees of each country, approved the *New Master Plan* for the 2018-2020 period, focusing on the Sustainable Development Goals (SDGs).

Programmes 2017

Contribution by region (%)



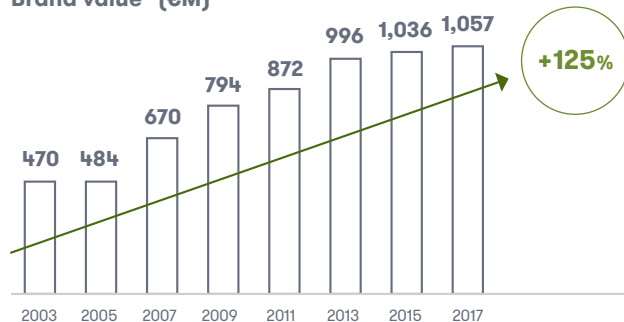
Contribution by programme (%)



Soundness and strength of the brand

- Management of the brand in such a way that it transmits the principles set out in the *Mission, Vision and Values of the Iberdrola group* and reflects the company's strategy of commitment to the environment and social responsibility.
- Consolidation of an international brand, strengthening communication and alignment under a single brand positioning strategy in the countries in which the company operates.

Brand value* (€M)



* Source: Ranking of Best Spanish Brands by Interbrand.

Evolution of the digital ecosystem

- Offer 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 enormous value that influences aspects as important as the attraction and retention of talent, business relations with customers, valuation of the company in the capital markets, and its integration within the communities in which it does business.
- The Stakeholder Relations Model is a fundamental tool that the company uses to detect operational and business aspects that impact outside views of the company and to propose goals leading to the strengthening of reputation and its relationship with the Stakeholders.
- Additionally, both the study of best external practices in all business and relational areas as well as the analysis the analysis of content in the media are supplements to the relationship model that contribute to on-going improvement. The following image shows the variables in reputation management.



- Evaluation of reputation follows a multivariable standard that includes measurements from various sources: reputational surveys and indices, public recognition, presence on sustainability indices, etc.
- The integration of the company's financial and non-financial strategy and goals with the external communication function is another fundamental element to ensure proper transmission of the company's values.