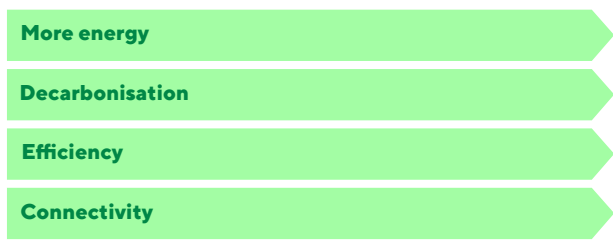


2. Business Model and Strategy

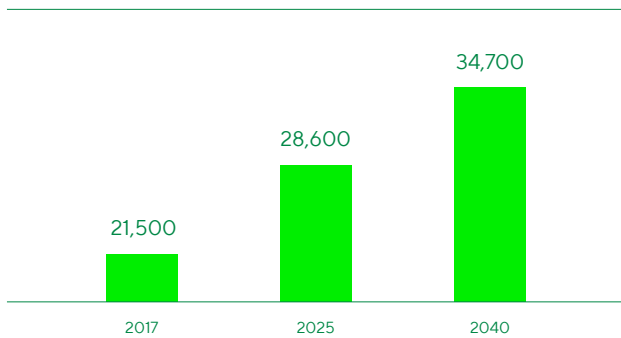
2.1 The Future of Energy

Social Expectations and Needs

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

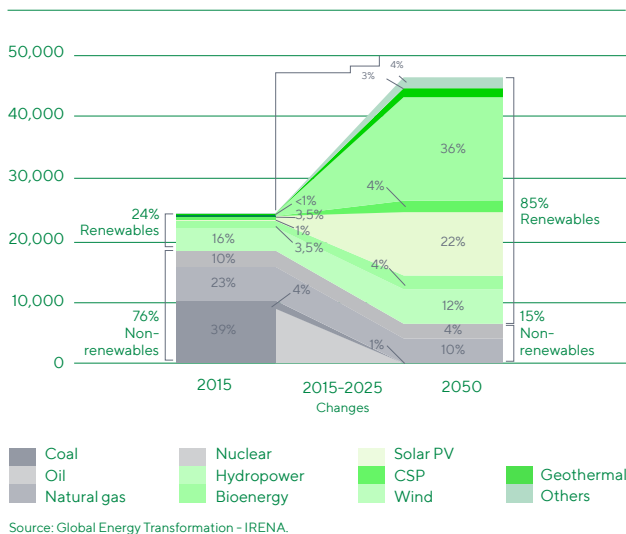


Electricity demand in TWh



Source: *World Energy Outlook 2018*.

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



Source: Global Energy Transformation - IRENA.

More energy and more electrification

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

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

It is expected that policies promoting sustainable mobility, like the clean mobility package of the European Commission³, will cause the number of electric vehicles to increase from the current 3 million to approximately 300 million by 2040, representing approximately 720 TWh of annual consumption. In addition, policies to reduce emissions due to warming seek to reduce the use of fossil fuels, and will entail approximately 45% growth in demand for electricity to heat buildings by 2040. In industry, heat pumps will satisfy approximately 3% (some 240 TWh) of demand for additional low temperature heat by 2040.

In developing economies, one must also factor in the demand associated with the almost one billion people throughout the world who currently lack access to electricity².

(1) *Energy Roadmap 2050 of the European Parliament*.

(2) *World Energy Outlook 2018 - International Energy Agency*.

(3) *14% reduction in CO₂ emissions from new passenger cars and light industrial vehicles by 2030 and 30% reduction by 2050*.

Decarbonisation: Fight against climate change

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

Iberdrola's objectives

- Reduce the intensity of emissions of CO₂ 50% by 2030 compared to those in 2007 and be carbon neutral by 2050. Objectives recognised as Science Based Targets (SBTi).
- Support international climate change negotiation processes, private sector participation in the global agenda, the creation of partnerships and raising climate awareness.

Partnerships and actions

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

2018 milestones include the following:

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

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

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

Efficiency

The growing use of renewable sources of energy is being driven by a rapid evolution of technology that is reducing the costs of production¹. This trend makes a sustainable energy model compatible with a positive evolution of cost for the end user. It is expected that renewable energy will increase its weight in electricity production to 85% by 2050¹. This growth especially includes wind and photovoltaic technologies.

Connectivity and customers

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

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

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

2.2 Business Model

Industry positioning

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

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

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

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

Economic/financial positioning

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

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



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

Focus on regulated businesses

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

Commitment to clean and competitive energies

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

Operational efficiency

- A business culture highly focused on innovation and digitisation has allowed our company to be 40% more efficient than the average of the main competitors¹.

International diversification

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

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

Financial strength and solidity of the group

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

Global, committed and qualified workforce

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

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

Ignacio Galán, at the World Economic Forum 2019

- ① Iberdrola's Primary Businesses / page 45
- ② Natural Capital / page 70
- ③ Manufactured Capital / page 64

- ④ Presence by Areas of Activity / page 12
- ⑤ Financial Capital / page 62
- ⑥ Human Capital / page 68

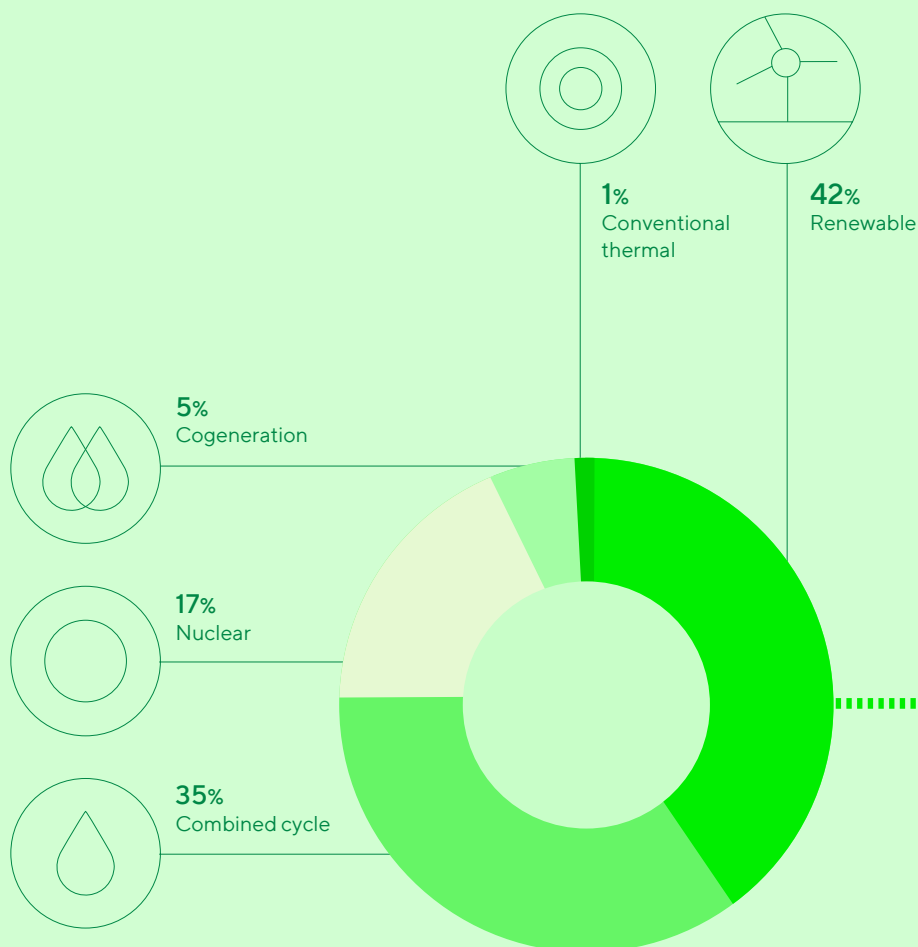
(1) Operating expenses by customer. Source: external reports.

2.3 Value Chain

Electricity generation

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

Generating plants *



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

Power transmission and distribution

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

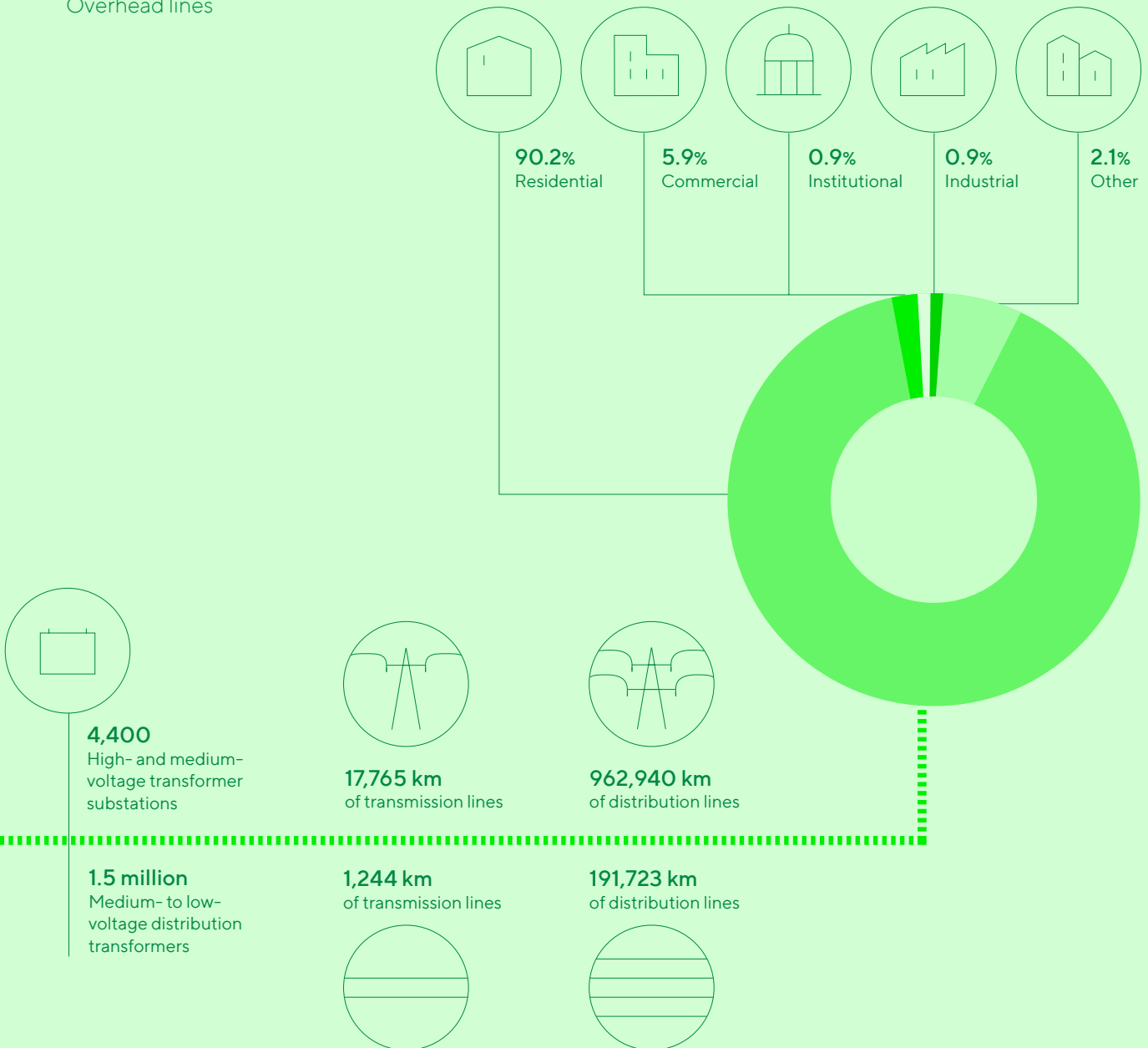
Retail sale of energy

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

Electric grids **

Customers ***

Overhead lines



Underground lines

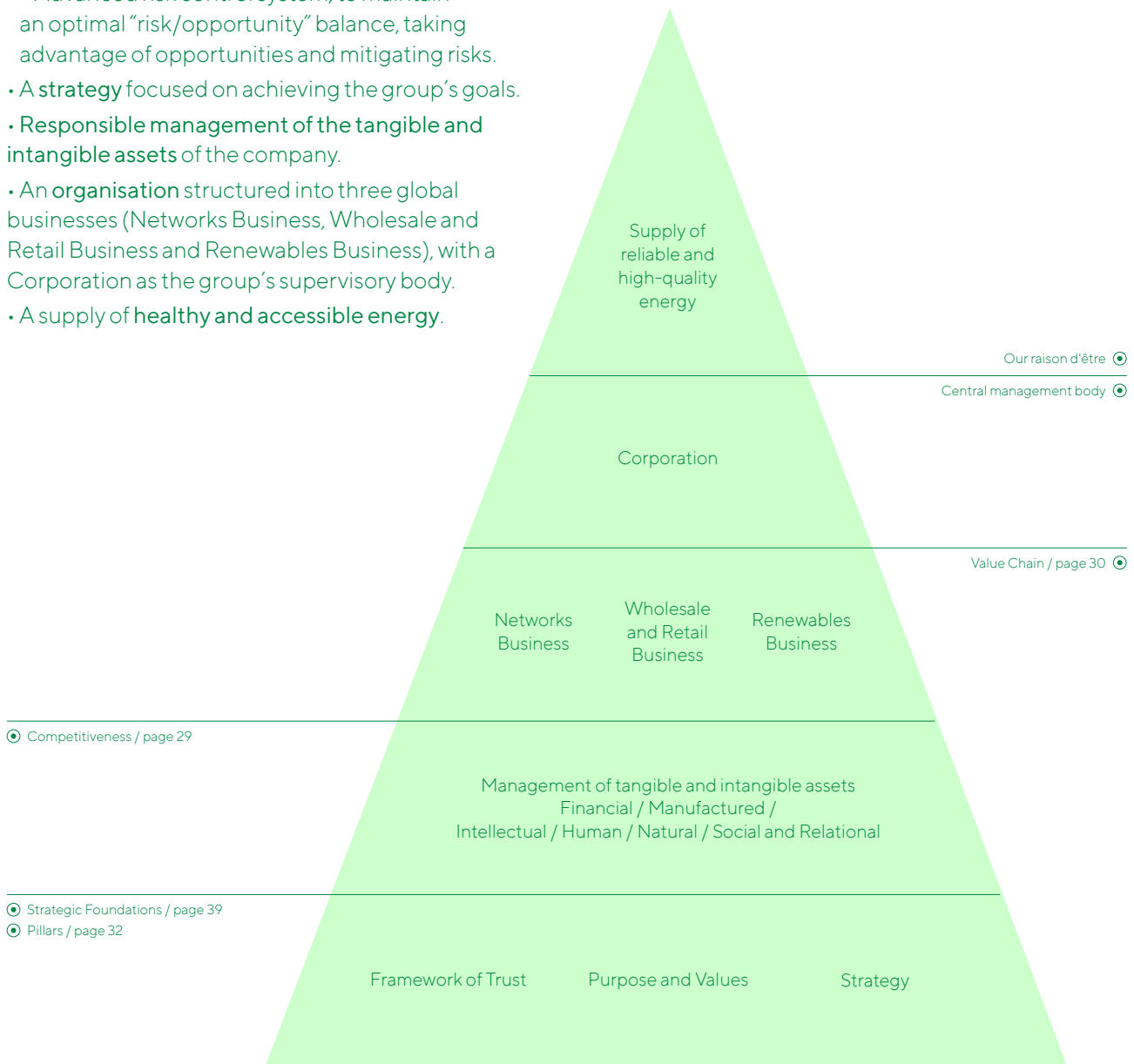
2.4 Iberdrola, a Different Company

Differentiating elements of the company

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

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

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



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

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

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

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

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

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

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



• *Electricity for All* programme:

- Goal of 16,000,000 beneficiaries by 2030.
- Reached 5.4 million by year-end 2018.
- A global renewable leader: 29,177 MW in 2018.
- Energy efficiency: 60 million tons of CO₂ emissions avoided during the last three years.



• Iberdrola has set the following environmental objectives:

- Reduce the intensity of its CO₂ emissions to 50% below those of 2007 by 2030.
- Be carbon neutral by 2050.

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

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

Responsible business model...	Fights against climate change	<ul style="list-style-type: none"> • A global renewable leader, with 29,177 MW installed. • 68.2% of all installed capacity does not produce CO₂ emissions. • Approval of emission reduction goals scopes 1, 2 and 3 by <i>Science Based Target Initiative</i>. • Pioneers in adopting the recommendations of the <i>Task Force on Climate-related Financial Disclosures (TCFD)</i>.
	Rapidly adopts new technologies and commits to innovation	<ul style="list-style-type: none"> • Drives the development of smart grids. Has deployed more than 10 million smart meters throughout the world. • 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	<ul style="list-style-type: none"> • Annually generates approximately €32,000 million in Gross Domestic Product (GDP) in the countries in which it operates¹. • Contributes almost €7,600 million in investments annually to the capital formation of the world economy¹.
	Environmental	<ul style="list-style-type: none"> • Invests more than €1,600 million in renewable generation during 2018, which has reduced its specific emissions to 163 gr / kWh in 2018.
	Social	<ul style="list-style-type: none"> • Creates more than 425,000 jobs worldwide (direct, indirect and induced employment)¹. • Almost €2,400 million in employee remuneration. • Invests €53.5 million in projects contributing to the community². • Makes more than €7,500 million in purchases from its suppliers throughout the world. • Contributes almost €8,000 million in taxes in the countries in which it does business.
...leading to the creation of sustainable economic value.		<p>Balanced growth: €34,000 million between 2018 and 2022, focused on business and countries with stable and predictable regulatory frameworks; 86% of which will be dedicated to regulated activities or long-term contracts.</p> <p>The company's sustainable growth in results, reaching a Net Profit of between €3,700 and €3,900 million by 2022.</p> <p>Financial strength: The FFO/Net Debt ratio is expected to be greater than 24% by 2022, which will allow for higher organic growth, compatible with the objective of FFO/Net Debt ratio of 22%.</p> <p>Sustainable dividend: Shareholder remuneration will grow in line with the increase in results, maintaining a pay-out ratio between 65% and 75%, with a growing floor for the dividend each year of the plan.</p>

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

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

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

	<p>Procedures to protect customers in situations of vulnerability: covers 100% of vulnerable customers in Spain. <i>Warm Home Discount</i> scheme in the United Kingdom and <i>Operation Fuel</i> in the United States. IX edition of the Iberdrola Social Programme 2019 called by Fundación Iberdrola España.</p>		<p>Goal: Foster diversity and the social inclusion of vulnerable groups through the corporate volunteering programme. More than 7,000 initiatives at the global level were made available to the employees in 2018.</p>
	<p>More than 6,000 kg of food collected through the <i>Operation Kilo</i> programme promoted in all countries. Volunteer activities to distribute food, soup-kitchens, etc.</p>		<p>Iberdrola has developed a Sustainable Mobility Plan with the ultimate goal of contributing to a rational use of the means of transportation. Goal: Install 25,000 electric vehicle charging points in Spain by 2021, within its Smart Mobility plan.</p>
	<p>Iberdrola contributes to reducing the noxious effects on health of greenhouse gases with its commitment to reduce these gases. The company also has goals to reduce accident rates.</p>		<p>90% of energy production at Iberdrola is carried out using local sources of energy. Iberdrola was the first IBEX 35 company to certify its General Shareholders' Meeting as a sustainable event (ISO 20121).</p>
	<p>€2.2 million in the scholarship and research grant programme for the 2018-2019 academic year. Training for our employees: more than 45 hours of training per employee in 2018.</p>		<p>During the construction and operation of offshore wind farms, Iberdrola adopts innovative measures to preserve the neighbouring undersea eco-systems. Support for the <i>Dolphin Watch</i> project for the protection of fauna and the conservation of marine habitats with disclosure and awareness-raising activities.</p>
	<p>Iberdrola has been included in Bloomberg's 2019 GEI (Gender Equality Index). Iberdrola supports the Women's Universe (<i>Universo Mujer</i>) programme of the CSD, supporting 16 Spanish female federations. Goal: Increase the number of women in management positions.</p>		<p>Iberdrola has obtained the first AENOR Corporate Environmental Footprint certificate. Goal: Adjustment of 25,000 supports at distribution lines to avoid the electrocution of birds over the next two years (Flapping Wings (<i>Aleteo</i>) project).</p>
	<p>Iberdrola is one of the utilities with the highest water productivity (revenue/water utilised). Goal: maintain intensity at 50% of the European average for next 5 years. Iberdrola has joined the UN CEO Water Mandate to encourage sustainable practices in the use of water.</p>		<p>The company has renewed the <i>UNE-ISO 37001</i> and <i>UNE19601</i> certifications regarding anti-bribery and compliance. It has also been chosen for the fifth consecutive year as one of the most ethical companies in the world, according to the <i>World's Most Ethical Companies</i> ranking prepared by the <i>Ethisphere Institute</i>.</p>
	<p>425,000 direct, indirect and induced job positions throughout the world⁽¹⁾. More than €32,000 million in impact on the GDP of the countries in which it does business¹. Iberdrola is the largest issuer of green bonds in the world, with more than €8,300 million of outstanding green debt. 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. Iberdrola held the 1st Iberoamerican Conference on the SDGs, in collaboration with the Universidad de Salamanca and the Polytechnic University of Madrid.</p>
	<p>World leaders in Smart Grids. Progress on the Star project in Spain and the <i>Smart UK</i> project in the United Kingdom. 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 2017 figures. Includes indirect and induced impacts.

2.5 Capital Management

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

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

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

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

🔗 Human Capital / page 68

🔗 Natural Capital / page 70

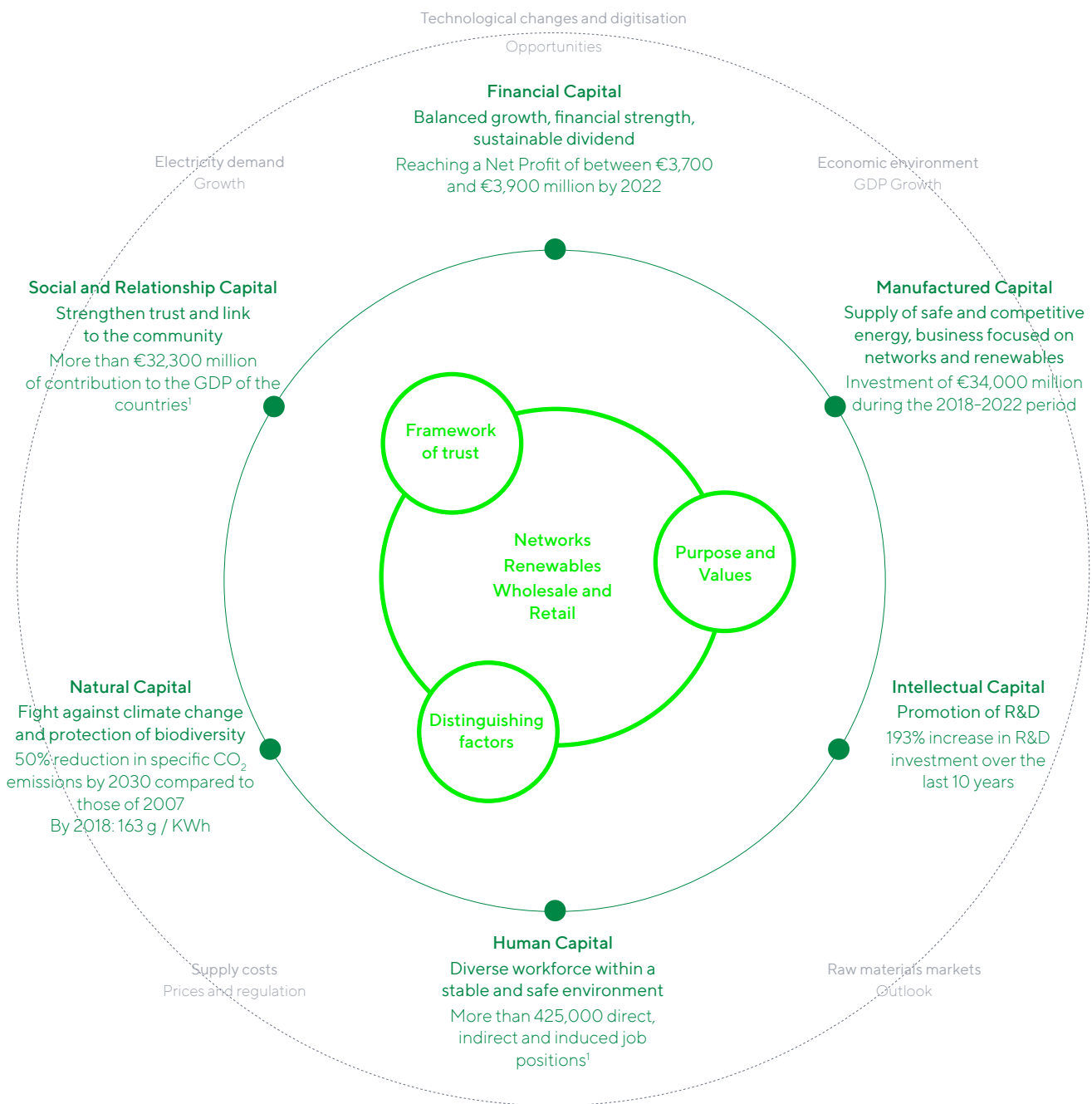
🔗 Social and Relationship Capital / page 72

Social dividend as an increase in the value of capital

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

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

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



..... External Context

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

2.6 Strategic Foundations for 2018–2022

Market conditions

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

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

Challenges and opportunities

Challenges

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

Opportunities

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

Growth vectors 2018–2022

Investments

United States

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

Spain

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

Mexico

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

United Kingdom

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

Brazil

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

Operational efficiency

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

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

Financial Capital / page 62

Strategic pillars

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

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

1. Balanced growth

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

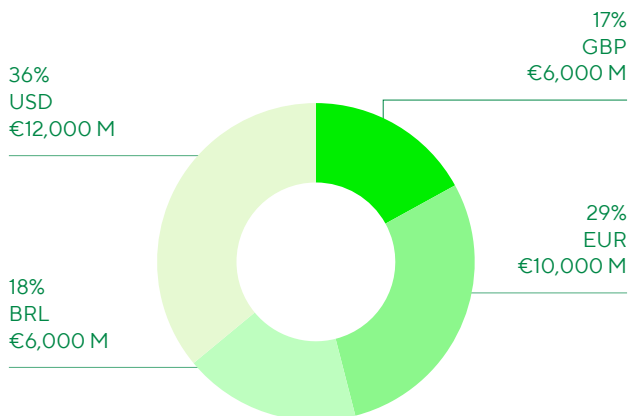
- The policies of decarbonisation and technological progress play an important role, as they will promote major investments in renewable generation, as well as the deployment and strengthening of grids playing an essential role in integrating both large-scale and distributed renewable generation and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

Investment by business and currency 2018-2022

Investments of the Businesses



Investment by Currency



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

2. Financial strength

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

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

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

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

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

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

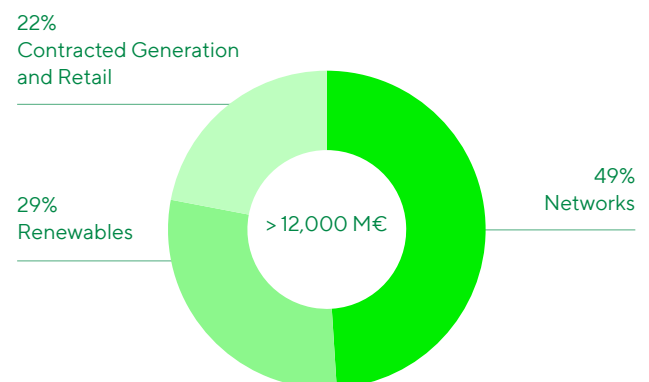
Optimisation of liquidity position (around €12,000 - €14,000 million, with a margin to increase it if necessary) to current market conditions in order to improve financial costs, maintaining 18 months of coverage even during stress scenarios. Neoenergia has its own liquidity policy covering 12 months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

3. Sustainable dividend

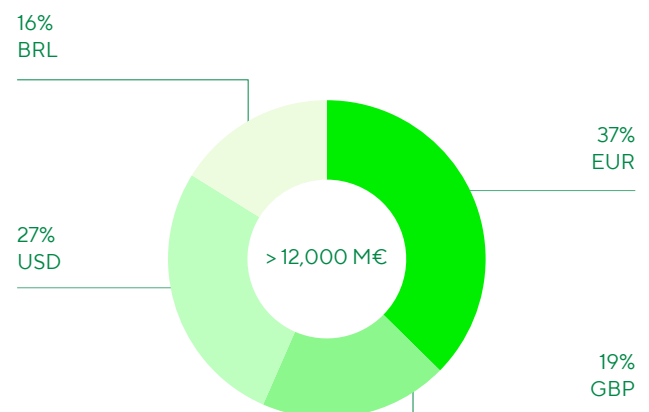
Thanks to the strength of the results obtained, and in compliance with the commitment to increase shareholder remuneration in line with the results, the Board of Directors will propose shareholder remuneration of 0.351 euro per share at the General Shareholders' Meeting, an increase of 7.7% charged to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

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

EBITDA by business (forecast to 2022)



EBITDA by currency (forecast to 2022)



2.7 Comparative Results and Awards

Comparative analysis¹

Comparative economic/financial variables 2018

Growth in EBITDA

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

Growth in stock market capitalisation

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

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

Share price

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

Comparative performance of total shareholder return

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

Iberdrola's performance

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

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

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

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

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

Awards/Recognitions:

To the company:

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

To the chairman:

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

To other members of the company:

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

