

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.

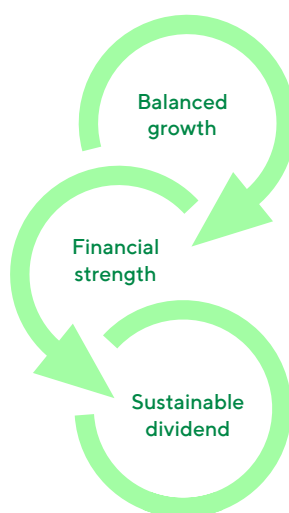
2018 saw the conclusion of the *Star* network digitisation project, the inauguration of the Wikingier offshore wind farm, the promotion of electric mobility through the *Smart Mobility* plan pursuant to which Iberdrola will install 25,000 electric vehicle charging points in Spain by 2021, and the development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