

## 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.

### 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.

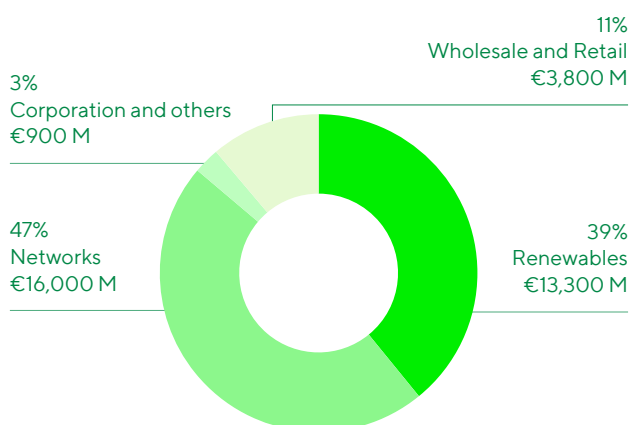
### 1. Balanced growth

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

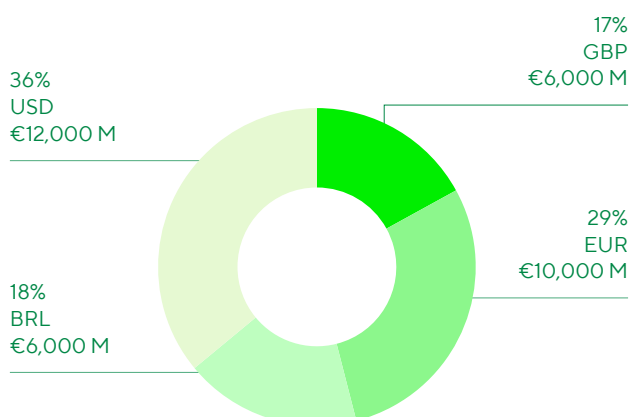
- The policies of decarbonisation and technological progress play an important role, as they will promote major investments in renewable generation, as well as the deployment and strengthening of grids playing an essential role in integrating both large-scale and distributed renewable generation and 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%.

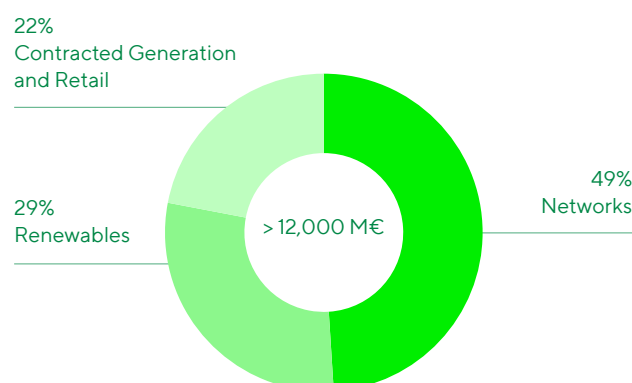
Optimisation of liquidity position (around €12,000 - €14,000 million, with a margin to increase it if necessary) to current market conditions in order to improve financial costs, maintaining 18 months of coverage even during stress scenarios. Neoenergia has its own liquidity policy covering 12 months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

