

## 4. 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 identifies and classifies its assets in accordance with the IIRC classification system:

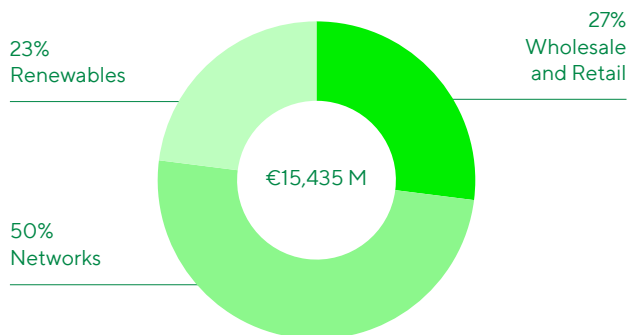
- Financial capital
- Manufactured capital
- Intellectual capital
- Human capital
- Natural capital
- Social and relationship capital

## 4.1 Financial Capital

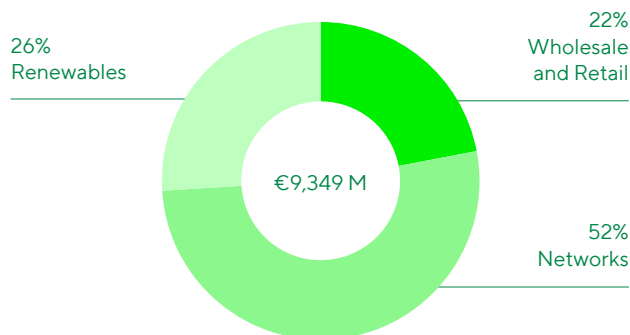
	Management approach	Results 2018	Outlook
<b>Balanced growth</b>	<p>The company has an investment policy consistent with its strategic vision and financial policy. The main goals are:</p> <ul style="list-style-type: none"> <li>• Ensure a return on capital through projects and investments preferably in regulated businesses, renewable assets or long-term contracts.</li> <li>• Increase geographic diversification, further balancing the contribution of the countries in which it does business.</li> <li>• Tailor investment levels to the actual needs of each market.</li> </ul>	<ul style="list-style-type: none"> <li>• Net investments of €5,320 million, of which 80% has been assigned to the Networks and Renewables businesses.</li> <li>• Investments in Networks assets have been boosted by the long-term regulatory frameworks established in all of the countries, and have increased 16% in Brazil and 7% in the United States and the United Kingdom (in local currency).</li> <li>• In Generation, there has been a commitment to more than 2.7 GW of capacity since the beginning of 2018.</li> <li>• Funds From Operations have increased 13.1%, reaching €7,300 million thanks to all the investments, exceeding investments by more than €2,000 million.</li> </ul>	<ul style="list-style-type: none"> <li>• Iberdrola will accelerate its growth with investments reaching €34,000 million during the 2018–2022 period, with a €2,000 million increase over the figure forecasted in February 2018. 86% of the investments will be dedicated to regulated activities or long-term contracts.</li> <li>• By business, Networks will absorb 47%, €16,000 million, increasing the value of its regulated assets 34% by 2022, to €38,900 million. In Renewables, the company will have 38.4 GW by year-end 2022. Iberdrola will also reach 90 GWh of storage capacity by that year.</li> <li>• Investments in dollars will represent 36%, followed by 29% in euros.</li> </ul>
<b>Solid financial structure</b>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• The financial policy seeks improvement in solvency ratios, balancing an increase in debt with the generation of additional cash flow from new investments.</li> <li>• 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.</li> </ul>	<ul style="list-style-type: none"> <li>• Gross margin of €15,435 million (+15.5%).</li> <li>• Net profit of €3,014 million (+7.5%), in line with forecasts for the year.</li> <li>• EBITDA increased by almost 28% to €9,349 million, thanks to the good operational performance of all of the businesses and the integration of Neoenergia.</li> <li>• Adjusted net financial debt is €34,149 million, increasing €1,294 million over the year, as a result of the strong investment process implemented by the group.</li> <li>• Liquidity of €13,012 million, which covers more than 24 months of financing needs.</li> </ul>	<p>The increase in investments, optimisation of capital and implementation of increased efficiency measures has led to an improvement in the estimates for 2022, with the higher end of the range forecast in February 2018 as the base for the new floor:</p> <ul style="list-style-type: none"> <li>• EBITDA of more than €12,000 million by 2022 means 30% growth over 2018. 80% of this EBITDA will come from the Networks and Renewables businesses in 2022.</li> <li>• Net Profit for 2022 will have a floor of €3,700 million, with the upper range reaching €3,900 million. This would be an increase of 30% compared to 2018.</li> <li>• Optimisation of the liquidity position to cover financing needs for 18 months in a stress scenario.</li> </ul>
<b>Operational excellence</b>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• The implementation of best practices in all areas will allow for additional savings and an increase in synergies at the global level.</li> </ul>	<ul style="list-style-type: none"> <li>• Net operating expenses decreased 0.4% to €4,155 million, supported by the exchange rate, reserves for efficiency plans recorded in 2017, and the application of IFRS 15, which offsets the consolidation of Neoenergia.</li> </ul>	<ul style="list-style-type: none"> <li>• 20% improvement of the efficiencies goal presented in 2018, such that more than €1,200 million in efficiencies will accumulate over the 2018–2022 period thanks mainly to digitisation and the optimisation of processes in all countries and businesses.</li> </ul>
<b>Sustainable results and dividends</b>	<ul style="list-style-type: none"> <li>• 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.</li> </ul>	<ul style="list-style-type: none"> <li>• Shareholder remuneration of 0.331 euro per share, equal to a dividend yield of 4.71%.</li> <li>• Flexible dividend offering tax benefits, the repurchase of shares to avoid dilution, adding the cash payment option.</li> </ul>	<ul style="list-style-type: none"> <li>• Thanks to the strength of the results obtained, and maintaining 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.</li> <li>• The flexible dividend programme is maintained with the number of target shares at 6,240 million through share buyback plans to avoid dilution of the shareholders.</li> <li>• Remuneration will continue to increase in line with the results. Therefore, a growing dividend floor is set for each year of the plan, with a minimum dividend of 0.37 euro per share by 2020 and 0.4 euro per share by 2022.</li> <li>• The pay-out ratio is kept at between 65% and 75%.</li> </ul>

Create value for the shareholder with sustainable growth

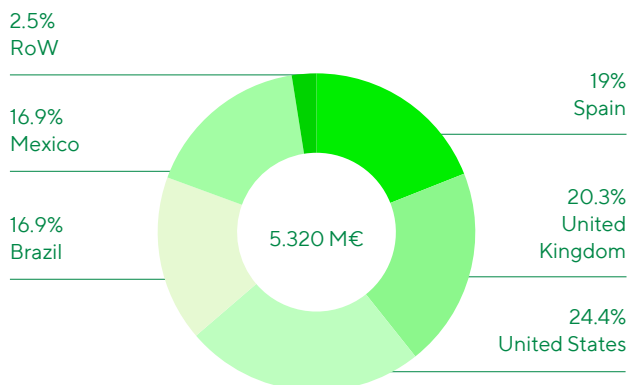
Gross margin by business 2018



EBITDA by business 2018

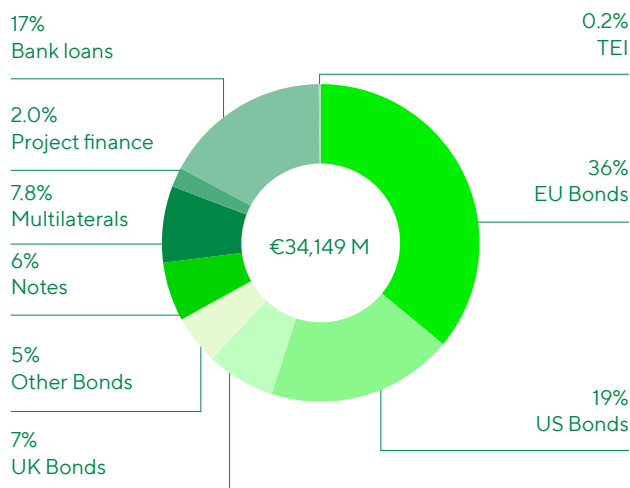


Investment by geographic area 2018



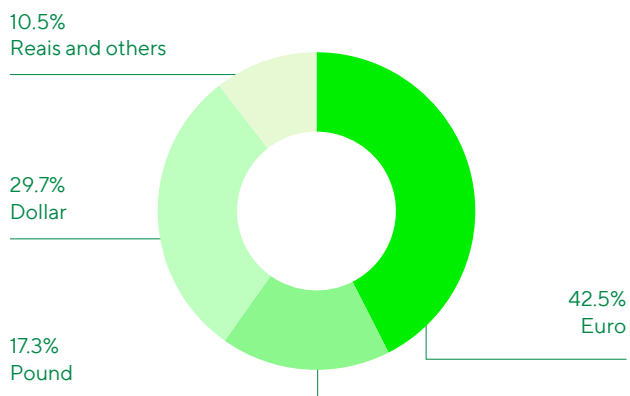
Diversification of investments, with a heavy concentration outside of the euro zone.

Net Debt (€M) 2018



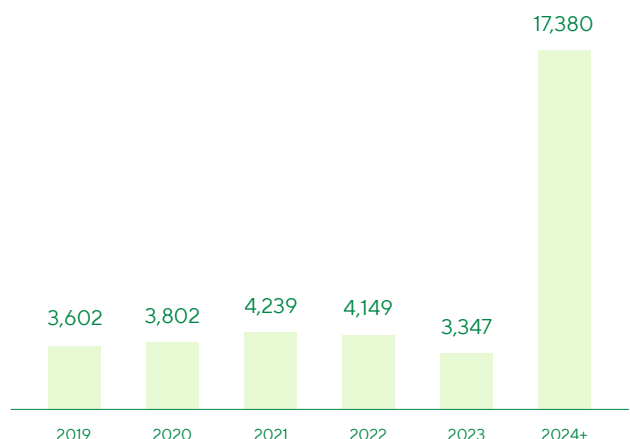
Net adjusted financial debt at 31 December 2018 decreased by €230 million from the nine-month period (€34,379 million) to €34,149 million.

Debt structure by currency in 2018



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

Maturity of financial debt (€M)



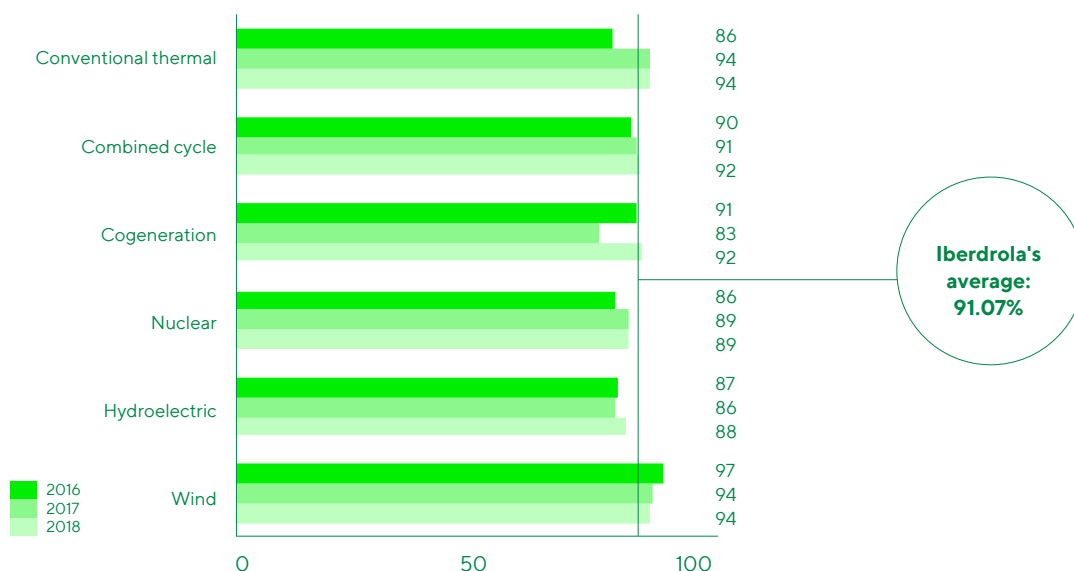
Comfortable maturity profile. Excludes credit lines.

## 4.2 Manufactured Capital

Size	Principal activities 2018	Outlook	
<b>Electric power generation assets</b>	<ul style="list-style-type: none"> <li>Iberdrola's generation assets are made up of more than 300 wind farms, almost 90 hydroelectric power plants (in addition to the mini-hydro plants), 10 photovoltaic plants, 37 thermal power stations using various technologies, 5 of which are nuclear, and other facilities built and operated according to the best practices.</li> </ul>	<ul style="list-style-type: none"> <li>ISO 9000 certification has been renewed for the operation of windfarms in Spain and the United Kingdom.</li> <li>The year ended with additional installed capacity of 1,635 MW, of which 952 MW are from thermal generation in Mexico, and 683 MW are renewable, including the Santiago and Hermosillo photovoltaic plants in Mexico and the Chimiche II wind farm in Spain.</li> <li>At the same time, 566 MW have left the capacity boundary due to the sale of three hydroelectric plants in the United Kingdom, 2,000 MW in thermal from the sale of conventional generation in the United Kingdom, and 50MW from the Puertollano thermosolar plant in Spain.</li> </ul>	<ul style="list-style-type: none"> <li>Construction continues on 2,152 MW of onshore wind, 391 MW of photovoltaic and 714 MW of offshore wind within the <i>East Anglia One</i> project. Development continues on the 496 MW <i>St. Brieuc</i> (France), 486 MW <i>Baltic Hub</i> (Germany) and 800 MW <i>Vineyard</i> (United States) offshore wind projects.</li> <li>In Mexico, construction continues on almost 2,600 MW in combined cycles.</li> <li>In Portugal, there is continued construction of the Tâmega hydroelectric complex, with 1,158 MW.</li> <li>In Brazil, work continues on the construction of the total 350 MW Baixo Iguaçú hydroelectric plant.</li> </ul>
<b>Power transmission and distribution assets</b>	<ul style="list-style-type: none"> <li>Iberdrola's electricity transmission and distribution networks comprise over 1.1 million km of distribution lines, more than 4,400 substations and 1.5 million transformers, built and operated to supply a high-quality, reliable service to 30.7 million electricity supply points.</li> <li>Iberdrola also has more than 40,000 kilometres of gas pipelines for the transport and distribution of gas in the United States.</li> </ul>	<ul style="list-style-type: none"> <li>In Spain, the <i>Star</i> project has been completed with the installation of more than 10.8 million smart meters (99% of the total).</li> <li>In the United Kingdom, the <i>Western Link</i> undersea cable project between Scotland and Wales, with more than 2,000 MW of available capacity, has been placed into service. There was also the completion of the South West Scotland project, with 6 new substations and 87 km of lines.</li> <li>There is continued deployment of smart meters in the United Kingdom, increasing the rate ahead of the goals established by the British regulator <i>Ofgem</i>.</li> </ul>	<ul style="list-style-type: none"> <li>In Brazil, the December 2018 ANEEL auction awarded 4 projects for the construction of more than 3,000 kilometres of transmission lines, with an expected regulatory investment of 6,000 million reais.</li> <li>In the United States, there was an award in 2018 of the <i>NECEC</i> project, which involves the construction of a 233 km <i>HVDC</i> transmission line between Canada and New England, with an investment of 950 million dollars.</li> <li>Progress continues with the digitisation of the network to lead the transformation towards a Distribution System Operator.</li> </ul>
<b>Other assets</b>	<ul style="list-style-type: none"> <li>Iberdrola manages approximately 1,600,000 m<sup>2</sup> 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.</li> </ul>	<ul style="list-style-type: none"> <li>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.</li> <li>Commencement of construction on phase II of the Iberdrola Campus.</li> <li>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.</li> <li>Inauguration of the new corporate headquarters of Avangrid at 180 Marsh Hill Road, Orange, CT.</li> </ul>	<ul style="list-style-type: none"> <li>The construction of the Iberdrola Campus will end during 2019 with the culmination of Phase II.</li> <li>Avangrid plans to continue consolidation of the real estate portfolio of offices in the various states in which it does business.</li> <li>At Neoenergia, the process of internalising the Networks Business is expected to be completed, with the opening of numerous work centres in its areas of influence.</li> <li>Iberdrola continues to be committed to the modernisation of work spaces, for which reason it will continue to develop new spaces for collaboration within the corporate buildings, within a permanent process of efficiency and continuous improvement.</li> </ul>

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

Average availability factor of Iberdrola's generation facilities



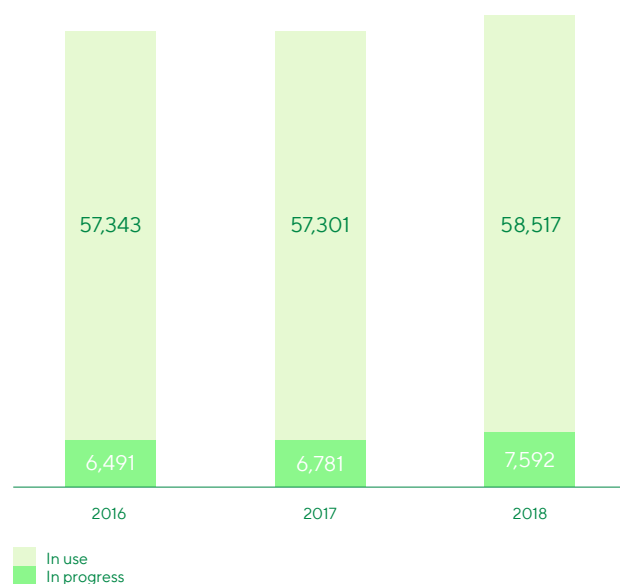
Quality of electricity supply

Average power outage duration		2017	2018
Spain (*)	TIEPI (min)	52.7	44.6
United Kingdom	CML (min)	31.0	35.4
United States	CAIDI (h)	1.91	2.07
Brazil	DEC (h)	15.96	12.24
Power outage frequency		2017	2018
Spain	NIEPI (number)	1.14	0.91
United Kingdom	CI (ratio)	36.0	43.37
United States	SAIFI (index)	1.15	1.22
Brazil	FEC (frequency)	7.15	5.80

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.

(\*) In 2017 excluded 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 2018	Outlook
<b>Promotion of R&amp;D</b>	<ul style="list-style-type: none"> <li>Iberdrola is now the <i>utility of the future</i> 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.</li> </ul>	<ul style="list-style-type: none"> <li>€267 million of R&amp;D investment in 2018, an 8% increase over 2017.</li> <li>Consolidation of the <i>Iberdrola Universities Programme (Iberdrola U)</i>.</li> <li>Commitment to internal talent through the <i>Renewables Accelerator Programme, Networks 2.0 and Accelerator for Customer</i> initiatives.</li> <li>Holding of <i>Innoday</i>, the major date of the energy sector with innovation.</li> <li>Inauguration in Qatar of the <i>Iberdrola Innovation Middle East</i>, a technology centre focused on responding to the challenges of the digitisation of the energy system.</li> <li>Publication of the Innovation Report 2016-2018.</li> </ul>	<ul style="list-style-type: none"> <li>Development of <i>R&amp;D Plan 2018-2022</i>.</li> <li>Iberdrola will invest 34,000 million euros between 2018 and 2022, focusing its innovative activity on:               <ul style="list-style-type: none"> <li>Cleaner and smarter generation.</li> <li>More and smarter storage.</li> <li>More and smarter grids.</li> <li>More and smarter customer solutions.</li> </ul> </li> </ul>
<b>Efficiency and new products and services</b>	<ul style="list-style-type: none"> <li>Continuous optimisation of our operations, management of the life cycle of facilities and equipment, reduction in operating and maintenance costs, and decreasing environmental impact.</li> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>Increase in <i>customer engagement</i>, providing a simple, modern and intuitive customer experience during their entire life cycle.</li> <li>Launching innovative campaigns and projects towards increased personalisation of content and offers based on consumption.</li> <li>Delivery of proactive communications in real time and use of online self-service, with quick and simple online contracting.</li> <li>New social media channels at the international level, offering rapid and efficient customer service.</li> </ul>	<ul style="list-style-type: none"> <li>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.</li> <li>In the future, Iberdrola will continue to wager on energy management of the home through smart devices that give customers greater knowledge and management of consumption, as well as products relating to electric vehicle charging.</li> </ul>
<b>Disruptive technology and business models</b>	<p>Through the <i>Iberdrola-PERSEO</i> international start-up programme, funded with €70 million, investments are made in technologies and new disruptive businesses models, which ensure the sustainability of the energy model. Lines of activity:</p> <ul style="list-style-type: none"> <li>Technologies favouring the integration of renewable energies: flexibility and storage.</li> <li>Aggregation and management of distributed energy resources (batteries, solar, etc.).</li> <li>Innovative solutions for customers (demand-side management, digital solutions, etc.).</li> <li>Advanced technologies for operation and maintenance of energy assets.</li> <li>Electromobility: charging infrastructures and new solutions.</li> </ul>	<ul style="list-style-type: none"> <li>Iberdrola has been included for the second consecutive year among the top 12 European companies committed to the open innovation promoted by the <i>Europe Partnership</i> of the European Commission. Specifically, it has been selected by the European start-ups as one of the <i>Corporate Startup Stars</i> for 2018 and has also received, for the second time, the <i>Corporate Startup Procurement</i> award.</li> <li>More than 10 pilot projects with start-ups in technological areas like Artificial Intelligence, Big Data, Internet of things (IoT) and blockchain.</li> <li>Participation in the company <i>Atten2</i>, dedicated to developing solutions for online monitoring of critical assets to improve the operation and maintenance thereof. This investment is a major contribution to the digitisation of assets in order to prolong the useful life thereof through predictive maintenance and improved operation thereof.</li> </ul>	<ul style="list-style-type: none"> <li>Ensure Iberdrola's access to the energy technologies of the future.</li> <li>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.</li> <li>Establish alliances with key technology providers for Iberdrola (Open Innovation Ventures).</li> </ul>

## Highlight the value of the company's intangible assets

### Main R&D research projects

Renewable energy	<ul style="list-style-type: none"> <li>As to the improved efficiency of assets, <i>ROMEO</i> and <i>ASPA</i> seek to develop new models and tools for the early detection of failures based on AI/big data techniques. The <i>Renewables Digital Evolution Plan (2018–2022)</i> has also been launched.</li> <li>Avangrid Renewables has passed the process of being registered as a <i>Balancing Authority</i>, with responsibility for the real-time balancing of production and demand.</li> <li>In offshore wind, the <i>Wiking</i> offshore wind farm was inaugurated and construction of <i>East Anglia One</i> offshore wind farm has started in the United Kingdom.</li> </ul>
Smart grids	<ul style="list-style-type: none"> <li>The <i>ALOIS</i> project has commenced to develop a system for control and protection of feeders in distribution networks for stable and sustainable island operation.</li> <li><i>LAYCA</i> seeks to develop a system for locating breakdowns and identifying failures in medium-voltage networks. <i>Quality Innovation Award</i> received in the Basque Country.</li> <li>Also noteworthy are the <i>Star+</i> and <i>Bidelek 4.0</i> projects, to continue pushing the digital transformation of the electricity grid and to improve the efficiency thereof.</li> </ul>
Clean generation	<ul style="list-style-type: none"> <li>Includes the <i>OCTAVE</i> project for the design of technologies for the diagnosis and control of the combustion process to make our plants more flexible.</li> <li><i>OFF-GAS</i>, <i>RESHAND</i> and <i>FILTRABRIS</i>, which are part of Iberdrola's Supplier Innovation Programme, are oriented toward operational efficiency and nuclear safety.</li> </ul>
Customers	<ul style="list-style-type: none"> <li><i>Energy Wallet</i>, a pioneering product that allows the purchase of 6-, 12- or 24-month green energy packages knowing the final price. They can be used at different addresses and allow for real-time management from one's mobile phone.</li> <li>In the United Kingdom, there is <i>PowerUp</i>, which allows for the purchase of gas or electricity in packages up to 180 days in advance at a pre-established price.</li> <li><i>Smart Mobility</i>, a comprehensive solution that includes the acquisition of a charging point, installation and warranty, operation by means of an <i>app</i>, and a personalised supply contract.</li> </ul>

### Innoday 2018, we are committed to innovation and young talent

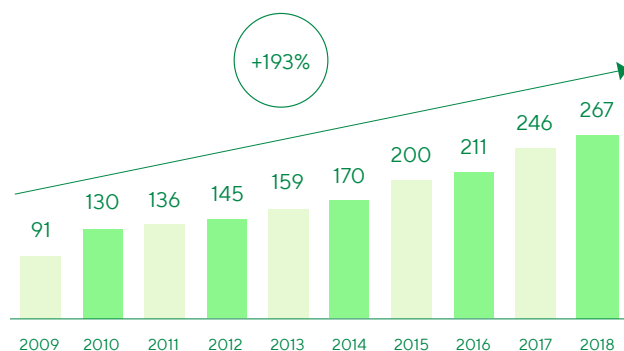
On 23 May, the company's international campus hosted the *Innoday 2018* symposium, a meeting space to disseminate *innovative* initiatives that transform the energy sector, encourage the transfer of knowledge and attract young talent.

*Innoday 2018* was based around two pillars:

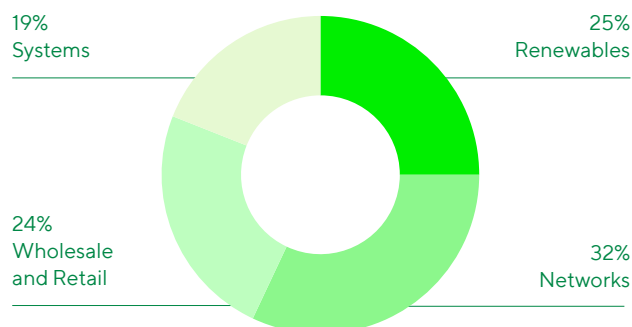
- The presentation of the Iberdrola group's Universities Programme.
- The innovation fair: 25 exhibitors showed emblematic projects relating to energy in the areas of the group's business as well as that of its partners.

Youth who participated in the start-up initiatives of the Universities Programme were also involved, with the winners of the challenges earning an award.

### Investments in R&D (€M)



% R&D investment by strategic area



## 4.4 Human Capital

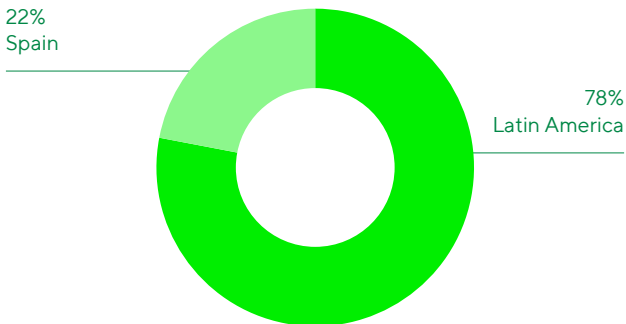
	Management approach	Principal activities 2018	Outlook
<b>Global human resources management</b>	<ul style="list-style-type: none"> <li>• Achieve the goals of competitiveness and business efficiency in a climate of social peace, fostering stable, high-quality employment.</li> <li>• Harmonise human resources processes and make inroads with implementing the Iberdrola culture in all countries, respecting specific local conditions.</li> </ul>	<ul style="list-style-type: none"> <li>• Management of an appropriate labour relations framework that can be adapted to suit business and social requirements.</li> <li>• Homogenise the variable remuneration, selection and on-boarding process.</li> <li>• Implementation of new forms of collaborative communication.</li> <li>• <i>Comparte</i> (Sharing) programme to engage employees in the achievement of the goals and targets of the 2018-2022 Strategic Plan.</li> </ul>	<ul style="list-style-type: none"> <li>• Consolidate the Human Resources function at Neoenergia, extending and unifying best practices.</li> <li>• Strengthen the commitment to Sustainable Development, fostering ethical and responsible behaviour.</li> <li>• Digitisation of Human Resources processes.</li> <li>• Encourage cultural exchange, reflecting on what should be the evolution of our values.</li> </ul>
<b>Goal of "accident reduction"</b>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> </ul>	<ul style="list-style-type: none"> <li>• Attainment and/or maintenance of the OHSAS 18001 certification, and implementation of the global prevention system and standards in accordance with the group's policy. Assessment of level of conformance to global standards.</li> <li>• Monitoring of proactive and reactive indicators among the group's companies.</li> <li>• Identification and application of best safety practices. Exchange of lessons learnt. Creation of groups to promote safe behaviour (GPGs).</li> <li>• Implement the <i>Zero Accident Plan</i> at Neoenergia to reduce the accident rate.</li> </ul>	<ul style="list-style-type: none"> <li>• Continue with assessment of level of conformance to global standards and the implementation of improvement groups to promote safe behaviour, the management of documentation and data.</li> <li>• Complete OHSAS 18001 certification at group companies that are not yet certified.</li> <li>• Implement system for subcontractor pre-qualification and performance evaluation.</li> <li>• Engage in awareness-raising campaigns.</li> <li>• Improve the reporting system and global indicators at companies of the group.</li> </ul>
<b>Talent management</b>	<ul style="list-style-type: none"> <li>• Drive staff qualifications, preparing employees to work in a multicultural environment and making continual efforts to improve their employability.</li> <li>• Develop alternatives to compensate for factors stemming from the ageing of the workforce.</li> <li>• Maintain a team of competent, committed and motivated professionals, which is key for the sustained success of the business.</li> <li>• Manage talent on an integrated basis in order to train future leaders, preparing them now to assume larger responsibilities.</li> </ul>	<ul style="list-style-type: none"> <li>• Launch leadership development programme for team leaders in all countries.</li> <li>• Launch Climate Survey at the global level and define action plans.</li> <li>• Attract the best talent, strengthen excellence in our selection processes and improve our presence on social media and at leading universities.</li> <li>• Promote a culture of learning, self-development and improvement of the user experience in virtual training through the launch of the <i>Learning Meeting Point</i> and increase the offer of open courses.</li> </ul>	<ul style="list-style-type: none"> <li>• Digitisation of selection and on-boarding processes.</li> <li>• Implementation of self-assessment and career recommendation tools.</li> <li>• New mobility portal.</li> <li>• Review and simplification of management and leadership skills model.</li> <li>• Consolidation of the plan for development of high-potential leaders in accordance with the 70-20-10 learning model.</li> <li>• Launch of skills development programmes for specialists (technical career).</li> <li>• Selection and implementation of global mentoring platform.</li> <li>• Alignment of High Potentials identification process with the remunerative cycle.</li> </ul>
<b>Diversity, equal opportunity and reconciliation</b>	<ul style="list-style-type: none"> <li>• Guarantee a social model committed to professional excellence and the quality of life of our employees.</li> <li>• Develop labour relations based on equal opportunity, non-discrimination and respect for diversity.</li> <li>• Create a high-quality labour environment by committing to reconciliation.</li> <li>• Contribute to achieving the SDGs for the 2015-2030 horizon through the <i>Corporate Volunteering Programme</i>.</li> </ul>	<ul style="list-style-type: none"> <li>• Inclusion of Iberdrola in the 2019 <i>Bloomberg Gender-Equality Index</i>.</li> <li>• International cultural exchanges.</li> <li>• 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, for which Iberdrola was awarded by the United Nations with the <i>IMPACT 2030 Innovation Award</i>.</li> <li>• Volunteer project regarding the fight against climate change in Spain, Mexico and Brazil.</li> </ul>	<ul style="list-style-type: none"> <li>• Continue encouraging the launch of initiatives that contribute to improving gender diversity within the group.</li> <li>• 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.</li> <li>• Promote the internationalisation of social programmes and strengthen ties among the employees of the company at the global level. Activate the global volunteer community to achieve the SDGs.</li> </ul>



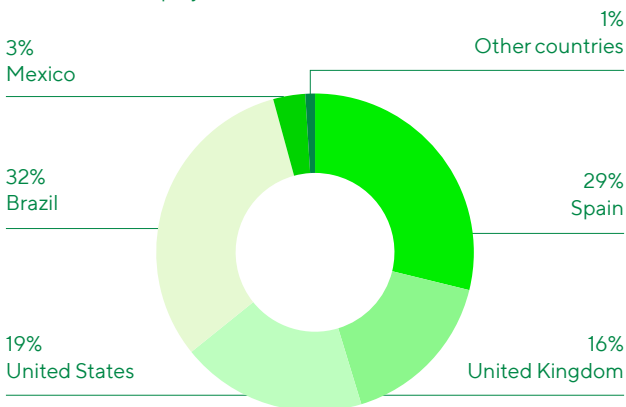
Ensure the availability of a committed, qualified workforce in a safe and stable environment

Growth and geographic diversification of the workforce

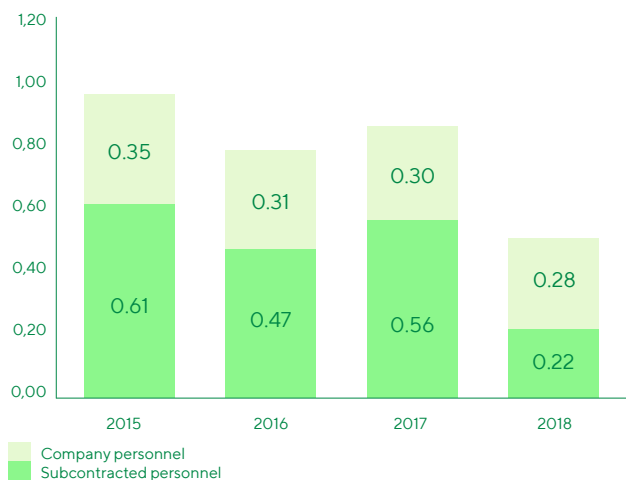
2006: 16,155 employees



2018: 34,078 employees



Accident rate (2015-2018)<sup>1</sup>:



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

Social commitment



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

Iberdrola comprometida con el liderazgo



2018 was the 10th anniversary of the *Energising Leadership Programme*, the goal of which is to strengthen the management and leadership skills of Iberdrola's leaders in a global environment. Almost 300 leaders from all countries have passed through this programme.

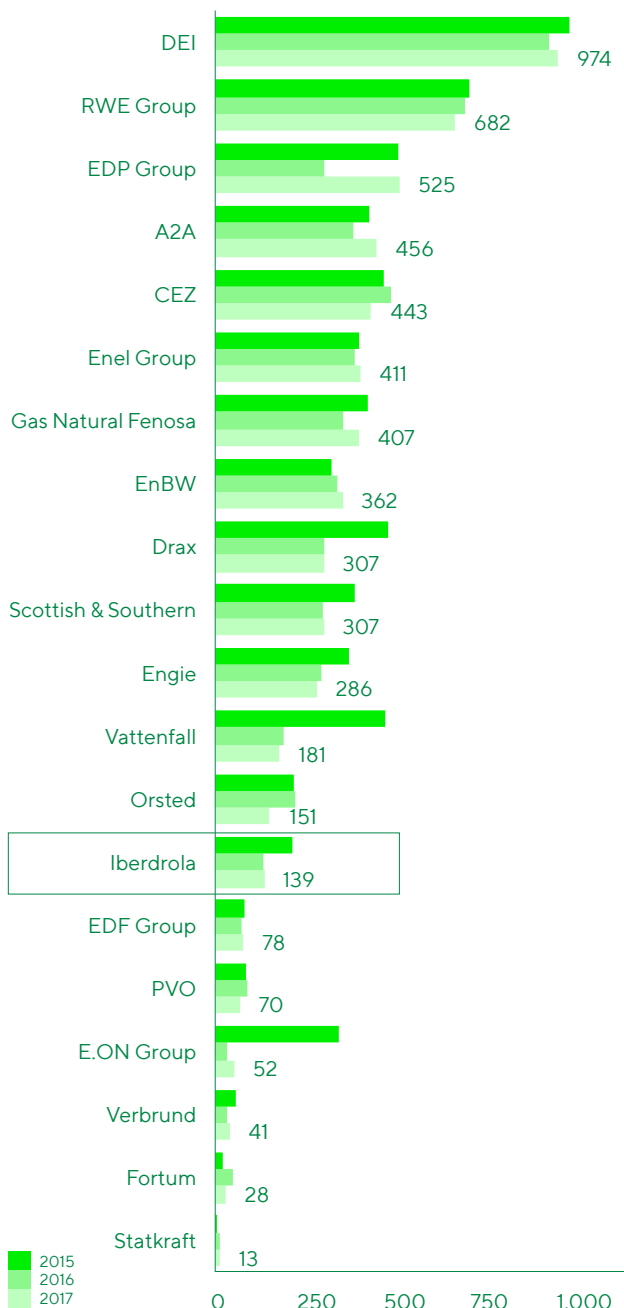
## 4.5 Natural Capital

	Management approach	Principal activities 2018	Outlook
<b>Protect the environment and stop the loss of biodiversity</b>	<ul style="list-style-type: none"> <li>• Conserve and recover the ecosystems associated with our activities, coordinating the biodiversity plans of the businesses in affected areas.</li> <li>• Improve the compatibility of Iberdrola's infrastructure with protection of the environment.</li> <li>• Avoid discharges and pollution of water and soil, all in line with Iberdrola's <i>Biodiversity Policy</i> and <i>Environmental Policy</i>.</li> <li>• Promote the protection of ecosystems in the surroundings of the facilities.</li> </ul>	<ul style="list-style-type: none"> <li>• Acquisition of ISO-TS 14072 Certificate for Corporate Environmental Footprint (CEF) 2017.</li> <li>• Corporate European Environment Award (Spain section).</li> <li>• Climate Change Adaptation Report for activities in Spain.</li> <li>• Biodiversity Report, 2014-2017 Edition.</li> <li>• Sustainable General Shareholders' Meeting 2018: <ul style="list-style-type: none"> <li>– ISO 20121 certification as a sustainable event for third consecutive year.</li> <li>– Renewal of all certificates updating to the new ISO 14001:2015 standard.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Development of a strategic plan for climate change adaptation.</li> <li>• Environmental guidelines linked to the SDGs.</li> <li>• Restoration, recovery, improvement and maintenance of surroundings and habitats.</li> <li>• Integrate the concept of natural capital.</li> </ul>
<b>Combat climate change and its effects</b>	<ul style="list-style-type: none"> <li>• Prevent pollution and the emission of greenhouse gases (GHGs) through practices that reduce or eliminate the production of pollutants at source.</li> <li>• Reduce the emissions of non-GHGs into the air.</li> <li>• Gradually replace equipment using substances that reduce the ozone layer.</li> <li>• Promotion of awareness-raising campaigns regarding air quality.</li> <li>• New GHG emissions-free facilities (renewable, wind, hydroelectric, etc.).</li> </ul>	<ul style="list-style-type: none"> <li>• Increase in emission-free installed capacity to 68.2%.</li> <li>• Emissions in Spain were 82 gr/kWh, approximately 75% less than the European average.</li> <li>• Commitment to reduce emissions, and active participation in the Katowice Climate Change Conference (Poland).</li> <li>• Sustainable Mobility Plan.</li> </ul>	<ul style="list-style-type: none"> <li>• Achieve a 50% reduction in emissions intensity by the year 2030 in comparison to 2007.</li> <li>• Be carbon neutral by 2050.</li> <li>• Develop innovation projects geared towards reducing pollution.</li> <li>• Promotion of electric vehicles: <ul style="list-style-type: none"> <li>– Installation of 25,000 electric vehicle charging points in Spain by 2021.</li> </ul> </li> <li>• Active participation in achieving the SDGs approved in September 2015 (with priority given to goals 7 and 13).</li> </ul>
<b>Guarantee sustainable modes of production and consumption</b>	<ul style="list-style-type: none"> <li>• Continuous improvement in operational performance.</li> <li>• Implementation of actions to increase energy efficiency.</li> <li>• Decrease in consumption of natural resources.</li> <li>• Inclusion of environmental variable in the design of infrastructure (Eco-design).</li> <li>• Improvement in control and management of waste generated.</li> </ul>	<ul style="list-style-type: none"> <li>• Innovative activities in environmental management and control.</li> <li>• Assurance of quality in environmental management.</li> <li>• Efficient management of water consumption.</li> <li>• Report on status of circular economy in the sector.</li> <li>• Improvement in withdrawal and consumption of inland water at all generation facilities.</li> <li>• Reuse and recycling of water.</li> <li>• Improvement in reuse and recycling of waste.</li> </ul>	<ul style="list-style-type: none"> <li>• Development and promotion of new ecodesign initiatives.</li> <li>• Analysis of life cycle.</li> <li>• Life Cycle Costing.</li> <li>• The circular economy as strategic cornerstone.</li> <li>• Verification of Iberdrola's Water Footprint.</li> </ul>
<b>Revitalise alliances with Stakeholders for sustainable development</b>	<ul style="list-style-type: none"> <li>• Strengthen transparent dialogue with Stakeholders in order to work together in seeking solutions to environmental problems.</li> <li>• Manage environmental compliance by suppliers.</li> <li>• Transparently report on environmental results and activities.</li> <li>• Optimisation of and innovation in environmental management systems.</li> </ul>	<ul style="list-style-type: none"> <li>• Make or provide information for the various reports relating to this capital (<i>Sustainability Report</i>, <i>Corporate Environmental Footprint Report</i>, etc.).</li> <li>• 85% of suppliers have ISO 14001 environmental certification.</li> <li>• Public-private cooperation with the Basque Government on environmental issues.</li> </ul>	<ul style="list-style-type: none"> <li>• Environmental transparency and communication: <ul style="list-style-type: none"> <li>– Development of new EPDs (Environmental Product Declarations).</li> </ul> </li> <li>• Communication of environmental performance, development of methodology.</li> <li>• Environmental communication plan.</li> </ul>

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

Key Figures / page 10

Specific CO<sub>2</sub> emissions produced by facilities in Europe (Carbon factor in g of CO<sub>2</sub>/MWh)

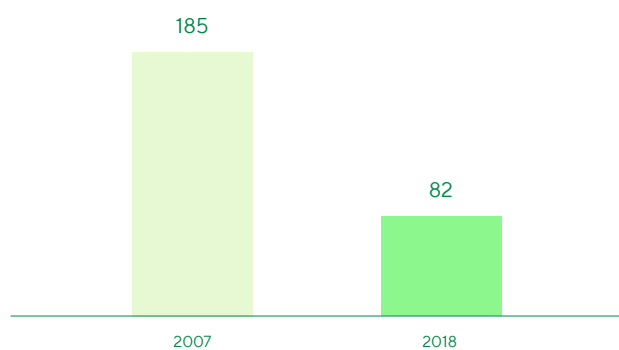


European carbon factor 2017: 290 g CO<sub>2</sub>/kWh

Source: "Facteur carbone européen Comparaison des émissions de CO<sub>2</sub> des principaux électriciens européens" PwC France. Dec. 2018.

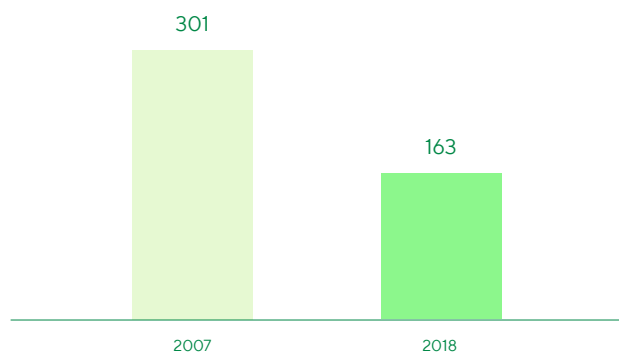
(1) The 139 g CO<sub>2</sub> in this chart refers to emissions from Iberdrola's facilities in Europe during 2017. The other companies only include the European space.

Intensity of emissions in Spain (g CO<sub>2</sub>/kWh)

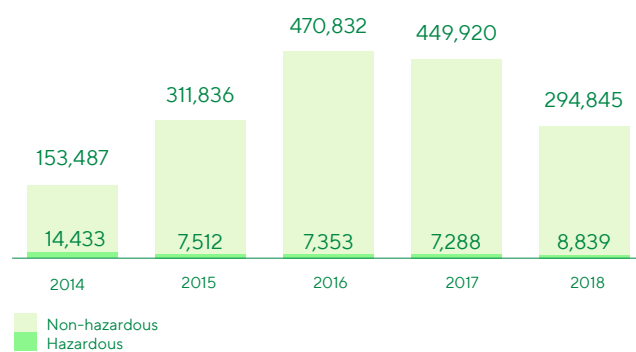


In 2018, CO<sub>2</sub> emissions in Spain were 82 grams per kilowatt-hour, well below that of other Spanish companies and approximately 75% less than the European average.

Intensity of group emissions at the global level (g CO<sub>2</sub>/kWh)



Volume of recovered, reused or recycled waste (t)



## 4.6 Social and Relationship Capital

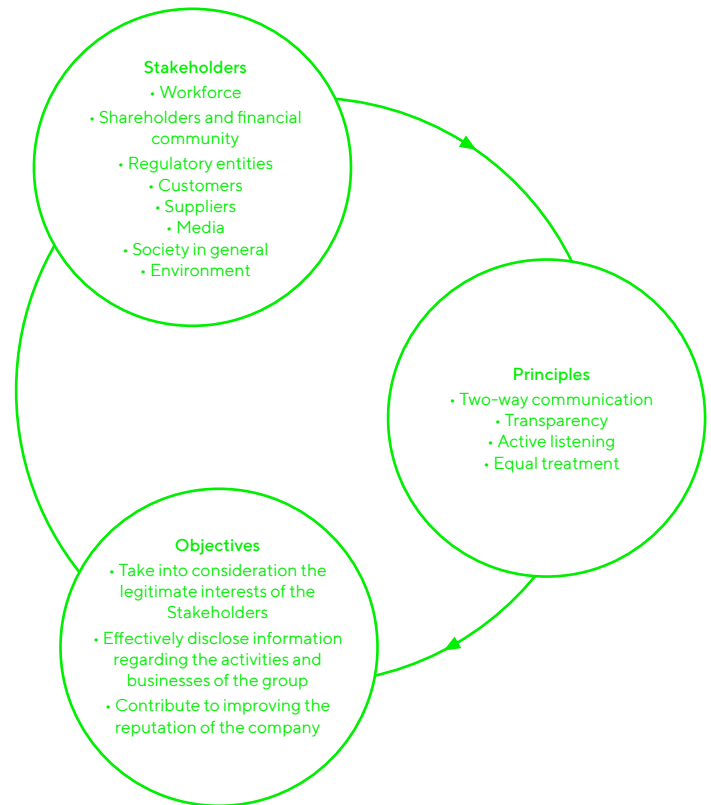
### Stakeholder engagement

Iberdrola works to increasingly engage its Stakeholders in all of the company’s activities and operations. Throughout the value chain, Iberdrola interacts with millions of people and thousands of organisations that make up its social and relationship capital, and thus a fundamental element for the sustainable performance of the company.

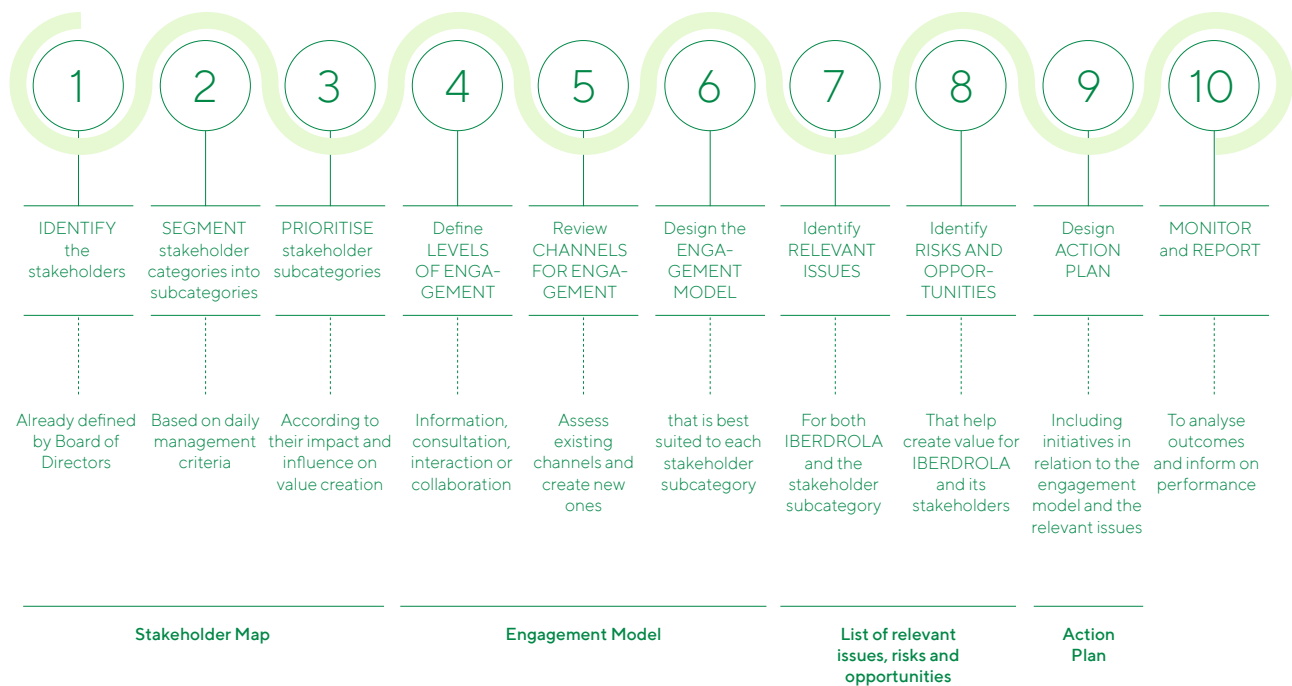
To meet its goals in this area, Iberdrola has a *Global Stakeholder Engagement Model* which, based on the AA1000 Stakeholder Engagement Standard 2015, ensures that all areas and businesses of Iberdrola have an in-depth understanding of their Stakeholders; have suitable channels of communication therewith; analyse their expectations (with the risks and opportunities thereof); and establish appropriate action plans with specific related impacts.

### Iberdrola Stakeholders’ Hub

The company has an internal Stakeholder coordination body made up of the parties responsible for all of the Stakeholders and businesses of Iberdrola. This Hub meets periodically, sometimes with the presence of outside experts.



### Stakeholder engagement model...



...ensuring continuous improvement

## Figures, materiality and good practices

### Key figures

Through its *Stakeholder Engagement Model*, Iberdrola has detected:

- 70 categories of sub-stakeholders
- More than 40 different channels of communication, increasingly digital.
- Approximately 130 significant issues in 2018, with numerous related action plans.
- Around thirty emerging trends.

The main issues and trends guide the company in its decisions and form part of Iberdrola’s CSR Plan “Responsible Energy for People”. Issues and trends are also aligned with the latest materiality study performed by an independent firm based on external information sources.

### Good Practices

#### Comparte programme

- Stakeholder group: Workforce
- Area: Global

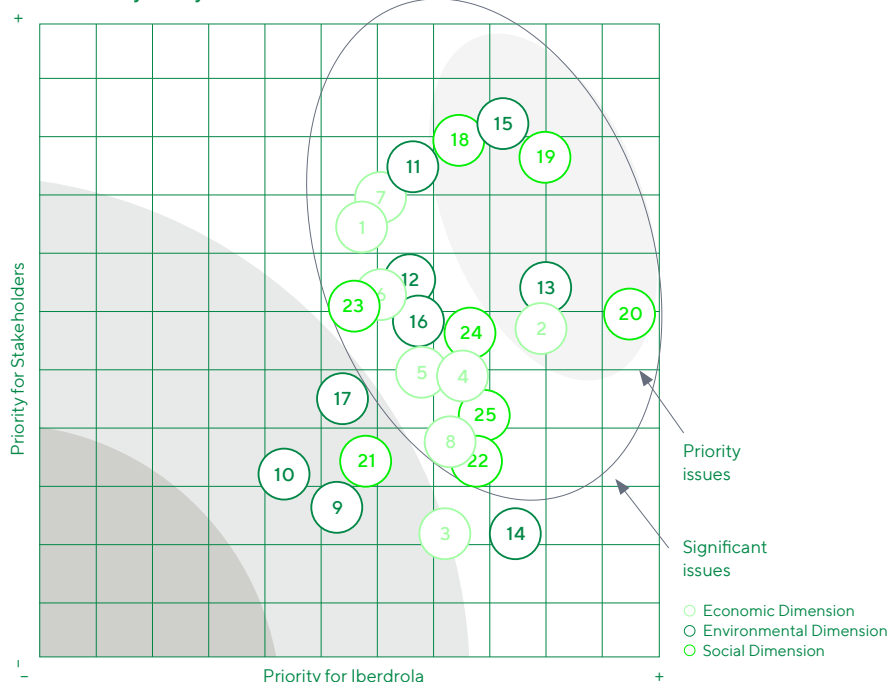
Iberdrola periodically carries out a global internal waterfall communication programme called “Comparte”. The goal is to simply share Iberdrola’s strategic goals and main lines of action, and to answer any questions from the workforce. There were more than 300 meetings of this kind during 2018.

#### System for real-time communication of incidents

- Stakeholder group: Customers
- Area: Spain and United Kingdom

Iberdrola has integrated the distribution and customer services offices in order to improve real-time information regarding incidents. This is one of the issues of most interest to customers of the company.

Materiality Study 2018



#### Priority issues

- 19. Diversity and equal opportunity
- 15. Energy transition
- 20. Occupational health and safety
- 18. Customer satisfaction
- 13. Climate change
- 2. Economic and financial performance

#### Significant issues

- 11. Innovation and new business models
- 7. Smart grids and supply quality
- 1. Socially responsible investment
- 24. Attraction, development and retention of human capital
- 12. Integration of renewable energy within the electric system
- 16. Availability and management of water

- 4. Ethics and integrity (anti-corruption and free competition)
- 6. Public policy
- 25. Connectivity, digitisation and cybersecurity
- 5. Responsible supply chain
- 23. Vulnerable customers
- 22. Human Rights
- 8. Green financing

#### Other significant issues

- 14. Management of biodiversity
- 21. Impact on local communities
- 3. Transparency
- 17. Environmental safety
- 9. Management of natural capital
- 10. Circular economy

## Community support and electricity access programmes

### Primary programmes

#### Activities 2018

- Contribution of €53.5 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 €42 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.
- Specific programmes and pricing for vulnerable groups in Spain, the United Kingdom, the United States and Brazil.
- Rural electrification programmes in Brazil, to which approximately €190 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 All

- The SDGs recognise energy as an engine for sustainable development.
- The *Electricity for All* programme is Iberdrola's response to the 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 16 million beneficiaries of this programme by 2030. At year-end 2018, the programme had reached 5.4 million users.

### Foundations of the Iberdrola group

#### Activities 2018

- 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 in 2018 increased to a total of €10.2 million.
- A new *Master Plan* has been prepared for the 2018-2021 period, in order to contribute to sustainable development.

• The industry areas have been consolidated, but prioritising the impact on the specific targets of the SDGs.

• In the Training area, there is strengthening of the promotion of equal opportunities through the *Social Assistance* programme, with 249 beneficiaries.

• In Art and Culture, there are three major programmes:

– Lighting: The most significant have been Morgan, Hilles, Austin and Wadsworth Galleries (United States), MUNAL Museum Rooms (Mexico), Uclés Monastery (Spain) and Cinco Pontas Fort (Brazil).

– Restoration: Includes the altarpiece of the Cuenca Cathedral and the three flags of Saigon of the Naval Museum of Madrid in Spain.

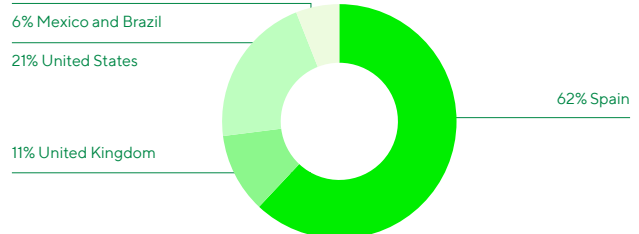
– Museums: Promote the restoration and exhibition of works, including The Dauphin's Treasure and the Fountain of Grace (Prado Museum), Caravaggio (MUNAL).

• 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).

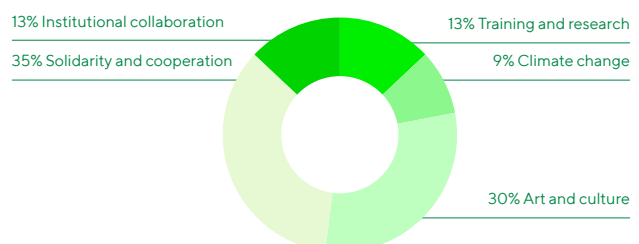
• In the area of Cooperation and Solidarity, there have been more than 150 partnerships in the five countries with a direct impact on more than 200,000 people in the fight against child poverty, the independence of people with disabilities and serious illnesses, with special attention on the most vulnerable groups: infants and youth.

#### Foundation Programs 2018

##### Contribution by region (%)



##### Contribution by programme (%)

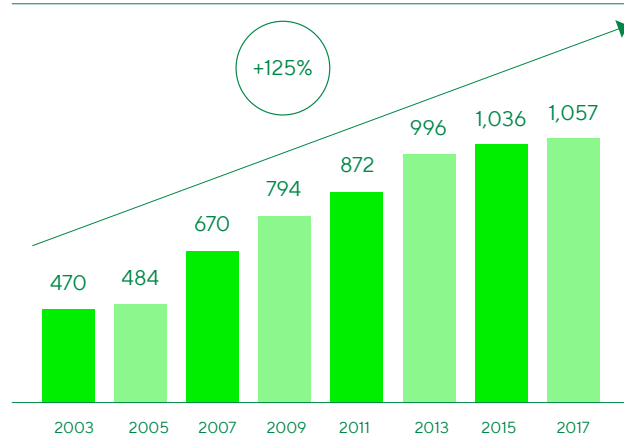


## Corporate reputation

### Soundness and strength of the brand

- Management of the brand so that it transmits the essence of the Purpose of the Iberdrola group and reflects the company's strategy to commit to the environment and to Sustainable Development.
- 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)

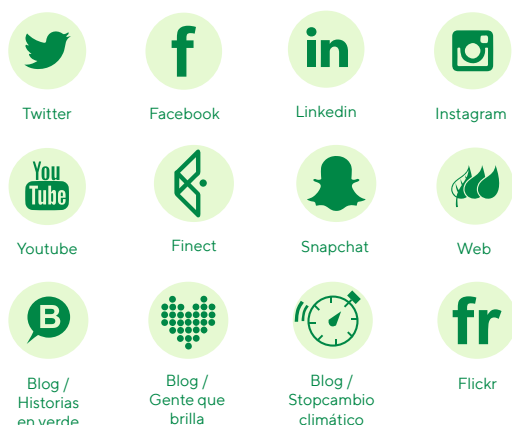


\* Source: *Ranking of Best Spanish Brands by Interbrand.*

### Evolution of the digital ecosystem

- Offer of 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 great value, which influences aspects as important as the attraction and retention of talent, business relations with customers, valuation of the company in the capital markets, and integration within the communities in which it does business, and therefore its financial and non-financial performance.
- What Iberdrola is, does, communicates or how it engages its Stakeholders gives rise therein to judgements, attitudes and behaviours, which go into making up the company's global reputation, which is also influenced by the social perception of the electricity sector.
- Iberdrola therefore manages its reputation with a dual objective:
  - To bring out opportunities that trigger favourable behaviour towards the company.
  - To minimise and mitigate reputational risks inherent in the activity.
- Reputation is mainly managed through four elements:
  - Proactive management of the Stakeholders through the Stakeholder Relations Model, which allows one to know expectations and to establish action plans, as explained at the beginning of this chapter.
  - The company's communication plans, the CSR Plan and other specific actions focused on each of the Stakeholders.
  - The monitoring and measurement of reputation through a specific scoresheet that includes variables from reputational rankings, Stakeholder surveys and sustainability indices, among other things.
  - The establishment of processes that allow for responding to potential reputational crises.
- All of these elements are included in Iberdrola's *Reputational Risk Policy*, which is updated annually and establishes a framework of reference for controlling and managing this risk.