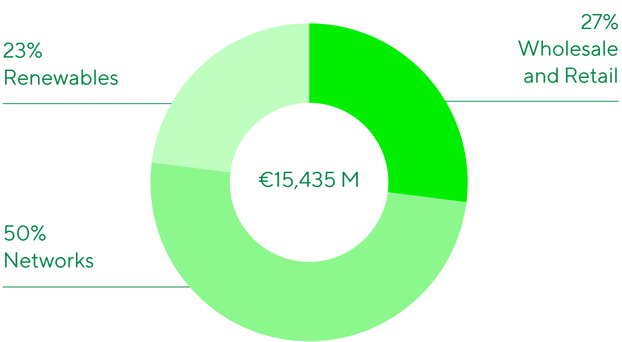
4.1 Financial Capital

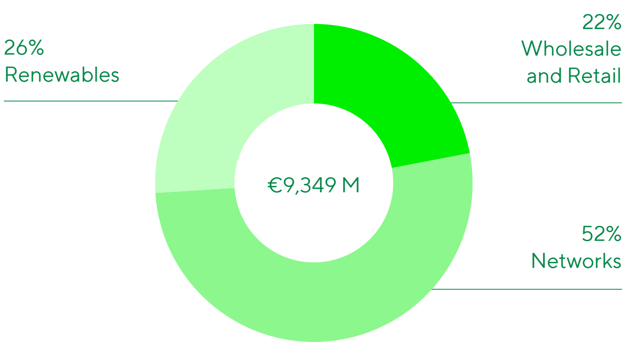
	Management approach	Results 2018	Outlook
Balanced growth	The company has an investment policy consistent with its strategic vision and financial policy. The main goals are: • Ensure a return on capital through projects and investments preferably in regulated businesses, renewable assets or long-term contracts. • Increase geographic diversification, further balancing the contribution of the countries in which it does business. • Tailor investment levels to the actual needs of each market.	• Net investments of €5,320 million, of which 80% has been assigned to the Networks and Renewables businesses. • 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). • In Generation, there has been a commitment to more than 2.7 GW of capacity since the beginning of 2018. • Funds From Operations have increased 13.1%, reaching €7,300 million thanks to all the investments, exceeding investments by more than €2,000 million.	• 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. • 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. • Investments in dollars will represent 36%, followed by 29% in euros.
Solid financial structure	• Iberdrola considers financial strength to be an essential factor that allows it to successfully face potential turbulence in the markets and to be in a position to exploit growth opportunities in the countries in which it does business. • The financial policy seeks improvement in solvency ratios, balancing an increase in debt with the generation of additional cash flow from new investments. • The debt structure is in line with the profile of the business, which is mostly regulated, and the composition thereof reflects the results obtained in the relevant currencies.	• Gross margin of €15,435 million (+15.5%). • Net profit of €3,014 million (+7.5%), in line with forecasts for the year. • 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. • 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. • Liquidity of €13,012 million, which covers more than 24 months of financing needs.	The increase in investments, optimisation of capital and implementation of increased efficiency measures has lead 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: • 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. • 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. • Optimisation of the liquidity position to cover financing needs for 18 months in a stress scenario.
Operational excellence	• Notwithstanding the high efficiency levels that have been reached, the company believes that there is still a margin for improvement thanks to investments in digitisation and innovation. • The implementation of best practices in all areas will allow for additional savings and an increase in synergies at the global level.	• 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.	• 20% improvement of the efficiencies goal presented in2018, 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.
Sustainable results and dividends	• 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.	• Shareholder remuneration of 0.331 euro per share, equal to a dividend yield of 4.71%. • Flexible dividend offering tax benefits, the repurchase of shares to avoid dilution, adding the cash payment option.	• 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. • 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. • 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. • The pay-out ratio is kept at between 65% and 75%.

Create value for the shareholder with sustainable growth

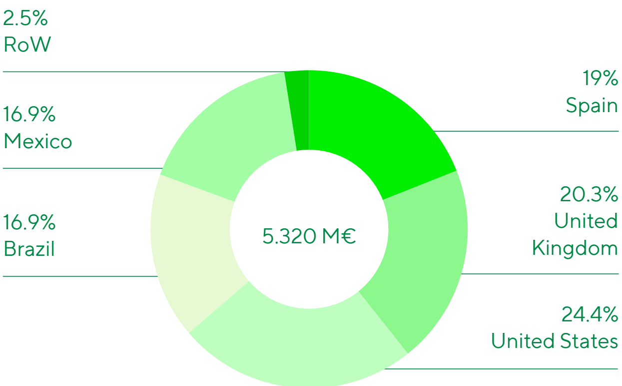
Gross margin by business 2018



EBITDA by business 2018

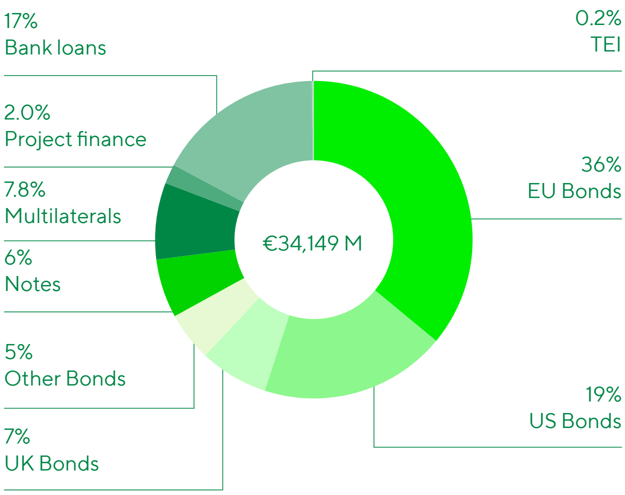


Investment by geographic area 2018



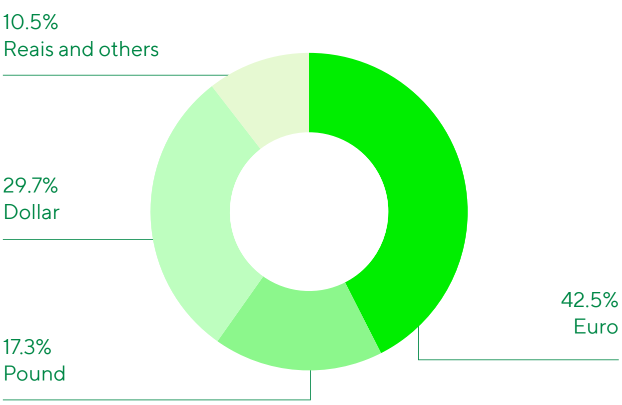
Diversification of investments, with a heavy concentration outside of the euro zone.

Net Debt (€M) 2018



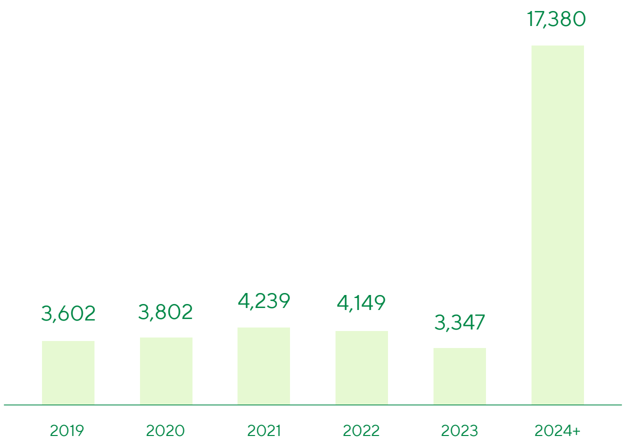
Net adjusted financial debt at 31 December 2018 decreased by €230 million from the nine-month period (€34,379 million) to €34,149 million.

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.