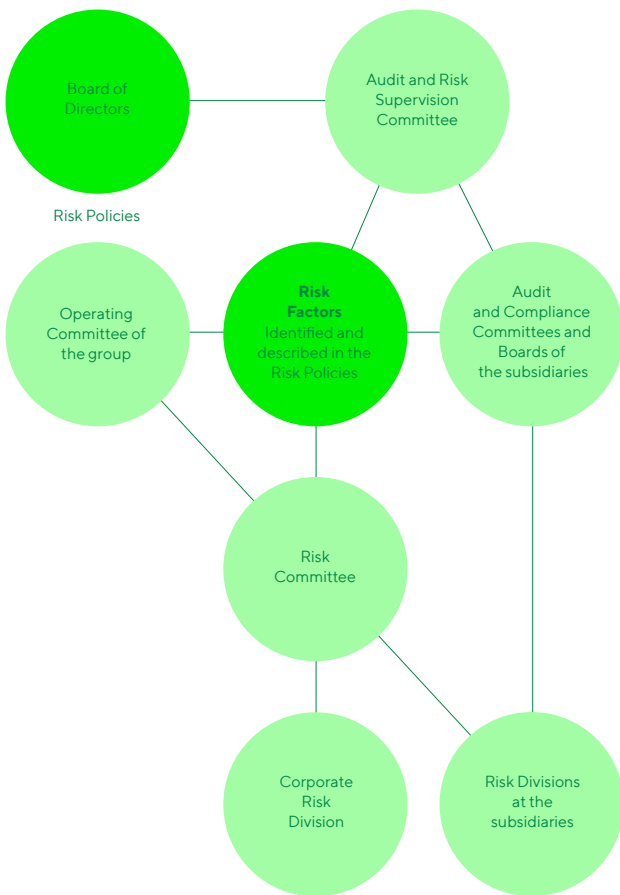


5.3 Risks

Commitment of the Board of Directors and of senior management

Iberdrola’s Board of Directors and senior management is strongly committed to and engaged in the management of the group’s risks:

- **Ex-ante:** acceptable levels of risk tolerance are reviewed and approved on an annual basis through risk policies and limits that establish the qualitative and quantitative risk appetite at the group level and at each of the main businesses and corporate functions.
- **Ex-post:** periodic monitoring of significant risks and threats and the various exposures of the group, as well as of compliance with the approved risk policies, limits and indicators.



Comprehensive Risk Control and Management System

The *General Risk Control and Management Policy* of the group approved by the Board of Directors establishes the mechanisms and basic principles for appropriate management of the risk/opportunity ratio, at a risk level that makes it possible to:

- Attain strategic goals with controlled volatility.
- Provide the maximum level of assurance.
- Protect the results and reputation of the group.
- Defend the interests of the Stakeholders and guarantee the business stability and financial strength of the group.

At the operational level, the Comprehensive Risk Control and Management System is structured around a Risk Committee and an independent specialised Risk Division that analyses and quantifies the risks within the main businesses and corporate functions of the group.

Duties of the Risk Division

Active management

Credit risk. Analysis and approval of counterparties and limits and/or establishment of admission criteria in order to minimise credit losses within the group.

Market risk. Analysis and approval of detailed limits in order to delimit the effects of volatility in the markets in which the group operates.

Enterprise Risk Management (“ERM”) focus

Ensure that there are mechanisms for all significant risks of the group to be adequately identified, measured, managed and controlled at all times and that they are regulated reported to the various committees.

Instruments and reports:

- Risk policies and risk limits and indicators.
- Quarterly report on key risks.
- On-going monitoring and detection of emerging risks.

Operational risk is centrally managed through the group’s corporate Insurance, Information Technology and Cybersecurity units.

By way of supplement, the group has a Compliance System, linked to the Board’s Sustainable Development Committee, with elements that include the Code of Ethics and the Compliance Unit.

Risk management within the Iberdrola group is based on foresight, independence, commitment to the group's business objectives and the engagement of senior management and the Board

Risk policies and limits of the Iberdrola group

The *General Risk Control and Management Policy* is further developed and supplemented with the following specific policies established in relation to certain risks, corporate functions or businesses of the group, which are also annually approved by the Board of Directors at the head of the group, and which include limits and indicators that are subsequently monitored:

Specific risk policies of the businesses:

- *Liberalised Businesses of the Iberdrola group.*
- *Renewable Energy Businesses of the Iberdrola group.*
- *Networks Businesses of the Iberdrola group.*
- *Real Estate Business.*

Corporate risk policies:

- *Corporate Credit Risk Policy.*
- *Corporate Market Risk Policy.*
- *Operational Risk in Market Transactions Policy.*
- *Insurance Policy.*
- *Investment Policy.*
- *Financing and Financial Risk Policy.*
- *Treasury Share Policy.*
- *Risk Policy for Equity Interests in Listed Companies.*
- *Reputational Risk Framework Policy.*
- *Procurement Policy.*
- *Information Technologies Policy.*
- *Cybersecurity Risk Policy.*

The country subholding companies adopt the group's risk policies and specify the application thereof, approving the guidelines on specific risk limits, based on the nature and particularities of the businesses in each country. The listed country subholding companies or companies with significant stakes of other partners, under their own special framework of strengthened autonomy, approve their own risk policies.

Principal risk factors of the Iberdrola group

The group is exposed to various risks inherent in the different countries, industries and markets in which it operates, and which may prevent it from achieving its objectives and implementing its strategies. These risks are grouped into:

Corporate governance risks: those that endanger the corporate interest and strategy of the company.

Market risks: exposure to volatility in variables like prices of electricity and other energy commodities, exchange rate, interest rate, etc.

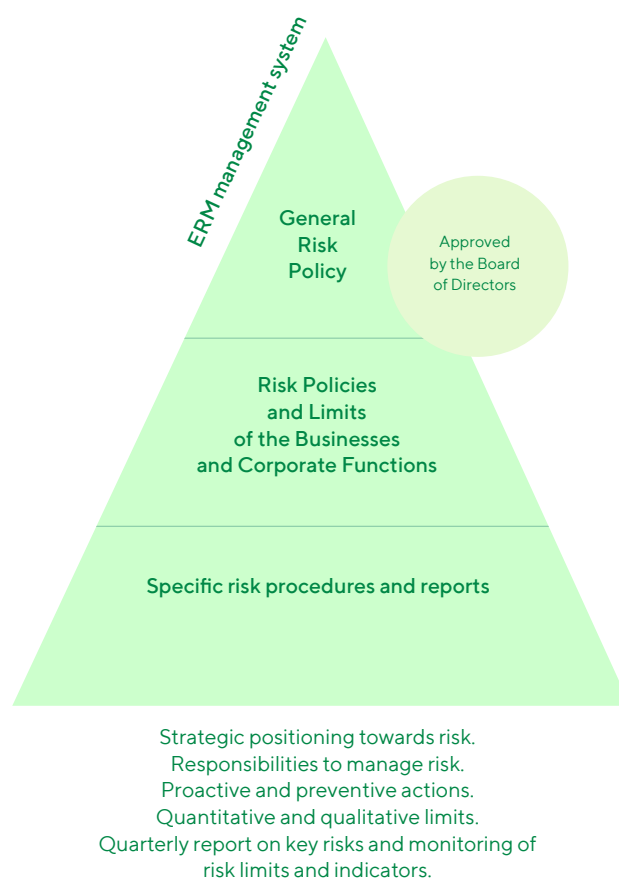
Credit risks: possibility of contractual breach by a counterparty, causing economic or financial losses.

Business risks: deriving from the uncertainty of the behaviour of variables intrinsic to the business, characteristics of demand, climatology, etc.

Regulatory and political risks: coming from regulatory changes made by the regulators that can affect remuneration of the regulated businesses, environmental or tax provisions, etc.

Operational, Technological, Environmental, Social and Legal Risks: economic losses resulting from inadequate internal procedures, technical failures, human errors, climate change, etc.

Reputational risks: potential negative impacts on the company arising from performance below the expectations of its Stakeholders.



Risk factors and mitigation measures

Price and demand risks

Changes in the price of electricity	<p>The main variable affecting the results of the group's Wholesale and Retail Businesses as regards market prices is the price of electricity, which relatively corresponds to the price of fuel and applicable emission rights, required to produce such electricity.</p> <p>The group's Renewables Businesses preferentially sell their energy at: i) regulated tariff; or ii) fixed price via PPAs. The remaining market exposure of the Spain and United Kingdom Renewables Businesses is transferred to the Wholesale and Retail Business of such countries.</p> <p>Offsetting at-risk positions between wholesale and retail activities allows for a large reduction in the group's market risk; the remaining risk is mitigated via diversification of purchase/sale agreements and the specific clauses thereof, and by trading in derivatives.</p>		
Changes in energy commodity prices	<p>- Spain</p> <p>Possible impact of a 5% change in the price of electricity and/or of energy commodities and CO₂</p>	<p>● Integrated Wholesale, Retail and Renewables Risk (windfarms prior to 2004)</p>	
	- United Kingdom	● Integrated Retail and Renewables Risk (power from wind farms subject to ROCs)	
	- Mexico	● The PPAs with the CFE do not have a market risk	
	- United States	● For windfarms exposed to the market	
Change in demand	<p>Wholesale, Retail and Renewables Businesses: moderate short-term impact, given the characteristics of the group's generation facilities and the structure of the long-term power purchase agreements.</p> <p>No impact on the group's Networks Businesses except for the Brazilian subsidiaries in between tariff periods.</p>	Possible impact of 1% reduction in demand	<p>● Wholesale and Retail Spain</p> <p>● Wholesale and Retail United Kingdom</p>

Resource risks

Change in hydroelectric resources - Spain	<ul style="list-style-type: none"> In the medium-to-long term, humid years are offset by dry years. The storage capacity of multi-year reservoirs and the group's portfolio of power plants mitigate the level of volatility during the year. 	Lower hydroelectric production - Spain	● Renewables Business - Spain
Change in wind resources - group	<ul style="list-style-type: none"> Mitigated thanks to the high number of facilities in operation and the geographic dispersion thereof. In the medium-to-long term, years with more wind are offset by years with less wind. 	Lower wind output - group	● Renewables Business - group

Financial risks

Change in interest rate	The Iberdrola group maintains a fixed-rate and variable-rate debt structure, based on the structure of its revenues and the sensitivity thereof to changes in interest rates.	Possible impact on financial cost of +25 bps increase	● Group financial cost
Change in exchange rate	This risk is mitigated by taking on debt and carrying out all its financial flows in the functional currency corresponding to each company, whenever possible and economically efficient, and managing its open positions with derivatives. The risk associated with the translation of results from subsidiaries is closed out annually.	Possible impact on financial cost of 5% increase in currency	● Group financial cost

Other risks

Credit risk	<ul style="list-style-type: none"> Main sources: amounts outstanding (customers, suppliers, banks, partners, etc.) and cost of replacement. Retail: cost of late payments/defaults has been kept to moderate levels, close to 1% of the total invoicing. Networks: In Spain and in the United Kingdom there is no retail sale of energy, in the United States and Brazil late payments are generally recovered. 		
Operational risk	These risks are mitigated by making the necessary investments, applying operation and maintenance procedures and programmes (supported by quality systems), planning appropriate training and skills development for staff, and finally by obtaining appropriate casualty and civil liability insurance.		
Regulatory and political risk	The group is subject to laws and regulations on tariffs and other regulatory aspects of its activities in the countries in which it does business. The introduction of new laws/regulations or amendments to existing ones could adversely affect operations, annual results and the financial value of the businesses of the group (including the risks relating to Brexit).		
Climate change risk	Includes the risks of transition (regulatory or market associated with emissions reduction goals) and physical risks (deriving from potential impacts of an increase in extreme climate phenomena, increase in temperatures, increase in sea level, changes in rain patterns, etc.). Iberdrola believes that it is well positioned with respect to this risk, given the nature of its current businesses and its main goals for growth.		

● <15 M€ ● 15-50 M€ ● >50M€