

Letter from the Chairman & CEO



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Chairman & CEO of Iberdrola

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Iberdrola is widely recognised for its responsible and sustainable business model, focused on the well-being of people, care for the environment and economic and social development in the territories in which it does business.

Being aware of this, we wish to continue advancing and extending this business philosophy, which is why we have engaged in a process of reflection to define a clear and long-term corporate purpose that, based on the extensive experience we have acquired, expresses the company's commitment to a new energy model that is better for the health of people and of the planet: "to continue building together each day a healthier, more accessible energy model, based on electricity".

Based on this purpose, we have updated our corporate values and developed them as three separate concepts - "Sustainable Energy", "Integrating Force" and "Driving Force" - which express the true essence of Iberdrola, integrating key elements like ethics, transparency, diversity, dialogue, innovation, diligence and foresight.

This purpose (which inspires us) and these values (which guide us) will enable us to continue to meet the great challenge of energy transition; a transition that must be

based on the decarbonization and electrification of the energy sector and of the economy as a whole.

At Iberdrola, we are very aware that the electricity sector plays a key role in the achievement of the targets set in the Paris Agreement. We have therefore spent years focusing our efforts on progressively reducing the intensity of greenhouse gas emissions, promoting renewable energy and making a commitment to the most efficient technologies in order to reach a profound transformation from the current energy model into another more sustainable one.

Existing data support the claim that energy demand is going to experience significant growth. According to the International Energy Agency (IEA), there will be a 30% increase in the total consumption of energy in the next 25 years, and the only effective way to meet this demand while also fighting climate change is to boost the use of electricity produced from renewable sources. This situation makes the electricity sector in general, and Iberdrola in particular, leading actors in achieving decarbonisation, as they have the most suitable and competitive solutions and technologies to achieve it.

Our company has been demonstrating its clear commitment to this cause for years, always with an eye to complying with the Sustainable Development Goals (SDGs) established by the United Nations for 2030. Iberdrola has shown that it is perfectly positioned to continue leading the transformation it started two decades ago toward a cleaner, smarter and more accessible energy system for all.

Outlook 2018-2022

According to the strategy established for the 2018-2022 period and in line with our actions in recent years, we are going to implement a major investment effort (amounting to 34,000 million euros, increasing from the 5,300 million invested in 2018 to an average of more than 7,000 million euros per year until 2022), with a focus on renewable generation sources, storage, the installation of smarter grid infrastructures and significant growth in new solutions for our customers.

Specifically in Spain, Iberdrola's main efforts will revolve around strengthening renewable energies (wind and photovoltaic), grids and storage. In the United States and the United Kingdom (in the latter of which all our production is already emission-free), Iberdrola will continue to invest in grids and in progress on onshore and offshore wind power, confirming its position as a leader in new environmentally-friendly technologies. In Mexico, the company has major projects under way to continue increasing its combined cycle and renewable energy installed capacity. And in Brazil, Neoenergia will continue to progress on developing transmission and distribution infrastructures for electricity and clean energy (hydroelectric and wind).

Iberdrola will also boost its activities in other countries such as Portugal, Italy and France, where it already has renewable generation projects and a significant customer portfolio that it hopes to continue expanding with the offer of new smart products and services.

As a result of all this investment, combined with an additional effort to improve operational efficiency, the group expects to improve its results to between 3,700 and 3,900 million euros of net profit by 2022, a 30% increase over the 2018 results. And maintaining our commitment to improving shareholder remuneration, the dividend would be increased in line with net results, while also including an annual floor that will gradually grow to 0.4 euro per share by 2022.

Social dividend to meet the Sustainable Development Goals

Iberdrola has designed the foundations of its 2018-2022 plan with an eye on building a sustainable future for everyone, with the absolute conviction that the only way to achieve this is to collaborate in the achievement of the SDGs.

We have therefore incorporated these 17 Goals into our business strategy and into our By-Laws as part of our Social Dividend. We are focusing our efforts on supplying affordable and clean energy (goal 7) and on climate action (goal 13), but through our activities we also contribute to securing clean water and sanitation (goal 6), innovation (goal 9), the protection of life on land (goal 15) and the strengthening of partnerships for the goals (goal 17).

Iberdrola's businesses also generate high-quality employment for 425,000 people¹ worldwide and foster an industrial fabric in all the countries in which the company does business, thereby helping to meet goal 8 (decent work and economic growth).

The group thus acts as an engine for growth in these countries, in which it will continue to increase its procurement (which amounted to approximately 8,000 million euros in 2018) and its tax contribution (7,939 million euros). In fact, for every euro that the company invests, it generates 10.3 euros in the GDP of the regions in which it does business¹.

All in all, our main asset is and will be people, and we therefore firmly uphold our commitment to training (SDG 4, quality education), both for employees -who each received 47 hours of training per year in 2018- and for the young people who will be the leaders of change in the future. Initiatives such as the 2019 Iberdrola Scholarships for training and research, which will facilitate postgraduate studies at prestigious international universities, are aimed at these young people.

At our company, technological development and continuous material progress will always be linked to solidarity and progress in knowledge and research, providing all possible support to young talent in order for these goals to become a reality.

A wager on women's empowerment (SDG 5, gender equality) will be at the centre of the company's priorities. Iberdrola will continue to promote effective equality between men and women as it has done in the past, ensuring that there is no gender pay gap within the

group, and also making it the Ibex-35 company with the highest number of women on its Board of Directors, with women representing 50% of its non-executive directors. As a result of this commitment, Iberdrola has been included for the second consecutive year in the Bloomberg Gender Equality Index, and is the only Spanish electricity company to be so included.

Furthermore, our firm, unanimous and resolute support for the fight against climate change will lead us to continue to strengthen the development of new environmentally-friendly technologies and of innovation, an area to which we allocated close to 270 million euros during the last financial year. Thanks to this, we will further reduce our CO₂ emissions, which were 82 grams per kilowatt-hour in Spain, far below those recorded by other Spanish companies and around 75% less than the European average (SDG 3, good health and well-being).

And as we in the past, we will continue to expand the activities of our foundations in the various countries in which we do business, particularly in areas such as safeguarding cultural heritage (SDG 11, sustainable cities), conservation of biodiversity (SDG 14, life below water) and education and cooperation (SDG 10, reduced inequalities). All of this is with a focus on the progress and well-being of society. Our company has always been and will continue to be committed to a combination between technological progress and the progress of people, insofar as we believe that one without the other would hinder the achievement of a balance that is vital to the global and complex world in which we act.

Iberdrola will not relent in its commitment to showing that it is possible to reconcile a successful business enterprise with sustainable development. Today more than ever, companies must focus on creating a positive footprint for everyone and for their environment through their businesses. We will therefore continue to work so that our actions improve the world in which we live, making it more cohesive, cleaner and fairer. And we are convinced that through determined, enthusiastic and courageous teamwork, all this and much more will be possible.

(1) PwC report (January 2019) with 2017 figures.