

2.2 Business Model

Industry positioning

The group's strategy since the beginning of the 2000s was designed based on the goals set out in the Kyoto protocol, anticipating the role that the electric industry would play in the fight against climate change. Iberdrola wagered on decarbonisation and renewable energy; and the strong focus on innovation by all of the group's businesses allowed for the rapid adoption of new generation technologies, as well as automation and remote control of the transmission and distribution networks. As a result, Iberdrola is today positioned as a leader in renewable energy and smart grids, activities that constitute the backbone of the decarbonisation of the electricity sector.

Iberdrola will continue strengthening its commitment to the energy transition, accelerating its investments in renewables and smart grids to a record amount of almost 10,000 million euros annually, double the amount of only four years ago. In 2017 Iberdrola requested the closure of its last coal plants in the world, which request is pending final approval by the government. The strong investment in smart grids will allow for the large-scale integration of renewable sources as well as on a distributed scale, ensuring quality of supply and safety of the system.

2019 saw the launch of the Núñez de Balboa photovoltaic solar plant in Spain, the Montague, Patriot and Karankawa wind farms in the United States, and the inauguration of the Baixo Iguazu hydroelectric plant, the development of customer solutions based on connectivity, and the startup of various transmission and distribution network facilities, as well as a continuation of smart grid transformation projects.

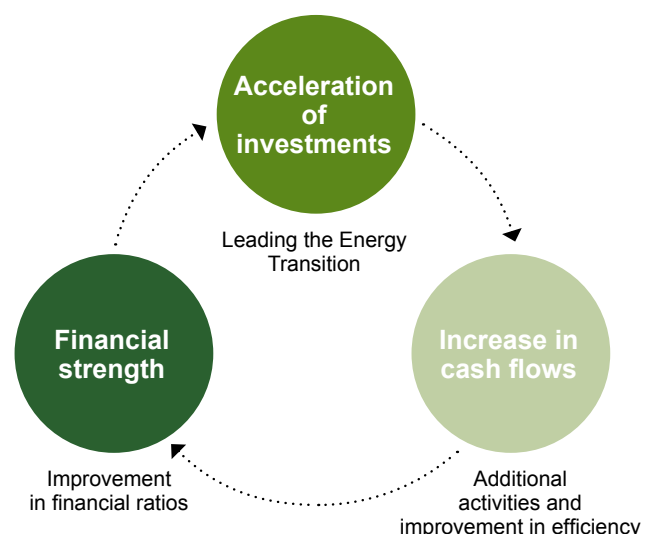
“Action is needed now. Iberdrola’s energy transition started 20 years ago.”

Ignacio Galán, during the World Economic Forum (Davos)

Economic/financial positioning

Economic/financial aspects are an essential part of Iberdrola's business model, along with industrial and technological positioning. The company engages in a strategy that seeks to balance growth, financial strength and a sustainable dividend. To this end:

- Investment is concentrated in the regulated businesses or long-term contracts, which provide known and recurring cash flows.
- Country selection takes into account the stability of the regulatory environment that applies to the sector.
- The commitment to the group's level of financial strength is public and decisive in long-term planning and in the group's leverage level.
- The dividend policy is focused on a strong and growing return in line with the increase in the company's results.



Given the company's position, Iberdrola's business model is distinguished by:

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Focus on regulated businesses

The company focuses its projects and investments preferably in regulated businesses, renewable assets or assets with long-term contracts.

Commitment to clean and competitive energies

- Generation and production of largely emissions-free electricity.
- Large portfolio of wind and solar generation projects.
- Public and ambitious goals for reducing emissions.

Operational efficiency

- A business culture highly focused on innovation and digitisation has allowed our company to be 40% more efficient than the average of the main competitors¹.

International diversification

The results obtained reflect the diversification of the group (2019 EBITDA by country):

40% in Spain.
16% in the United Kingdom.
19% in the United States.
14% in Brazil.
8% in Mexico.
3% in International.

Financial strength and solidity of the group

- Growth in EBITDA and FFO allows for continued strength in solvency ratio levels, within the framework of strong organic growth.
- Liquidity position that covers financial needs for more than 18 months even in a stress scenario.

Global, committed and qualified workforce

- Stable and high-quality jobs, with high level of training.
- Health and safety as priorities: "Zero accidents" programme.
- The companies of the group have been recognised: in Spain for their Reputation (*Merco*) and in Brazil as the best company to work for in Latin America (*Great Place to Work*)

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● Financial Capital / page 58

● Human Capital / page 64

Social Dividend

- Iberdrola is focused on the sustainable creation of value, in accordance with the Purpose and Values of the Iberdrola group and with the commitments made in the Code of Ethics.
- The Company conceives of the social dividend as the direct, indirect or induced contribution of value of its activities for all Stakeholders, particularly through its contribution to the achievement of the Sustainable Development Goals (SDGs) approved by the United Nations..

(1) Operating expenses by customer. Source: external reports.