3.3 Renewables

Regulatory environment of the business

Spain

- In November the Ministry for the Ecological Transition published Royal Decree Law 17/2019, which establishes the remuneration rate for renewable facilities based on the weighted average cost of capital (WACC). The current pre-tax rate of 7.389% for facilities prior to RDL 9/2013 will remain in effect until the end of 2031, provided that the developer thereof does not have existing litigation or commits to end any such litigation. Otherwise, or for facilities after RDL 9/2013, a value of 7.09% is set until 2025. The approval of the other remuneration parameters is expected during 2020.

  RDL 17/2019 also provides that if facilities are closed, sustainability and employment standards will be taken into account for awarding permits for new projects.

United Kingdom

- 12 Contracts for Difference (CfD) were awarded in September for a total capacity of 5.8 GW. 5.46 GW (6 contracts) were awarded to offshore wind and 300 MW to other renewable technologies.

United States

- At the federal level, a one-year extension of tax credits for wind was approved in December 2019. Facilities that begin construction in 2020 can choose between a 60% Production Tax Credit (PTC) or an 18% Investment Tax Credit (ITC).
- The industry also maintains clean energy incentives at the state level, with various states increasing their Renewable Portfolio Standard (RPS) targets.

Brazil

- The construction of the Oitis Wind Farm Complex, located in the States of Piauí and Bahía, was approved in 2019. It will consist of 12 wind farms with an installed capacity of 566 MW. 30% of all energy generated by these two wind farms was awarded in an "A-4" auction held on 28 June 2019.

Mexico

- The mechanism for the purchase and sale of Clean Energy Certificates (*Certificados de Energías Limpias*) (CELs) continues in effect to encourage new clean power generation projects, but in October 2019 the Secretary of Energy approved changes to the requirements for granting CELs in order for the CFE's clean generation plants in existence before the Reform to be able to verify CELs for generation. This measure eliminated in practice the need for CFE Suministro Básico to purchase CELs in the Long-Term Auctions, in order not to increase the Basic Supply tariffs for domestic customers.

The business will engage in sustainable growth, mainly based on onshore wind, offshore wind, solar, hydroelectric and pumped storage investments in the countries that are most important to the group.

Objectives, risks and principal activities

Objectives

- Occupational Safety and Health.
- Efficiency in operations to optimise the operation of the assets.
- Efficiency in development and construction costs to maximise the competitiveness of all renewable projects.
- Profitable growth from various technologies in the countries that are strategic for the group, and in new countries of interest.
- Develop a robust portfolio that covers the company's growth plan.

Significant risks

- Regulatory risk: changes in regulations in the countries in which it operates.
- Operational risk: availability rate of facilities and potential incidents with environmental impact.
- Market risk: changes in prices of energy in short-term markets.
- Risk of access to evacuation networks and limits on production due to technical restrictions of the networks.
- Technological and cybersecurity risks affecting the facilities.

Principal activities 2019

- 2,791 MW of installed capacity was added during the year:
  - Onshore wind: 235 MW in Spain, 186 MW in Mexico, 832 MW in the United States and 4 MW in Greece.
  - Offshore wind: 420 MW in the United Kingdom.
  - Photovoltaic solar: 500 MW in Spain.
  - Hydroelectric: 612 MW in Brazil and 2 MW in Spain.
- More than 7,000 MW are also under construction, of which more than 2,500 MW are onshore wind in Spain, the United States, Brazil and Mexico, and more than 3,500 MW are photovoltaic solar in Spain, Mexico, the United States and Portugal. Construction of the Tâmega hydroelectric complex, with 1,158 MW, continues in Portugal.
- Growth continues in offshore wind with the construction of the 714 MW *East Anglia ONE* project in the United Kingdom and the development of the 800 MW *Vineyard* project in the United States, 496 MW *St. Brieuc* project in France and 476 MW *Baltic Eagle* project in Germany. Iberdrola was also recently awarded the 804 MW *Park City* project in Connecticut.

Load factor

Maximising the load factor of facilities and availability, through operating and maintenance measures, as well as other external factors, optimising generation with renewable sources.

Operation and maintenance costs

Continuous improvement in efficiency through global standardisation and systematisation processes, exploiting digitisation opportunities.

Project portfolio

Development of the portfolio of onshore wind and photovoltaic projects in Spain, the United Kingdom, the United States, Brazil, Mexico and International (Continental Europe, Australia and South Africa) and offshore wind projects in France, Germany, the United Kingdom and the United States.

Key figures of the Renewables Business

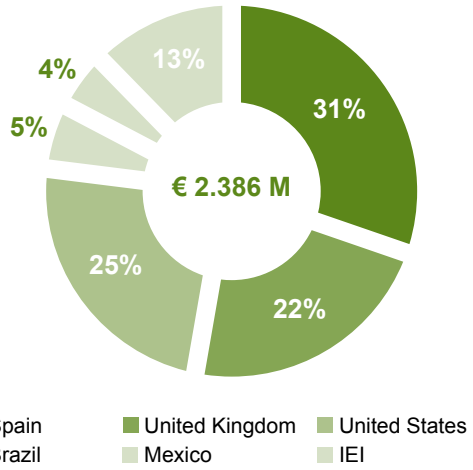
		Spain		United Kingdom		United States		Brazil		Mexico		IEI		Total	
Item	**Unit**	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	**2019**	**2018**
Gross margin	€M	1,251	1,580	678	644	852	835	174	178	113	88	378	286	**3,446**	**3,611**
EBITDA	€M	736	919	525	518	591	573	125	129	86	65	323	241	**2,386**	**2,445**
Load factor[1]	%	15.9	18.7	24.8	22.1	29.1	29.7	29.0	31.3	29.5	31.2	31.6	26.9	**21.3**	**22.6**
Gross investments	€M	778	375	907	427	1,396	386	102	180	93	291	50	141	**3,326**	**1,800**
Workforce	No. of people	1,567	1,537	418	355	752	710	225	192	136	125	257	166	**3,355**	**3,085**

Quarterly Results Report

International Financial Reporting Standard (IFRS) 11 has been applied to the financial information

(1) The load factor includes all renewable technologies.

EBITDA of the Renewables Business by geographical area 2019



Gross investments of the Renewables Business by geographical area 2019