

3.4 Wholesale and Retail

Regulatory environment of the business

Spain

- Royal Decree 750/2019, establishing a fixed unit rate of €7.98/MWh for the public non-tax financial obligation by means of which ENRESA's service to the nuclear plants in operation is funded, was published in December 2019.
- Royal Decree 244/2019, which governs the administrative, technical and financial conditions for the self-consumption of electric power, was published in April 2019. This Royal Decree expanded the definition of self-consumption, including the concept of "facilities close through the network", developed collective self-consumption, simplified government procedures and allowed for the remuneration of surpluses for small facilities.

Mexico

- The methodology for determining the values of the electricity tariff beginning in 2020 was approved on 16 December 2019 without changes, for which reason tariffs are expected to remain stable in comparison with the figures for 2019. The resolution determining the transmission and distribution tariffs was also published.

United Kingdom

- In June 2019, Ofgem published new market access requirements for incoming retailers relative to their financial capacity, ability to comply with legal provisions and market rules, willingness to provide a high-quality service to customers and management capacity of the management team and the main shareholders.
- In October 2019 the government re-established the capacity mechanisms after the European Commission concluded its investigation holding that the mechanism complies with the rules on State Aids, because it is necessary to guarantee supply, is in line with the energy policy goals of the EU, and does not distort competition within the single market.

Brazil

- *Portaria* (Implementing Regulation) No. 389, establishing the guidelines for the auctions of exclusive A-4 and A-5 generation for thermal plants to be held in 2020, was published in October 2019. The supply period is 15 years, beginning in January 2024 and January 2025, respectively.
- *Portaria* No. 465, which provides that consumers with a capacity above 1.5 MW since January 2021, above 1 MW since January 2022 and above 0.5 MW since January 2023 can purchase conventional energy from any retailer, was published in December 2019. ANEEL and CCEE must submit a study before 31 January 2022 on the regulatory measures required to allow the opening to the free market of consumers with a capacity below 0.5 MW beginning in 2024.

Objectives, risks and principal activities

Objectives

- Occupational Safety and Health.
- Competitive supply and excellence in service to customers.
- Environmental management and protection of biodiversity
- Operational excellence and continuous improvement in efficiency.
- Risk identification and minimisation.
- Development of growth opportunities and new energy solutions.

Principal activities 2019

- **Spain:** Continued development of products and services adapted to the needs of customers (*Customised Plans, Smart services, Smart mobility, Smart solar, Smart home*).
- **United Kingdom:** At year-end 2019 a cumulative total of 1.5 million smart meters had been installed.

- **Mexico:** Entry into commercial operation of 2,655 MW (878 MW Escobedo CC, 911 MW Topolobampo II CC and 866 MW El Carmen CC). Approximately 1,300 MW thermal under construction.
- **Europe:** Growth of retail activity and connection to customers through *Smart Solutions*. 1.5 million contracts in portfolio reached during 2019.

Significant risks

- Regulatory risk: Changes in regulations in the countries in which it operates.
- Operational risks: Availability rate of facilities and potential incidents with environmental impact.
- Market risk: Fuel prices and competition levels in liberalised markets.
- Technological and cybersecurity risks affecting the security of the facilities or the information of our customers.

Efficiency

- Optimisation of production and increase in availability of thermal facilities.
- Facilitating operations in complementary markets.
- Operational improvements in the customer service and management processes.

Prices

- Management of fuel price risks through appropriate hedging of all generation.

Growth

- Mexico: upon startup of the Topolobampo III CC in 2020, the company will have an installed capacity of more than 10,000 MW, strengthening its position as the largest private producer of electricity in the country.
- United Kingdom: Continued widespread deployment of smart meters that began in 2016.

Customers

- Loyalty-building and development of new digital products and smart solutions adapted to the needs of customers, which promotes efficiency and the consumption of renewable energy.
- Retail development in Mexico concurrently with the energy reform.
- Sustained growth of retail activities of electricity, gas and *Smart Solutions* in the rest of Europe.

Key figures of the Wholesale and Retail Business

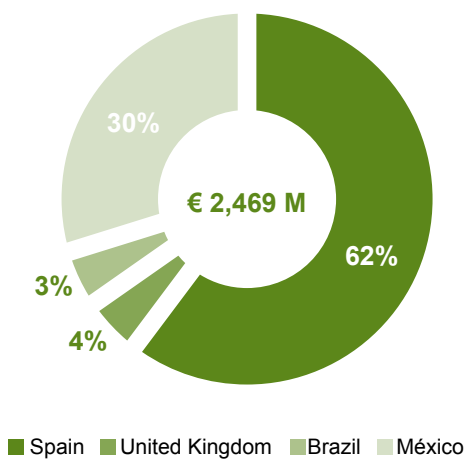
Item	Unit	Spain		United Kingdom		Brazil		Mexico		IEI*		Total	
		2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Gross margin	€M	2,932	2,396	684	863	92	134	935	756	45	19	4,688	4,168
EBITDA	€M	1,558	1,001	110	307	64	92	762	638	(25)	(26)	2,469	2,038
Electricity contracts	Millions	10.1	10.1	2.8	3.0	0.0	0.0	0.0	0.0	0.6	0.3	13.5	13.5
Gas contracts	Millions	1.0	1.0	1.9	2.0	0.0	0.0	0.0	0.0	0.2	0.1	3.1	3.1
Smart solutions contracts	Millions	5.7	5.3	1.9	1.4	0.1	0.1	0.0	0.0	0.7	0.4	8.4	7.1
Contracts total	Millions	16.8	16.5	6.6	6.4	0.1	0.1	0.0	0.0	1.5	0.7	25.1	23.7
Gross investments	€M	318	218	218	201	31	12	380	682	85	26	1,032	1,139
Workforce	No. of people	2,646	2,695	1,552	1,588	128	98	997	855	191	122	5,514	5,358

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

* IEI - Iberdrola Energía Internacional

EBITDA by geographical area 2019



Gross investments of the Wholesale & Retail Business by geographical area 2019

