2.6 Strategic foundations 2020-2025

Market conditions

In the face of the economic, social and health crisis caused by the COVID-19 pandemic, the debate over the importance of the climate, the environment and biodiversity for people's health has intensified. Major institutions and social and political leaders are proposing that the recovery is an opportunity to drive the transition towards a new socioeconomic model that is climate-neutral, resilient, sustainable and inclusive. This is known as the **Green Recovery,** a vision to which the Iberdrola group is fully committed.

The transformative tendencies of the energy sector are intensifying, while action in the fight against climate change is growing around the world:

- The urgent need to **drive decarbonisation**, a key element of which is widespread use of renewable energy and investment in electrical networks.
- The gradual **green electrification** of energy uses and **demand for new services** will empower customers, putting them at the centre of the transition.
- **Innovation and technological progress** will accelerate a reduction in the cost of renewables, which, together with greater digitalisation and efficiency, will allow for the acceleration of electrification.

Challenges and opportunities

Challenges

- Higher demand for cleaner and more sustainable energy within a scenario of decarbonisation of the entire economy.
- Management of higher electricity consumption due to the electrification of the economy, which will require increased grid usage.
- Management of a competitive scenario for electricity prices over the medium and long term.
- Implementation of a historic investment plan aimed at strengthening the company's business model, based on more renewable energy, more networks, more storage and more smart solutions for its customers.
- Reaching higher levels of efficiency both in production and in the improved use of electricity by customers, by innovating to improve the technology and digitalisation in operations.

Opportunities

- Strong and diversified business model in all areas: by businesses (continually adjusting units and products to compete in different scenarios), geographies and technologies and market access.
- Global expansion by countries and businesses, focused on those with ambitious climate and energy targets.
- Proven management and implementation capabilities, with a track record of growth based on preservation of know-how, focus on customers and ESG, and an efficient combination of a global model with local capabilities. The company will continue to strengthen its leadership in the environmental, social and governance areas (ESG) through 2025.
- Tremendous experience in the development and construction of renewables and networks (maintaining control of key activities and operations to ensure growth), as well as in retail sales.
- Leader in efficiency, based on digitalisation, the exchange of best practices and exploiting economies of scale, as well as a culture of innovation.
- Green hydrogen is becoming a new growth opportunity, as a strategic vector for the industrial segment and for sectors that are difficult to decarbonise.

Growth vectors 2020-2025

Investments: growth and acceleration

United States:

In renewables, the Vineyard I (800 MW) and Park City (804 MW) offshore wind projects are progressing according to plan, with startup dates in 2024 and 2025 respectively. In addition, over 5,000 MW of solar photovoltaic and onshore wind capacity will be placed into operation during the period. In Networks, construction of the $950 million New England Clean Energy Connect (NECEC) transmission line continues, with placement into operation in mid-2023. There are also multiple growth opportunities, totalling more than €11,000 million Added to all this will be the assets of PNM Resources, as the acquisition is expected to be formalised in the second half of 2021.

Brazil:

The company has acquired a lot in the electricity transmission line auction held in December 2020, which is in addition to the eleven lots won in the 2017, 2018 and 2019 auctions. ANEEL also plans to hold auctions in the 2021-2025 period, which present a tremendous opportunity for more than 44,000 million reais of organic growth in Brazil. In January 2021 the Brazilian competition regulator CADE approved Neoenergia's acquisition of the electricity distribution arm of Companhia Energética de Brasilia. In renewables, installed capacity in wind and photovoltaic projects will increase by 2,700 MW over the 2020-2025 period.

United Kingdom:

The East Anglia ONE offshore wind project was brought into operation in 2020, and new offshore wind auctions are being held.

Over 1,700 MW of onshore wind and photovoltaic capacity will also be placed into operation.

Spain:

7,500 MW of renewable capacity is expected to be added over the 2020-2025 period. Of this, almost 6,500 MW will be photovoltaic, the main projects being Francisco Pizarro, Ceclavín, Arenales, Puertollano and Campo Arañuelo.

This is in addition to the construction of the largest green hydrogen plant for industrial use in Europe, with 800 MW

International:

Installed capacity will increase by nearly 7,000 MW over the period, notably due to the growth in solar and onshore wind in Australia, together with the St. Brieuc (France) and Baltic Eagle (Germany) offshore wind projects. More than 1,100 MW in hydroelectric capacity will also be added in Portugal.

Efficiency in operations and investments

- Over the years, Iberdrola has maintained a constant focus on operational excellence as well as on the efficiency of its investments by optimising processes, standardisation and capturing synergies over the lifetime of the investment.
- Building on the progress made last year, efficiencies of almost €1,500 million are expected to be achieved over the 2020-2025 period, of which €1,000 million will be in 2023-2025.

Strategic foundations

In confronting this scenario, Iberdrola will rely on the strategic foundations that have formed the basis of its sustained growth over the past two decades: increasing geographical diversification towards countries with strong credit ratings and ambitious climate policies, continuing with a full commitment to the energy transition as agents of decarbonisation and electrification of the economy, continually maximising operational excellence, optimising the portfolio with regard to the environmental and financial sustainability of our business model, and promoting innovation to lay the foundations for the future.

These strategic foundations will allow Iberdrola to accelerate the creation of value for all Stakeholders under the new scenario, and also put the group in a unique position to capture the unprecedented opportunities of the energy transition. This will lead to an Iberdrola that is more efficient, more sustainable, more international, more profitable and ultimately better prepared to continue responding to these trends and to drive the recovery in the economy and in employment.

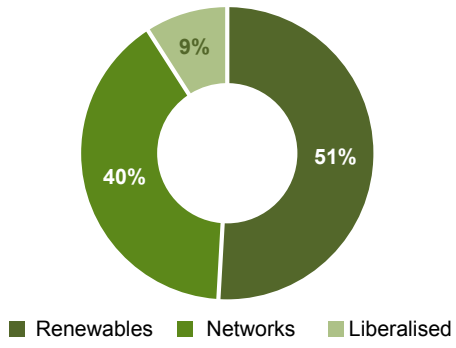
Balanced growth

The company will carry out a number of initiatives to implement this strategy, which are described below:

- The policies on decarbonisation and technological progress play an important role, as they drive significant investments in renewable generation, as do the deployment and strengthening of networks, which have an essential role in the integration of both large-scale and distributed renewable generation, as well as helping to increase the electrification of energy demand and the requirement of new services.
- In light of these forecasts, the company has launched a historic investment plan of up to €75,000 million (gross) over the 2020-2025 period (6 years), of which €68,000 million are organic investments and €7,000 million for the acquisition of PNM Resources.
- Annual organic investment thus increases from an average €7,000 million in 2017-2019 to an average of €10,000 million in 2020-2022 and €13,000 million in 2023-2025.
- 75% of total organic investment (€50,000 million) is allocated to growth, of which 70% is assured up to 2025 (close to 90% in networks and 60% in renewables).
- Investment is concentrated in countries with climate ambitions and A ratings. Geographically, 85% is allocated to Europe and the United States and, overall, more than 83% to countries with A ratings.
- In terms of businesses. the present plan strengthens the commitment to invest in networks and renewables. Thus, 51% of this organic growth, more than €34,000, will be allocated to renewables, concentrated mainly in the United States, the countries of Iberdrola Energía Internacional (European countries other than the United Kingdom and Spain, and Australia) and Spain. 40%, more than €27,000 million, will be allocated to networks, with growth centred mainly in the United States and Brazil.

Gross organic investment by business and country 2020-2025

Gross organic investment of the Businesses



Gross organic investment by country