

# Integrated

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# Report

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# / February

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# 2018

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Fight against **climate change** and protection of biodiversity

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Contribution to **the well-being of our communities**

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Promotion of **socially responsible practices** in the **supply chain**

Occupational **safety** and **development of people**

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**Innovation** and **quality** for our **customers**

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**Good governance**, transparency and relationships with stakeholders

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**Sustainable economic growth**

#### Mission

We create **value sustainably** for society, citizens, customers, employees, shareholders and other Stakeholders, and we are committed to a **social dividend**.

#### Vision

We want to be a global energy **leader** and create a **better future** for **people**, known for our commitment to **ethical principles, safety, quality and the environment**.

#### Values

The twelve **values inspire** and **guide** the group's strategy and all of its **actions**.

© Business Model  
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# Utility of the future



Maranchón Wind Farm  
/ Spain

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## Iberdrola's public information

Iberdrola makes all of its public information available to our shareholders, employees, customers, suppliers and society in general to provide reliable and relevant information regarding the company's performance and its strategic lines for the coming years.

### Annual information

#### *Integrated Report*

Prepared following the recommendations of the *International Integrated Reporting Council* (IIRC).

#### *Financial Report*

Prepared according to international financial reporting standards and externally audited.

#### *Annual Corporate Governance Report*

Prepared according to the form provided by the National Securities Market Commission of Spain.

#### *Sustainability Report*

Prepared according to the Global Reporting Initiative (GRI) guidelines and externally assured.

#### *Activities Report of the Board of Directors and of the Committees thereof*

Prepared according to Iberdrola internal standards.

#### *Director Remuneration Report*

Prepared according to the form provided by the National Securities Market Commission of Spain.

#### *Report on Related-Party Transactions with Directors and Significant Shareholders*

Prepared according to Iberdrola internal standards.

#### *Shareholder Engagement Report*

Prepared according to Iberdrola internal standards.

#### *Report on the Independence of the Auditor in relation to the Audit Report for Financial Year 2017*

Prepared according to Iberdrola internal standards.

### Additional information

Quarterly Results Report

IBE Watch Fact Sheet

Quarterly Shareholder Bulletin

Innovation Report

Corporate Environmental Footprint Report

Biodiversity Report

Greenhouse Gas Report

### Information on the corporate website [www.iberdrola.com](http://www.iberdrola.com)

About Us

Corporate Governance

Sustainability

Shareholders and Investors

Suppliers

People and Talent

Press Room



Access the annual reports for financial year 2017 and supplementary documentation regarding the Iberdrola group by scanning the corresponding QR code using your smart phone or tablet.

⦿ This icon refers to related information. It also gives information on other specific reports where more information of interest can be accessed.

# Integrated Report

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## February 2018

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### Notes:

- The company Iberdrola, S.A., parent company of the Iberdrola group, is referred to as "Iberdrola", the "Company" or the "company" in this report.
- Iberdrola (as parent company) and the group of subsidiaries over which Iberdrola has the power of control or joint control is also referred to as the "Iberdrola group" or the "group".
- The figures included in this translation follow the customary English convention, with figures in thousands separated by a comma (,) and decimals indicated by a full stop (.).
- €M: millions of euros; \$M: millions of dollars.
- IFRS-11 is not being applied for operational purposes (installed capacity, output, etc.).



# Letter from the Chairman & CEO

Ignacio S. Galán  
Chairman & CEO of Iberdrola  
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Iberdrola will continue to apply its business model based on its commitment to clean technology, the deployment of smart networks and the design of innovative products and solutions for its customers using the most advanced technology.

Iberdrola has for many years now been of the opinion that the basic indicator of a company's success is its ability to respond to the challenges posed by this new era. For us, to grow means to be prepared to move forward and to improve, to have the courage to discover new horizons.

In line with this philosophy, our company focuses its efforts on defining and implementing a strategy that addresses the challenges posed and capitalises on the opportunities offered by the new energy scenario. This Integrated Report provides a detailed description of the context in which the company will conduct its business and the pillars that will underpin its lines of action in the coming months and years.

The Iberdrola group will continue to promote a business model focused on the achievement of a safe and competitive energy system through the growth of clean energies. Our commitment to the fight against climate change is as firm as the facts supporting it.

The energy sector continues to be in the midst of transformation, mainly as a result of the more rapid pace of the decarbonisation and electrification of the global economy. These changes entail a significant increase in electric power demand, which will reach 60% by 2040, according to the International Energy Agency. This will make it essential to have more renewable energy and more networks, requiring an investment of 19 billion euros during that period.

Meanwhile, technological advances and increased connectivity will require more energy infrastructure with smart solutions. Only thus will it be possible to meet new customer needs, such as the integration of electric vehicles, which is expected to reach 280 million units worldwide by 2040, according to the International Energy Agency.

#### Outlook 2018-2022

These trends are clear evidence of the wisdom of the model that Iberdrola has been applying for almost two decades, based on a commitment to clean technologies, more and smarter networks, and on designing innovative products and solutions for its customers.

It is on that basis that, in February 2018, we released our outlook for the 2018-2022 period, during which the Company will invest 32,000 million euros in profitable long-term growth projects. Of the total investments, 90% will go to regulated activities with long-term contracts and 75% will be invested in projects that are already secured or are highly likely. Under the plan, by 2022, the group will increase its renewable installed capacity by 24% to 36,000 MW,



and will boost its storage capacity by 25% to 100 GWh, equal to 100 million 1 kWh batteries.

As for the networks business, its regulated assets base will grow by 38% to 40,000 million euros; and in the wholesale business in Mexico we will increase our capacity by more than 80%, to 10,600 MW. Finally, we will increase solutions for our customers by 9 million, reaching 32 million by 2022, thanks to new products and services and to digitisation.

We will do all this while keeping operational excellence very much in mind; it has been at the core of our model during our entire history and has made us leaders in efficiency<sup>(1)</sup> compared with our European competitors.

However, we don't want to fall into complacency because our constant is to grow, to overcome challenges, to never relax in our comfort zone. For this reason, and because we know we have room for progress in this area, our goal in the coming years must be to even further exceed the limits of efficiency, thanks to advances in digitisation and the implementation of best practices.

As a result of this strategy, Iberdrola will continue to grow and to increase results in order to achieve EBITDA of between 11,500 million and 12,000 million euros by 2022, along with net profit of between 3,500 million and 3,700 million euros. And, as prior years, shareholder remuneration will grow in line with results, which, according to our estimates, should reach a dividend of approximately 0.4 euro per share by 2022.

Finally, the company will continue to strengthen its financial position, generating funds from operations of 42,000 million euros during the period, and achieving an FFO/net debt ratio of 24% by 2022.

#### Increasing our social dividend

This new investment plan will allow Iberdrola to deepen its commitment to its sustainable business model. This also entails increasing its social dividend, a concept representing the value that the group generates for all its Stakeholders in the regions in which it does business. We will engage in our activities while always striving to be by the side of people, especially those who need it the most, and to protect our environment, one that we must preserve for future generations.

In coming years, the company will continue to be firmly committed to the creation of stable and high-quality employment. We currently give four times more training hours per employee per year than the average for European companies<sup>(2)</sup>.

Along these lines, we will continue to contribute to strengthening the talent of our human team, always in an environment of inclusive, gratifying and balanced work. In fact, our wager on equality has

made us the only electric utility in continental Europe to be included in the Bloomberg Gender Equality Index. Gender equality cannot be a goal; it must be a reality. And we must all be agents of that change.

We are aware of our important role as an engine for economic development in all the countries in which we have a presence. The company generates 10 euros<sup>(2)</sup> in the GDP of each region for every euro of profit that it makes. And that is something that we want to continue to promote through our procurement from local suppliers (which totalled 8,700 million euros in 2017) and our tax contribution (7,000 million euros during the last financial year). Overall, Iberdrola employs 400,000 people worldwide<sup>(2)</sup>.

Our customer base will benefit from all the advantages afforded by cutting edge technologies and digitisation. Thus, we will be able to offer our customers a better quality of service, a larger catalogue of products and services tailored to their individual needs, and more competitive prices.

We also want to continue to contribute to environmental protection and biodiversity. As a world leader in renewable energy and in the fight against climate change, Iberdrola will continue to promote the cleanest energy sources in order to continue to reduce CO<sub>2</sub> emissions –which are already 32% lower than those of the European electricity sector– to 50% below 2007 levels by 2030.

Innovation –an area to which we allocated 250 million euros in 2017– will be one of our main tools to develop new clean and efficient generation technologies. We will continue to invest in R&D&I, which will allow us to maintain our position as one of the four electric companies worldwide that invest the most in this area<sup>(2)</sup>. We firmly believe that support for research is as necessary as it is urgent because advancement in knowledge must be a constant and essential process of discovery.

As part of our social dividend, we will also continue to promote other activities that we carry out via our foundations in those countries in which we have a presence, particularly in the areas of community service (helping those who need it most and mitigating the vulnerability caused by social exclusion), art and culture, and biodiversity, with the ultimate goal of continuing to work for the good of our environment in the future.

All of these efforts are fully consistent with the achievement of the Sustainable Development Goals (SDGs) established by the UN for 2030. Because of its activities, Iberdrola focuses on the supply of affordable and clean energy (goal 7) and the fight against climate change (goal 13). At the same time, it contributes directly to clean water (goal 6), innovation (goal 9), life on land (goal 15), partnerships for the goals (goal 17), and indirectly to the other goals.

(1) Net operating expense to gross margin ratio.

(2) PwC study "Economic, social and environmental impact of Iberdrola worldwide" (based on 2016 data).



Wiking Offshore Wind Farm  
/ Germany

© Francis Tsang





# Iberdrola Today

# 1.1 Iberdrola Today

## Our activities

- Production of electricity from renewable and conventional sources.
- Purchase/sale of electricity and gas on wholesale markets.
- Transmission and distribution of electricity.
- Supply of electricity, gas and related energy services.
- Other activities, mainly linked to the energy sector.

## Presence focused on the Atlantic area

Iberdrola carries out its activities mainly in the five countries of the Atlantic area: Spain, the United Kingdom, the United States, Brazil and Mexico.

## What we are

Following the process of internationalisation in recent years, Iberdrola is now one of the leading electric companies, and among the largest utilities in the world by stock market capitalisation.

The corporate and governance structure is described in chapter 5.1 of this report and consists of:

- Iberdrola, as a holding company.
- Country subholding companies in the 5 main geographic areas of activity.
- Head of business companies reporting to the country subholding companies.

Iberdrola is one of the leading electric utilities in the world.

## Iberdrola group 2017 data

48,447

**MW**  
Installed capacity

29,112

**MW**  
Renewable installed capacity

137,632

**GWh**  
Net output

1,156,611

**Km**  
Power lines

230,122

**GWh**  
Electric power distributed

34.4

**Million**  
users

34,255

**People**  
Direct employment

5,891

**€M**  
Investments

7,111

**€M**  
Direct tax contribution

400,000

**People<sup>(1)</sup>**  
Direct, indirect and induced employment

8,648

**€M**  
Procurement

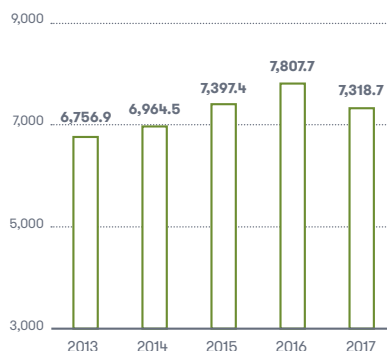
(1) Data from a Study of Iberdrola's Impact, prepared by PwC, for financial year 2016.

# 1.2 Company Performance

## Revenues (€M)



## EBITDA (€M)



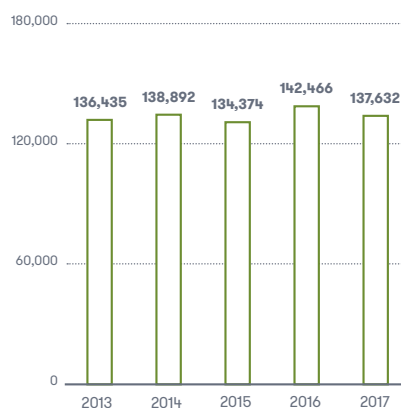
## Net Profit (€M)



## Installed capacity (MW)<sup>(1)</sup>



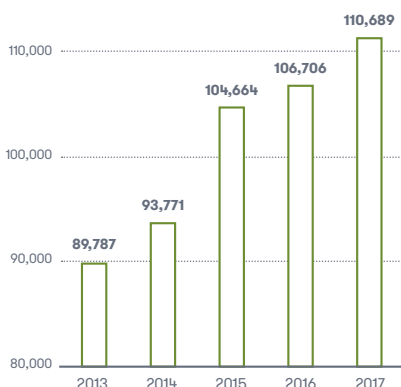
## Net output (GWh)<sup>(1)</sup>



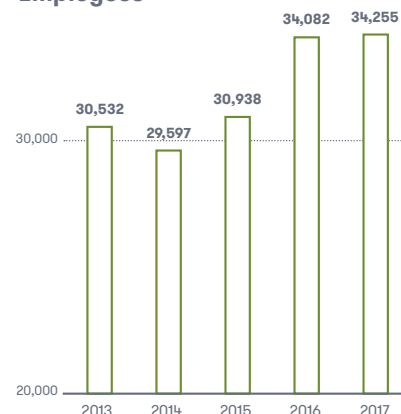
## Energy distributed (GWh)<sup>(2)</sup>



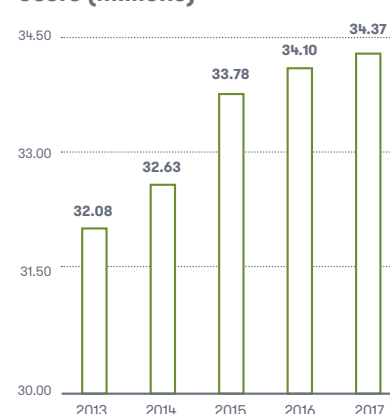
## Assets (€M)



## Employees<sup>(1)</sup>



## Users (millions)<sup>(2)</sup>



(1) Also takes into account 100% of Neoenergia in 2016 in order to improve the comparability of the data.

(2) Takes into account 100% of Neoenergia during all periods reported.



# 1.3 Key Figures

Financial performance (€M)	2013	2014	2015	2016 <sup>(1)</sup>	2017	Δ annual average 2013-17	Δ 2016-2017
<b>Revenues</b>	<b>31,077.1</b>	<b>30,032.3</b>	<b>31,418.7</b>	<b>29,215.4</b>	<b>31,263.3</b>	<b>0.1%</b>	<b>7.0%</b>
<b>Consolidated gross margin</b>	<b>11,781.9</b>	<b>12,179.5</b>	<b>12,842.7</b>	<b>12,916.2</b>	<b>13,363.8</b>	<b>3.2%</b>	<b>3.5%</b>
<b>Consolidated EBITDA</b>	<b>6,756.9</b>	<b>6,964.5</b>	<b>7,397.4</b>	<b>7,807.7</b>	<b>7,318.7</b>	<b>2.0%</b>	<b>(6.3)%</b>
<b>Networks (Regulated) EBITDA</b>	<b>3,346.5</b>	<b>3,534.7</b>	<b>3,628.0</b>	<b>4,081.7</b>	<b>4,228.1</b>	<b>6.0%</b>	<b>3.6%</b>
Spain	1,450.3	1,438.5	1,456.8	1,603.1	1,519.5	1.2%	(5.2)%
United Kingdom	939.0	1,024.8	1,138.0	976.2	886.1	(1.4)%	(9.2)%
United States	718.2	772.0	780.5	1,269.6	1,334.0	16.7%	5.1%
Brazil	239.0	299.4	252.7	232.8	488.5	19.6%	109.8%
<b>Wholesale and Retail (Liberalised) EBITDA</b>	<b>1,986.6</b>	<b>2,292.2</b>	<b>2,323.1</b>	<b>2,253.3</b>	<b>1,600.6</b>	<b>(5.3)%</b>	<b>(28.9)%</b>
Spain	1,341.2	1,517.6	1,504.6	1,520.5	901.9	(9.4)%	(40.7)%
United Kingdom	320.4	456.6	421.7	293.6	139.1	(18.8)%	(52.6)%
United States	(22.6)	(32.0)	(58.4)	6.1	(25.8)	(3.4)%	-
Brazil	-	-	-	(3.1)	60.0	-	-
Mexico	347.6	350.0	455.0	436.2	525.4	10.9%	20.4%
<b>Renewables EBITDA</b>	<b>1,501.1</b>	<b>1,326.0</b>	<b>1,647.2</b>	<b>1,500.2</b>	<b>1,592.1</b>	<b>1.5%</b>	<b>6.1%</b>
Spain	668.4	420.6	473.2	497.4	493.1	(7.3)%	(0.9)%
United Kingdom	231.8	265.2	438.1	267.0	360.6	11.7%	35.1%
United States	448.0	495.3	570.9	563.6	529.7	4.3%	(6.0)%
Brazil	9.1	33	26.9	24.9	56.9	58.1%	128.5%
Mexico	34.1	38.2	43.1	52.0	52.5	11.4%	1.0%
Other countries	109.7	73.7	95.0	95.3	99.3	(2.5)%	4.2%
<b>Other businesses EBITDA</b>	<b>0.5</b>	<b>(17.0)</b>	<b>(10.5)</b>	<b>(111.3)</b>	<b>38.8</b>	<b>196.8%</b>	<b>-</b>
<b>Corporation EBITDA and adjustments</b>	<b>(77.8)</b>	<b>(171.4)</b>	<b>(190.4)</b>	<b>83.8</b>	<b>(140.9)</b>	<b>(16.0)%</b>	<b>-</b>
<b>Amortisation/depreciation, provisions and other</b>	<b>(4,537.5)</b>	<b>(3,023.6)</b>	<b>(3,568.1)</b>	<b>(3,253.7)</b>	<b>(4,606.1)</b>	<b>0.4%</b>	<b>41.6%</b>
<b>Operating profit (EBIT)</b>	<b>2,219.5</b>	<b>3,940.9</b>	<b>3,829.3</b>	<b>4,554.0</b>	<b>2,712.6</b>	<b>5.1%</b>	<b>(40.4)%</b>
<b>Financial results</b>	<b>(1,277.9)</b>	<b>(1,122.4)</b>	<b>(1,023.1)</b>	<b>(903.4)</b>	<b>(937.1)</b>	<b>7.5%</b>	<b>(3.7)%</b>
<b>Results from companies consolidated by the equity method</b>	<b>205.0</b>	<b>135.4</b>	<b>55.3</b>	<b>48.7</b>	<b>(281.7)</b>	<b>-</b>	<b>-</b>
<b>Results from non-current assets</b>	<b>(10.4)</b>	<b>247.9</b>	<b>125.1</b>	<b>48.2</b>	<b>279.0</b>	<b>-</b>	<b>478.8%</b>
<b>Pre-tax profit (EBT)</b>	<b>1,136.1</b>	<b>3,201.8</b>	<b>2,986.6</b>	<b>3,747.5</b>	<b>1,772.8</b>	<b>11.8%</b>	<b>(52.7)%</b>
<b>Corporate income tax</b>	<b>1,466.7</b>	<b>(837.1)</b>	<b>(527.1)</b>	<b>(904.6)</b>	<b>1,397.1</b>	<b>(1.2)%</b>	<b>-</b>
<b>Minority interests</b>	<b>(31.0)</b>	<b>(38.2)</b>	<b>(38.0)</b>	<b>(137.9)</b>	<b>(365.9)</b>	<b>85.4%</b>	<b>165.3%</b>
<b>Net attributable profit</b>	<b>2,571.8</b>	<b>2,326.5</b>	<b>2,421.6</b>	<b>2,705.0</b>	<b>2,804.0</b>	<b>2.2%</b>	<b>3.7%</b>
<b>Total assets</b>	<b>89,786.8</b>	<b>93,771.4</b>	<b>104,664.1</b>	<b>106,706.2</b>	<b>110,688.6</b>	<b>5.4%</b>	<b>3.7%</b>
<b>Shareholders' equity</b>	<b>35,288.6</b>	<b>35,790.5</b>	<b>40,956.1</b>	<b>40,687.4</b>	<b>42,733.2</b>	<b>4.9%</b>	<b>5.0%</b>
<b>Net investments</b>	<b>3,053.0</b>	<b>2,848.0</b>	<b>3,223.0</b>	<b>4,264.3</b>	<b>5,890.9</b>	<b>17.9%</b>	<b>38.1%</b>
<b>Funds from Operations (FFO)</b>	<b>5,619.0</b>	<b>5,459.0</b>	<b>5,906.7</b>	<b>6,310.8</b>	<b>6,479.4</b>	<b>3.6%</b>	<b>2.7%</b>
<b>Bank borrowings, net</b>	<b>26,836.3</b>	<b>25,618.4</b>	<b>28,067.1</b>	<b>29,414.0</b>	<b>32,884.5</b>	<b>5.2%</b>	<b>11.8%</b>

Financial ratios	2013	2014	2015	2016	2017	Δ annual average 2013-17	Δ 2016-2017
<b>Non-Eurozone EBITDA (%)</b>	<b>49.5</b>	<b>54.0</b>	<b>56.0</b>	<b>54.0</b>	<b>61.6</b>	<b>5.6%</b>	<b>14.1%</b>
<b>EBITDA margin (EBITDA/revenues) (%)</b>	<b>21.7</b>	<b>23.2</b>	<b>23.5</b>	<b>26.7</b>	<b>23.4</b>	<b>1.9%</b>	<b>(12.4)%</b>
<b>Net profit margin (Net profit/Revenues) (%)</b>	<b>8.3</b>	<b>7.7</b>	<b>7.7</b>	<b>9.3</b>	<b>9.0</b>	<b>2.0%</b>	<b>(3.1)%</b>
<b>NOE/Gross margin (%)</b>	<b>29.4</b>	<b>29.8</b>	<b>29.8</b>	<b>27.7</b>	<b>31.2</b>	<b>1.5%</b>	<b>12.8%</b>
<b>Net financial debt / EBITDA (multiple)</b>	<b>3.97</b>	<b>3.68</b>	<b>3.79</b>	<b>3.77</b>	<b>4.49</b>	<b>3.1%</b>	<b>19.1%</b>
<b>Financial leveraging (%)</b>	<b>43.2</b>	<b>41.7</b>	<b>40.7</b>	<b>42.0</b>	<b>43.4</b>	<b>0.1%</b>	<b>3.5%</b>
<b>Funds from Operations (FFO)/ Net financial debt (NFD)</b>	<b>20.8</b>	<b>21.3</b>	<b>21.0</b>	<b>21.5</b>	<b>19.7</b>	<b>(1.3)%</b>	<b>(8.2)%</b>
<b>Retained cash flow (RCF/NFD) (%)</b>	<b>17.5</b>	<b>17.4</b>	<b>18.7</b>	<b>19.1</b>	<b>17.2</b>	<b>(0.5)%</b>	<b>(10.0)%</b>
<b>Return on equity (ROE) (%)</b>	<b>7.5</b>	<b>6.7</b>	<b>6.3</b>	<b>7.3</b>	<b>7.8</b>	<b>1.0%</b>	<b>6.8%</b>

Stock market performance	2013	2014	2015	2016	2017	Δ annual average 2013-17	Δ 2016-2017
<b>Stock market capitalisation (€M)</b>	<b>28,922</b>	<b>35,756</b>	<b>41,506</b>	<b>39,661</b>	<b>40,811</b>	<b>9.0%</b>	<b>2.9%</b>
<b>Number of shares at end of period (millions)</b>	<b>6,240</b>	<b>6,388</b>	<b>6,337</b>	<b>6,362</b>	<b>6,318</b>	<b>0.3%</b>	<b>(0.7)%</b>
<b>Share price (€)</b>	<b>4.63</b>	<b>5.60</b>	<b>6.55</b>	<b>6.23</b>	<b>6.46</b>	<b>8.7%</b>	<b>3.6%</b>
<b>Earnings per share (EPS)</b>	<b>0.41</b>	<b>0.36</b>	<b>0.37</b>	<b>0.42</b>	<b>0.44</b>	<b>2.0%</b>	<b>5.7%</b>
<b>Dividend per share (DPS)</b>	<b>0.310</b>	<b>0.275</b>	<b>0.276</b>	<b>0.286</b>	<b>0.317</b>	<b>0.6%</b>	<b>10.8%</b>
<b>Dividend yield (%)</b>	<b>6.65</b>	<b>4.91</b>	<b>4.21</b>	<b>4.59</b>	<b>4.91</b>	<b>(7.3)%</b>	<b>6.9%</b>
<b>Total dividend (including cash payments) (€M)</b>	<b>1,922</b>	<b>1,716</b>	<b>1,732</b>	<b>1,966</b>	<b>1,996</b>	<b>0.9%</b>	<b>1.5%</b>
<b>Payout ratio (%)</b>	<b>65.5</b>	<b>73.8</b>	<b>71.5</b>	<b>72.7</b>	<b>71.2</b>	<b>2.1%</b>	<b>(2.1)%</b>
<b>Share price / net earnings per share (PER)</b>	<b>11.25</b>	<b>15.37</b>	<b>17.17</b>	<b>14.66</b>	<b>14.55</b>	<b>6.7%</b>	<b>(0.7)%</b>

- Sustainability Report
- Quarterly Results Report
- Consolidated Annual Financial Statements

(1) For purposes of this report, 2016 is not re-stated due to the discontinuation of the engineering business, which only appears as such in 2017.



Operating performance	2013 <sup>(1)</sup>	2014 <sup>(1)</sup>	2015 <sup>(1)</sup>	2016 <sup>(2)</sup>	2017 <sup>(2)</sup>	Δ annual average 2013-17	Δ 2016-2017
Installed capacity (MW)	44,992	45,089	46,361	47,049	48,447	1.9%	3.0%
Net output (GWh)	136,435	138,892	134,374	142,466	137,632	0.2%	(3.4)%
Electric power distributed (GWh) <sup>(3)</sup>	214,873	212,617	224,749	229,920	230,122	1.7%	0.1%

Environmental performance	2013 <sup>(1)</sup>	2014 <sup>(1)</sup>	2015 <sup>(1)</sup>	2016 <sup>(2)</sup>	2017 <sup>(2)</sup>	Δ annual average 2013-17	Δ 2016-2017
Emission-free installed capacity (%)	61.2	61.9	63.0	66.4	66.7	2.2%	0.4%
Emission-free output (%)	54.6	56.8	52.5	56.7	53.8	0.4%	(5.2)%
Specific CO <sub>2</sub> emissions (t/GWh)	226	212	225	177	187	(4.6)%	5.6%
Fuel consumption (M Tep)	18,968	18,849	19,001	17,734	18,160	(1.1)%	2.4%
Environmental investments (€M)	1,015.7	1,100.9	1,014.2	2,262.2	2,239.9	21.9%	(1.0)%
Environmental expenses (€M)	686.4	635.7	669.2	527.1	513.2	(7.0)%	(2.6)%
Energy produced under certified environmental management systems (%)	84.4	87.0	84.2	82.4	79.8	(1.4)%	(3.2)%
Water use/overall production (m <sup>3</sup> /GWh)	976	509	533	573	597	(11.6)%	4.2%
Direct emissions of CO <sub>2</sub> , Scope 1 (kt)	31,846	30,217	31,752	26,537	26,691	(4.3)%	0.6%
Indirect emissions of CO <sub>2</sub> , Scope 2 (kt)	997	1,544	963	4,504	5,011	49.7%	11.3%
CO <sub>2</sub> avoided due to efficiency initiatives (kt)	18,480	21,459	19,269	16,853	23,460	6.1%	39.2%
SO <sub>2</sub> emissions (t/GWh)	0.217	0.154	0.125	0.047	0.038	(35.3)%	(19.1)%
NOx emissions (t/GWh)	0.262	0.236	0.230	0.140	0.113	(19.0)%	(19.3)%

- ⊙ Sustainability Report
- ⊙ Quarterly Results Report
- ⊙ Consolidated Annual Financial Statements

Social performance	2013 <sup>(1)</sup>	2014 <sup>(1)</sup>	2015 <sup>(1)</sup>	2016 <sup>(2)</sup>	2017 <sup>(2)</sup>	Δ annual average 2013-17	Δ 2016-2017
Users (millions) <sup>(4)</sup>	32.1	32.6	33.8	34.1	34.4	1.7%	0.9%
Electric power	28.5	29.0	29.7	30.0	30.3	1.6%	1.0%
Spain	10.9	10.9	10.9	10.9	11.0	0.2%	0.6%
United Kingdom	3.5	3.5	3.5	3.5	3.5	0.1%	0.1%
United States	1.8	1.8	2.2	2.2	2.2	5.5%	1.4%
Brazil	12.4	12.8	13.1	13.4	13.6	2.4%	1.4%
Gas	3.6	3.6	4.1	4.1	4.0	2.9%	(1.1)%
Spain	0.8	0.8	0.9	0.9	1.0	5.5%	5.3%
United Kingdom	2.2	2.2	2.2	2.1	2.0	(2.0)%	(4.7)%
United States	0.6	0.6	1.0	1.0	1.0	14.1%	0.4%
Number of employees	30,532	29,597	30,938	34,082	34,255	2.9%	0.5%
Permanent contracts (%)	98.5	98.5	98.4	98.4	99.4	0.2%	1.0%
Employees with collective bargaining agreement (%)	79.4	79.0	76.6	79.3	77.8	(0.5)%	(1.9)%
Employee turnover	6.6	8.6	7.0	7.3	7.9	4.4%	7.2%
Diversity (men/women)	76/24	77/23	76/24	76/24	77/23	-	-
Injury rate (IR)	0.46	0.39	0.28	0.36	0.35	(6.6)%	(2.8)%
Hours of training (millions of hours)	1.2	1.0	0.9	1.4	1.5	5.9%	7.1%
Hours of training per employee (h)	44.7	38.7	38.6	45.3	41.8	(1.7)%	(7.7)%
Funds for social development (€M)	91.6	65.0	46.0	106.7	341.2	38.9%	219.7%
Contributions to society (€M)	31.6	34.0	38.0	57.7	63.0	18.8%	9.1%
Rural electrification programmes (€M)	60.0	31.0	8.0	49.0	278.2	46.7%	467.8%
Investments in R&D&I (€M)	159	170	200	211	246	11.5%	13.4%
General procurement (€M billed)	4,359	4,599	5,093	7,508	8,648	18.7%	15.2%
Procurement from CSR classified suppliers (%)	87	92	94	89	87	0.1%	(2.0)%
Number of suppliers evaluated with social responsibility standards	1,202	1,326	1,536	1,667	1,787	10.4%	7.2%
Procurement in sensitive countries per ILO (%)	12.0	10.7	10.8	21.4	25.0	20.1%	16.8%
Procurement from local suppliers (%)	86	87	85	84	88	0.6%	4.8%

(1) Takes into account 39% of Neoenergia from 2013 to 2015 (unless otherwise noted).

(2) Takes into account 100% of Neoenergia in 2016 in order to improve the comparability of the data.

(3) Takes into account 100% of Neoenergia for all periods.

(4) The number of users includes supply points and gas customers in Spain and the United Kingdom.

# 1.4 Presence by Areas of Activity

## Iberdrola in Spain

Largest energy company

Δ 2017 / 2016

GDP +3.1%

Electricity demand +1.1%

### Primary brands

Local subholding brand



Operating brands



### Main data 2017

25,934

MW  
Installed capacity

15,821

MW  
Renewable installed capacity

51,897

GWh  
Net output

268,570

Km  
Power lines

93,284

GWh  
Electric power distributed

12.0

Million  
users

10,296

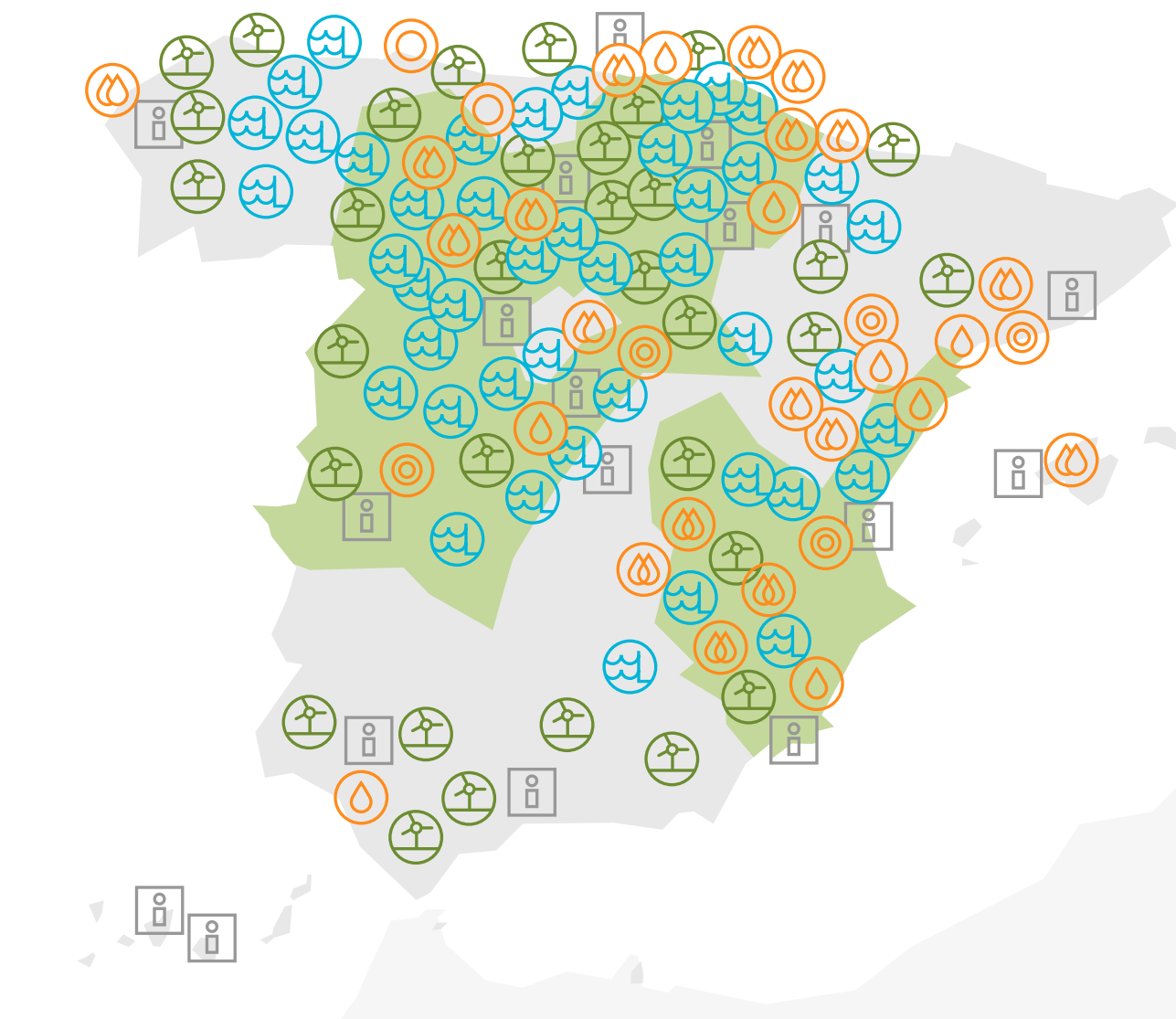
Employees

800

€M  
Investments

3,257

€M  
Direct tax contribution



## Primary facilities

195



Wind farms  
5,752 MW

161



Hydroelectric plants  
10,018 MW

8



Combined cycle gas plants  
5,695 MW

19



Cogeneration plants  
368 MW

5



Nuclear plants  
3,177 MW

2



Thermal plants  
874 MW



Offices

Area  
of influence

Electricity  
distribution

# Iberdrola in the United Kingdom

**Largest wind producer**

**Transmission and distribution networks in Scotland, Wales and England**

**Δ 2017 / 2016**

**GDP +1.7%**

**Electricity demand -1.7%**

## Primary brands

Local subholding brand



SCOTTISHPOWER

Operating brands



SCOTTISHPOWER  
RENEWABLES



SP ENERGY  
NETWORKS



SCOTTISHPOWER  
Generation



SCOTTISHPOWER  
Energy Retail

## Main data 2017

4,667

MW  
Installed capacity

2,666

MW  
Renewable installed capacity

12,139

GWh  
Net output

109,260

Km  
Power lines

34,967

GWh  
Electric power distributed

5.5

Million  
users

6,067

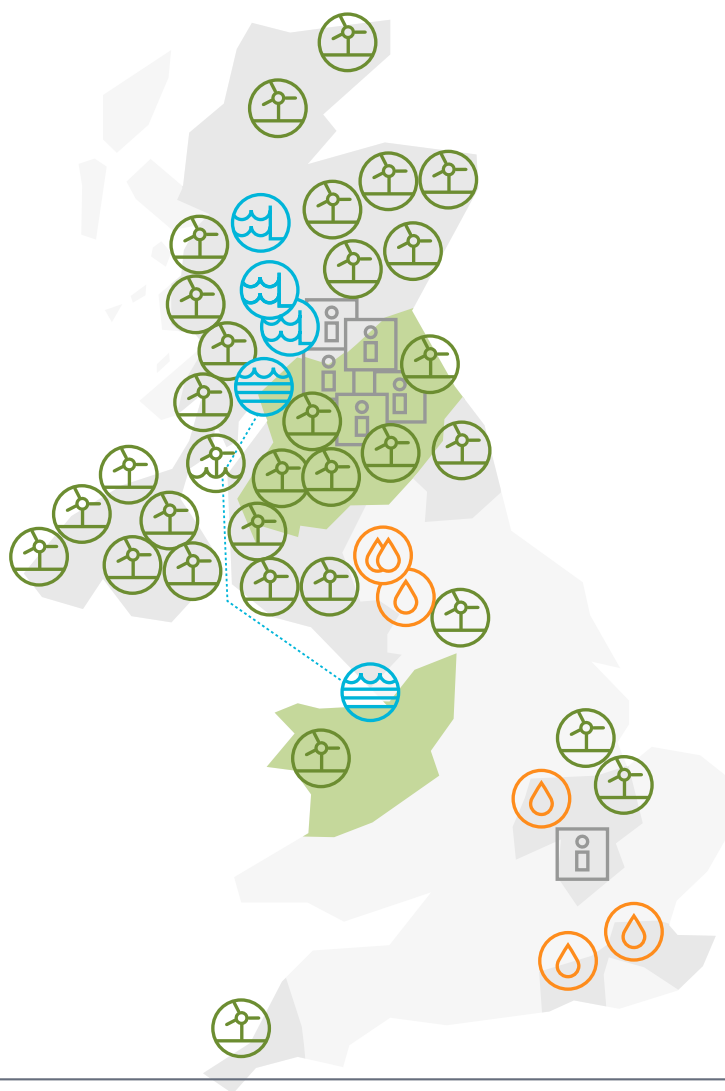
Employees

1,599

€M  
Investments

521

€M  
Direct tax contribution



## Primary facilities

39

Wind farms  
1,906 MW

1

Offshore wind farm  
194 MW

3

Hydroelectric plants  
566 MW

1

Underwater power line  
425 km

1

Cogeneration plant  
1 MW

4

Combined cycle gas plants  
2,000 MW



Offices

Area  
of influence

Electricity  
distribution

# Iberdrola in the United States

**3<sup>rd</sup>-largest wind producer**

**Electricity and gas distributor in New York, Maine, Connecticut and Massachusetts**

**Δ 2017 / 2016**

**GDP +2.5%**

**Electricity demand -2.1%**

## Primary brands

Local subholding brand



Operating brands



## Main data 2017

7,472

**MW**  
Installed capacity

6,625

**MW**  
Renewable installed capacity

18,104

**GWh**  
Net output

169,960

**Km**  
Power lines

38,349

**GWh**  
Electric power distributed

3.2

**Million**  
users

6,561

**Employees**

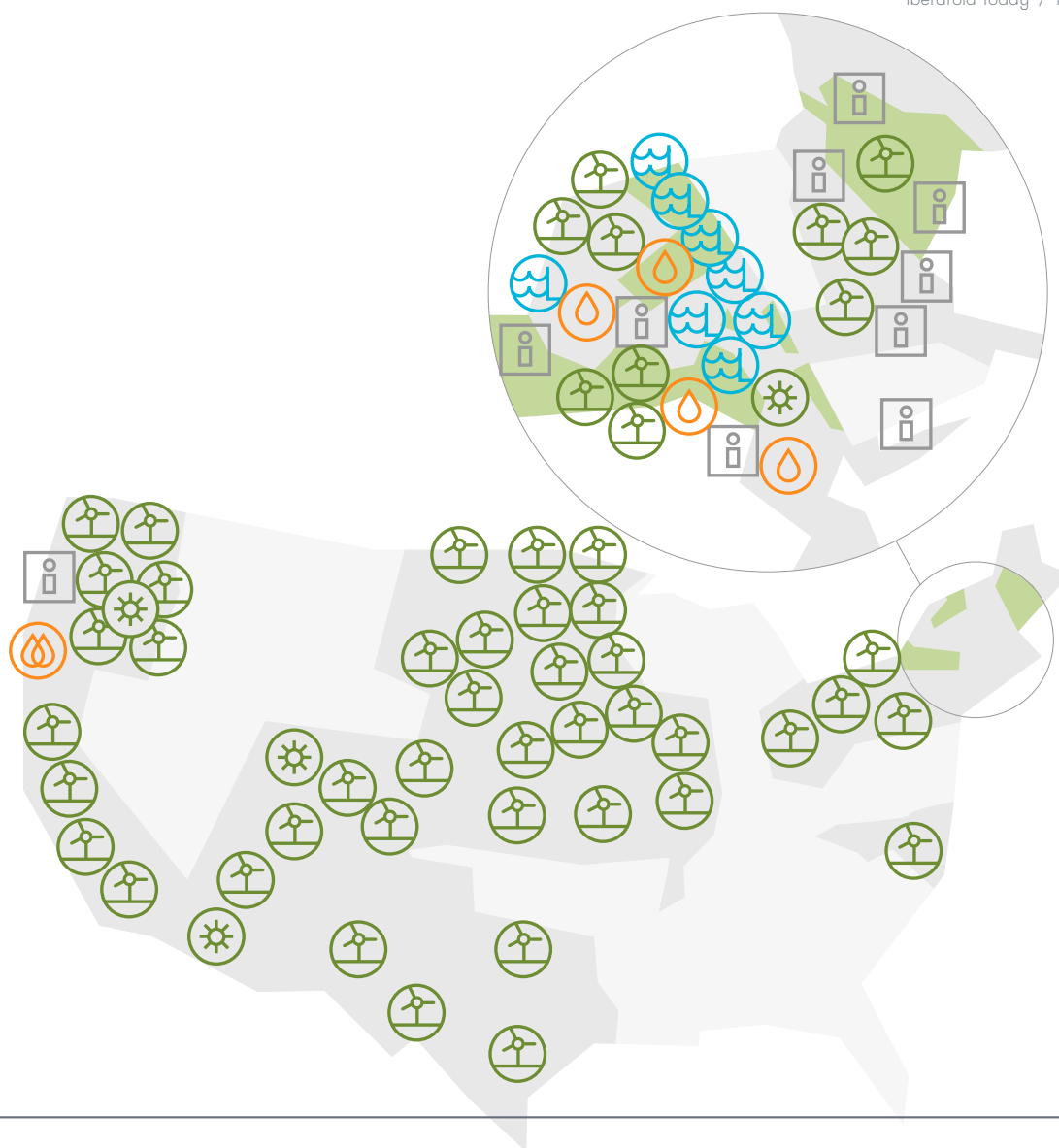
1,724

**€M**  
Investments

875

**€M**  
Direct tax contribution





## Primary facilities

59 

**Wind farms**  
6,387 MW

4 

**Photovoltaic plants**  
108 MW

9 

**Hydroelectric plants**  
118 MW

1 

**Cogeneration plant**  
636 MW

4 

**Combined cycle gas plants**  
212 MW



**Offices**

**Area  
of influence**

**Electricity  
distribution**

# Iberdrola in Brazil

Energy leader in Brazil and Latin America

Δ 2017 / 2016

GDP +1.0%

Electricity demand +1.2%

---

## Primary brands

---

Local subholding brand



Operating brands



---

## Main data 2017

---

3,162

MW  
Installed capacity

2,629

MW  
Renewable installed capacity

12,243

GWh  
Net output

608,821

Km  
Power lines

63,522

GWh  
Electric power distributed

13.6

Million  
users

10,096

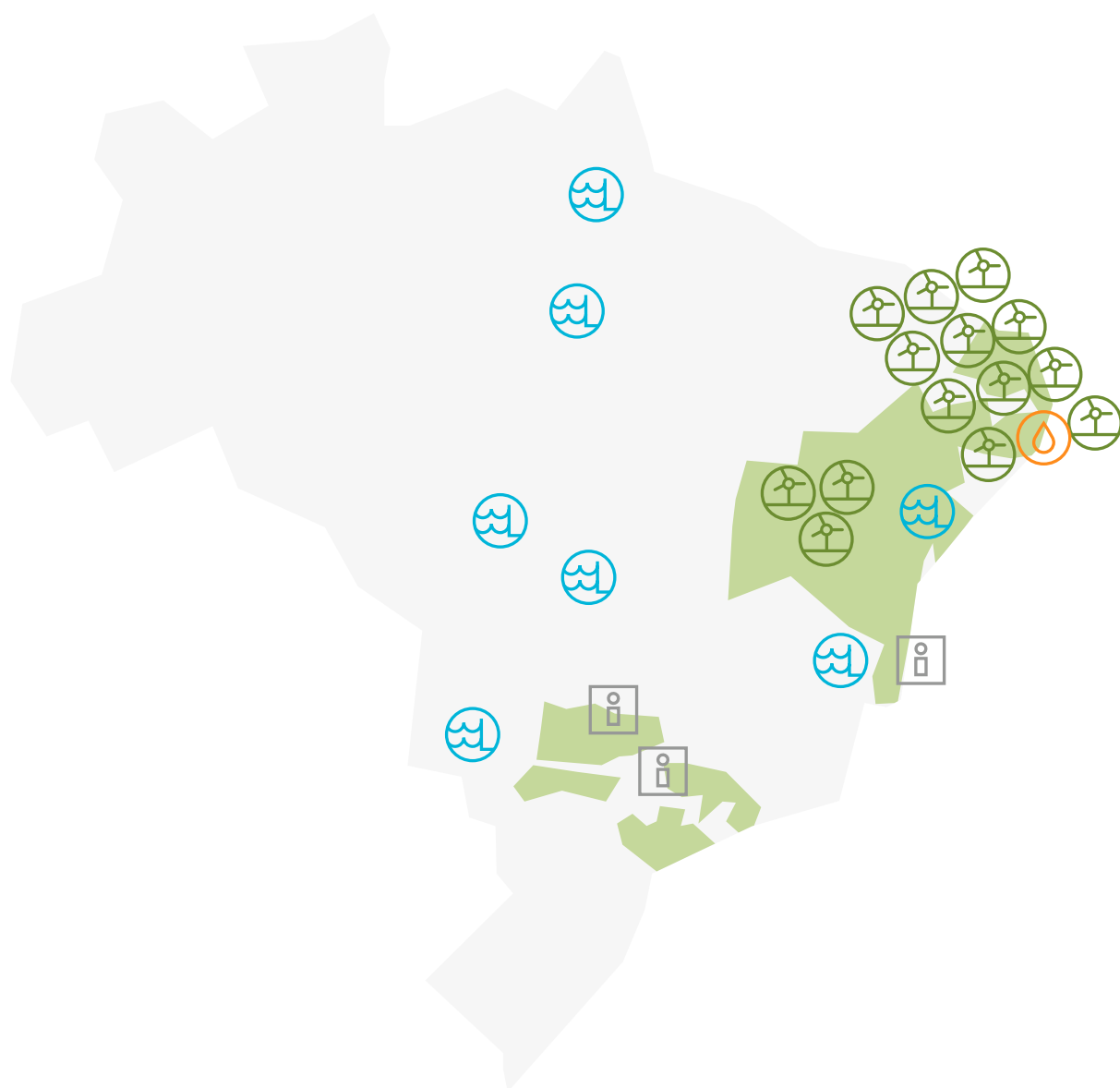
Employees

466

€M  
Investments

2,157

€M  
Direct tax contribution



## Primary facilities

7

**Hydroelectric plants**  
2,113 MW

17

**Wind farms**  
516 MW

1

**Combined cycle gas plant**  
533 MW



**Offices**

**Electricity  
distribution**

# Iberdrola in Mexico

Largest private electricity producer

Δ 2017 / 2016

GDP +2.3%

Electricity demand +5.5%

---

## Primary brands

---

Local subholding brand



Operating brands



---

## Main data 2017

---

6,250

MW  
Installed capacity

410

MW  
Renewable installed capacity

41,866

GWH  
Net output

944

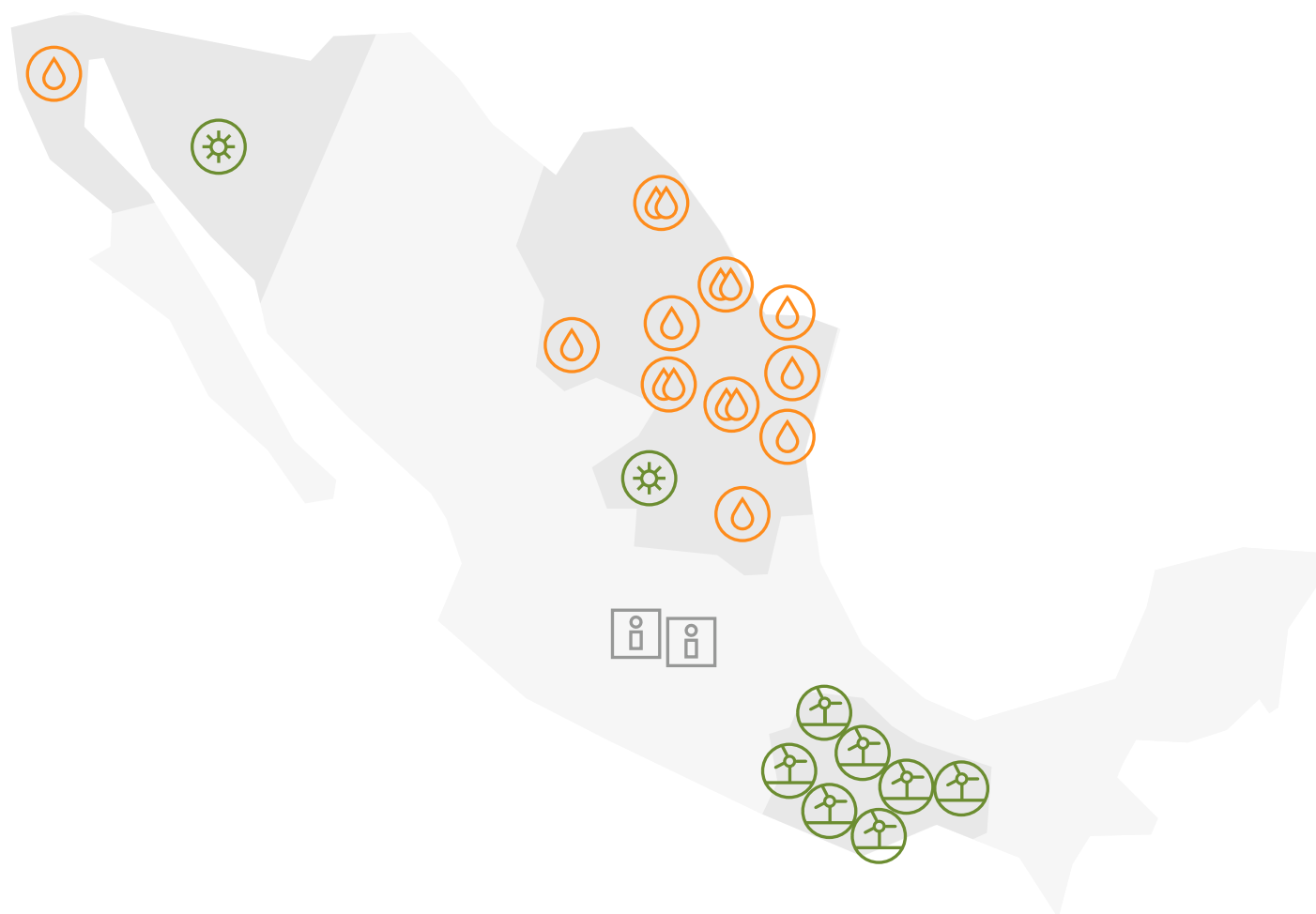
Employees

1,018

€M  
Investments

186

€M  
Direct tax contribution



## Primary facilities

7 

**Combined cycle gas plants**  
5,546 MW

4 

**Cogeneration plants**  
294 MW

7 

**Wind farms**  
367 MW

2 

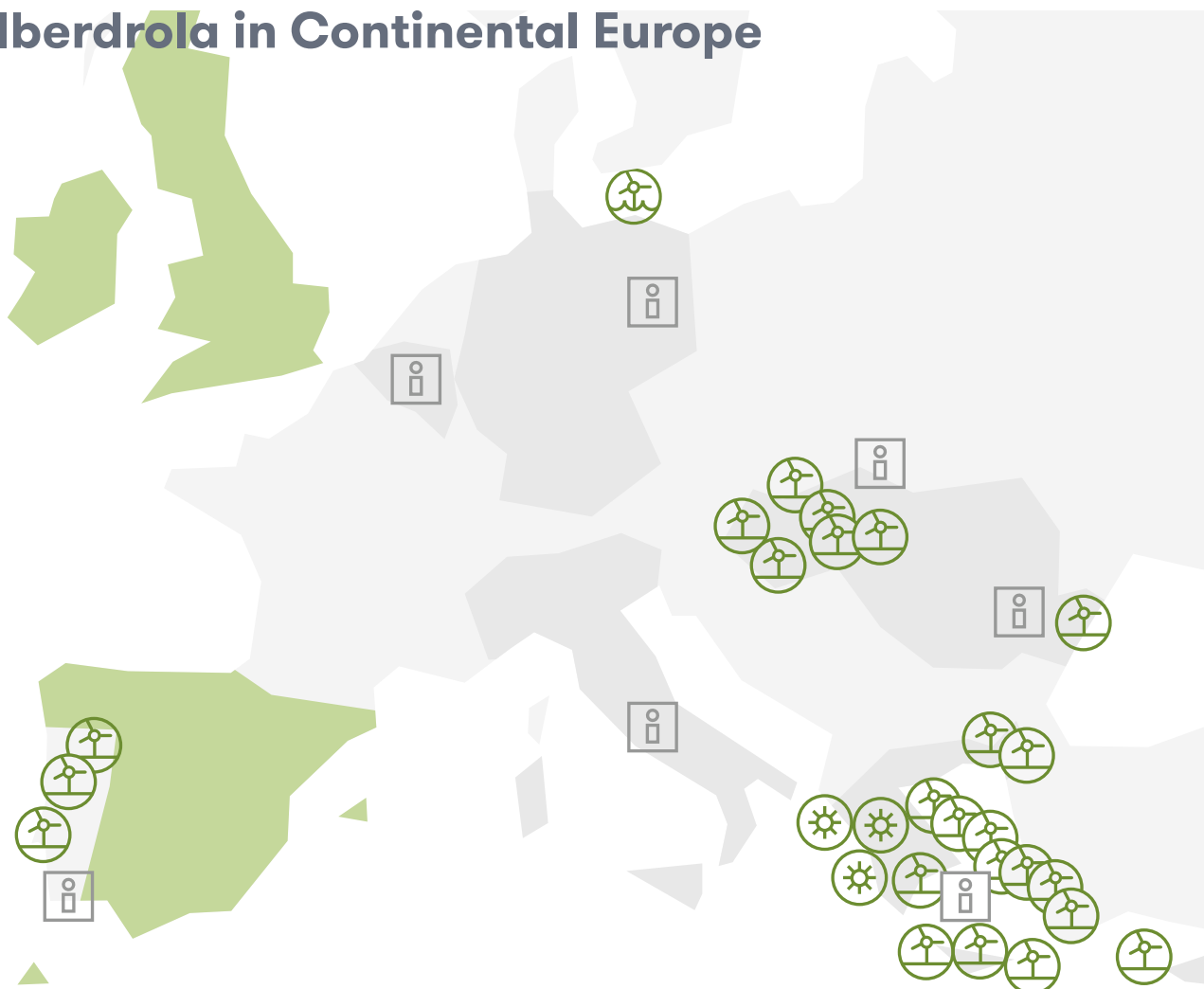
**Photovoltaic plants**  
43 MW



**Offices**

**Area  
of influence**

## Iberdrola in Continental Europe



### Primary facilities and Main data 2017

1

Offshore wind farm  
350 MW

27

Wind farms  
605 MW

4

Photovoltaic plants  
6 MW

961

MW  
Renewable installed capacity

1,382

GWh  
Net output



Offices

Area of influence

Main countries

291

Employees

283

M€  
Investments

115

M€  
Direct tax contribution



# Installed capacity and output by country and technology

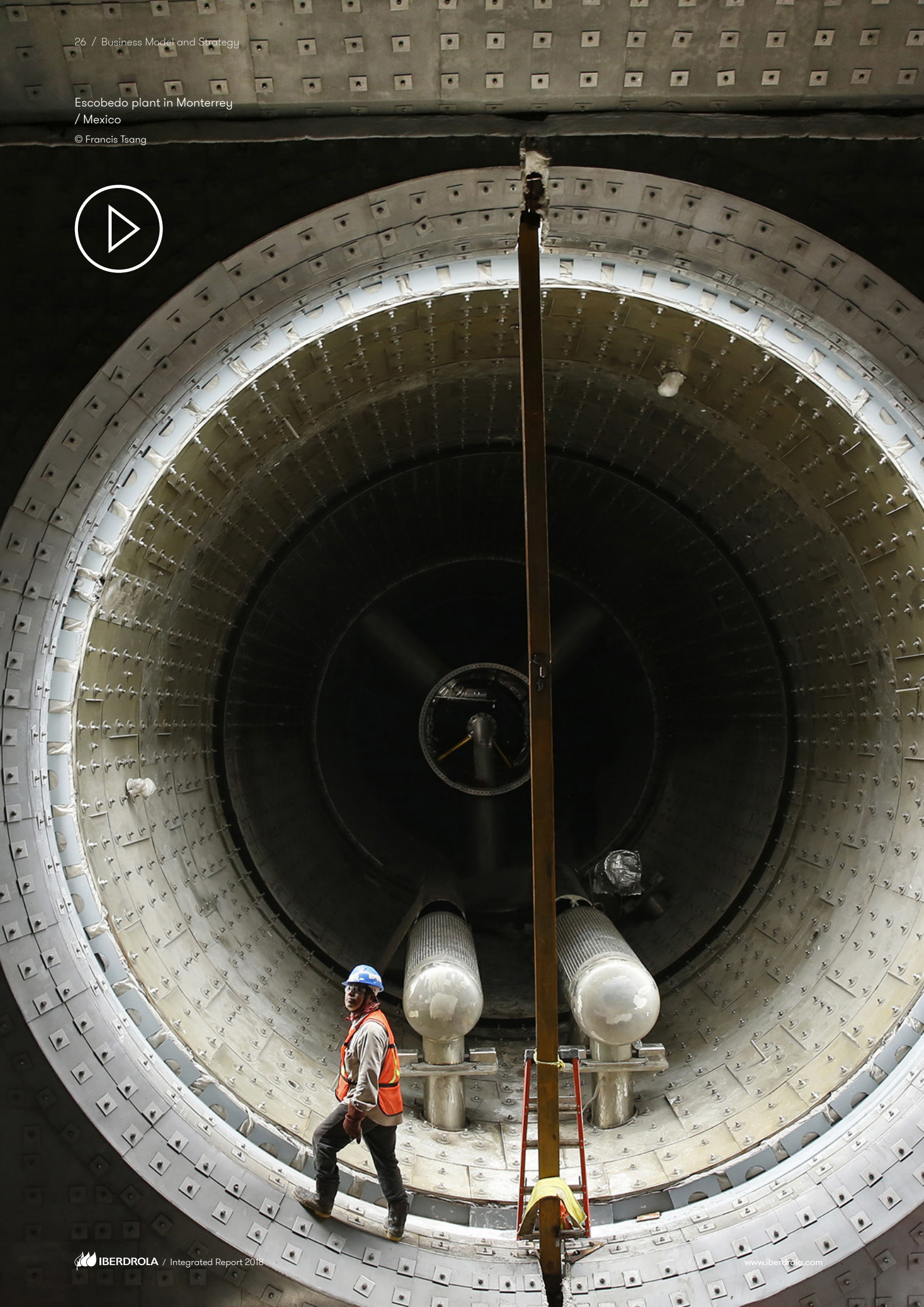
Installed capacity (MW)	Spain		United Kingdom		United States		Brazil		Mexico		Other countries		Total	
	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
<b>Renewables</b>	15,819	15,821	2,572	2,666	6,035	6,625	2,399	2,629	367	410	621	961	<b>27,813</b>	<b>29,112</b>
Onshore wind	5,752	5,752	1,812	1,906	5,853	6,387	421	516	367	367	615	605	<b>14,820</b>	<b>15,533</b>
Offshore wind	-	-	194	194	-	-	-	-	-	-	-	350	<b>194</b>	<b>544</b>
Hydroelectric	9,715	9,715	566	566	118	118	1,978	2,113	-	-	-	-	<b>12,378</b>	<b>12,513</b>
Mini-hydro	302	303	-	-	-	-	-	-	-	-	-	-	<b>302</b>	<b>303</b>
Solar and others	50	50	-	-	63	119	-	-	-	43	6	6	<b>120</b>	<b>219</b>
<b>Nuclear</b>	3,410	3,177	-	-	-	-	-	-	-	-	-	-	<b>3,410</b>	<b>3,177</b>
<b>Combined cycle</b>	5,695	5,695	2,000	2,000	209	212	533	533	5,200	5,546	-	-	<b>13,637</b>	<b>13,985</b>
<b>Cogeneration</b>	364	368	1	1	636	636	77	-	237	294	-	-	<b>1,315</b>	<b>1,299</b>
<b>Coal</b>	874	874	-	-	-	-	-	-	-	-	-	-	<b>874</b>	<b>874</b>
<b>Total</b>	<b>26,161</b>	<b>25,934</b>	<b>4,573</b>	<b>4,667</b>	<b>6,880</b>	<b>7,472</b>	<b>3,009</b>	<b>3,162</b>	<b>5,804</b>	<b>6,250</b>	<b>621</b>	<b>961</b>	<b>47,049</b>	<b>48,447</b>

Electricity production (GWh)	Spain		United Kingdom		United States		Brazil		Mexico		Other countries		Total	
	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
<b>Renewables</b>	30,319	19,587	3,688	4,880	15,320	15,738	4,559	8,195	1,119	963	1,437	1,382	<b>56,443</b>	<b>50,745</b>
Onshore wind	11,236	11,216	2,370	3,358	14,803	15,103	1,204	1,865	1,119	963	1,429	1,373	<b>32,162</b>	<b>33,878</b>
Offshore wind	-	-	728	820	-	-	-	-	-	-	-	0	<b>728</b>	<b>821</b>
Hydroelectric	18,325	7,903	590	701	327	385	3,355	6,330	-	-	-	-	<b>22,597</b>	<b>15,320</b>
Mini-hydro	686	394	-	-	-	-	-	-	-	-	-	-	<b>686</b>	<b>394</b>
Solar and others	71	74	-	-	190	250	-	-	-	0	9	9	<b>270</b>	<b>333</b>
<b>Nuclear</b>	24,381	23,249	-	-	-	-	-	-	-	-	-	-	<b>24,381</b>	<b>23,249</b>
<b>Combined cycle</b>	3,709	3,812	8,341	7,260	14	12	4,033	3,957	34,795	39,103	-	-	<b>50,892</b>	<b>54,144</b>
<b>Cogeneration</b>	2,290	2,607	-	0	2,557	2,354	446	91	1,654	1,800	-	-	<b>6,947</b>	<b>6,853</b>
<b>Coal</b>	2,084	2,642	1,719	-	-	-	-	-	-	-	-	-	<b>3,803</b>	<b>2,642</b>
<b>Total</b>	<b>62,783</b>	<b>51,897</b>	<b>13,748</b>	<b>12,139</b>	<b>17,891</b>	<b>18,104</b>	<b>9,038</b>	<b>12,243</b>	<b>37,569</b>	<b>41,866</b>	<b>1,437</b>	<b>1,382</b>	<b>142,466</b>	<b>137,632</b>



Escobedo plant in Monterrey  
/ Mexico

© Francis Tsang





# Business Model and Strategy



# 2.1 The Future of Energy

## The electricity sector

The electric system is undergoing a profound transformation. Technology and innovation are accelerating the transition towards a more efficient and environmentally-friendly industry. The trends that will mark the future are:

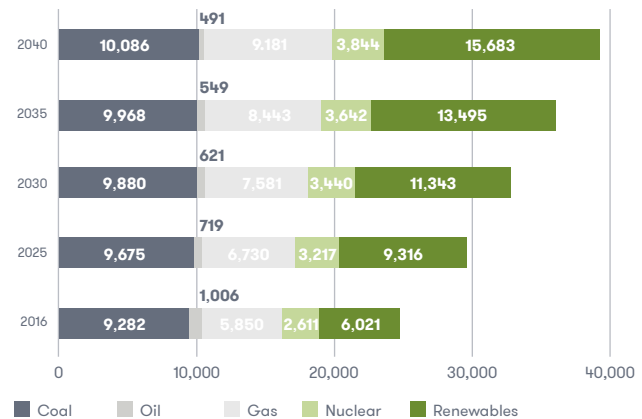
- **Decarbonisation and electrification:** 60% forecasted increase in worldwide demand through 2040<sup>(1)</sup>, driving an increase in networks and renewable technologies.
- **Increase in connectivity of customers:** Increase in installed smart meters (more than 300 million installed by 2020<sup>(2)</sup>) and electric vehicles (to 280 million<sup>(3)</sup>).
- **Technological progress, which drives a reduction in costs and creates new business opportunities.** The cost of renewable energy has significantly decreased in recent years<sup>(4)</sup>, which allows for the growth of this technology.

Sources: [1] World Energy Outlook 2017 – IEA; [2] Global EV Outlook 2017 (Technology scenario) – IEA; [3] Navigant analysis; [4] Normalised cost of energy – IRENA.

## Opportunities for continued growth

The energy sector presents strong opportunities for growth over the long term as a result of the process of electrification.

### Electricity production by type of source (TWh)

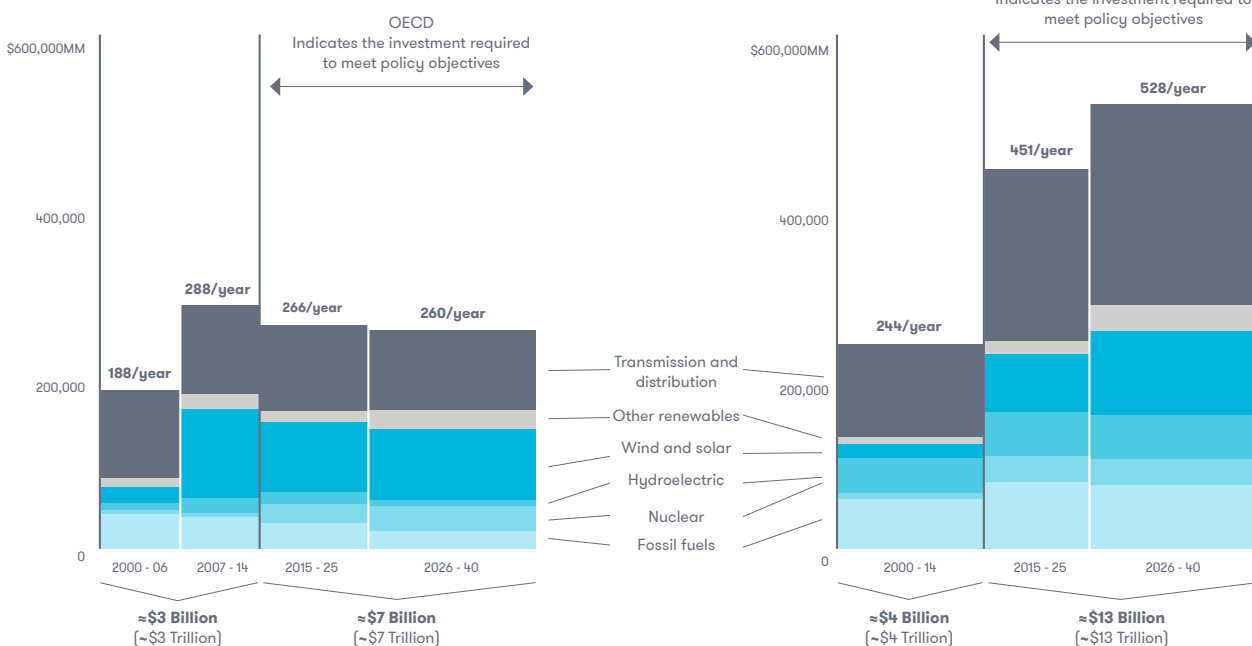


Source: World Energy Outlook 2017 - International Energy Agency (IEA).

“There is a need to electrify the economy through more renewables, more pumped storage capacity, more and smarter grids and more electric vehicles, in addition to the electricity industry having to invest some \$19 trillion over the next 25 years.”

Ignacio S. Galán, at the WORLD ECONOMIC FORUM 2018

## Investment in electricity infrastructure within and outside of the OECD



Source: The Future of Electricity Report, World Economic Forum 2016.

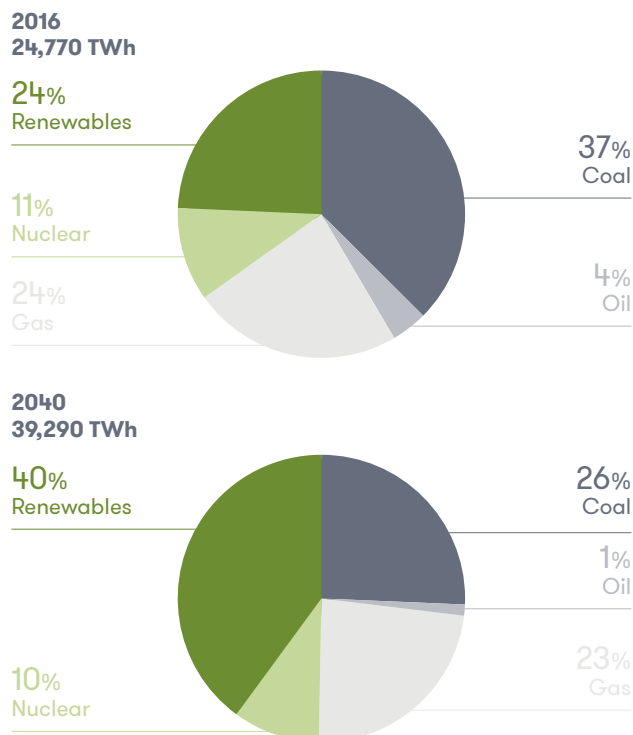
## Evolution of demand<sup>(1),(2)</sup>

The prospects set out in the *World Energy Outlook 2017* regarding the use of energy continue to indicate an increase in energy demand over the next three decades, with a clear displacement of thermal energy by renewable energy.

The *EU Roadmap* forecasts that electricity will at least double its share in final energy demand to 36-39% by 2050, which would contribute to a reduction in carbon emissions from heating systems and the transport sector.

Recent years have seen a reduction in the relationship between economic growth and increasing CO<sub>2</sub> emissions, thanks to the growing use of renewable energy sources.

## Growth in global electricity production (TWh)<sup>(1)</sup>



Sources: [1] *World Energy Outlook 2017* - IEA; [2] *Energy Roadmap 2050* of the European Parliament.

## Trends in production and use of electricity

### Sectoral<sup>(4), (5), (6)</sup>

- The European Union has a significant challenge in meeting its commitments on climate and energy established for 2020, 2030 and 2050.
- Global growth in the supply of electricity through 2040 will be covered mainly by wind power, gas and photovoltaic energy. The proportion of fossil fuels in electricity generation will descend towards 2040, while renewables will increase to 40%.
- To the extent that generation with renewable energy sources gains weight, electrification generates more environmental benefits by avoiding the energetic consumption from fossil sources (e.g. in transport and heating). In many cases, electrification increases energy efficiency.

### Technological<sup>(4), (5), (7)</sup>

- The growing penetration of electric vehicles will increase the consumption of electricity and will offer a tremendous opportunity to optimise the use of the network.
- The increasing penetration of smart metering infrastructure will allow for improvement in the quality of service, the ability to manage the low-voltage grid and the collection of information.
- Urban/technological lifestyles require more electricity. The growing middle class, the increase in income, and the larger amount of electric appliances will contribute to a doubling of electricity demand through 2060.
- Electricity storage, as a still-embryonic technological possibility, can open up new vistas for the operation and management of power systems.

### Consumption<sup>(4), (6)</sup>

- It is expected that the global population will grow by 2,000 million people by 2040, driving world energy needs. Therefore, electricity generation will increase by 2040 due to an increase in demand in the industrial and domestic sectors.
- In the coming years, it will be necessary to reduce emissions by almost half in order to halt climate change, with the difficulty that if consumption stays on its current pace, it will have increased by approximately 45%.
- The development of new uses and applications for electricity may result in new markets and opportunities.

Sources: [4] *World Energy Outlook 2017* - IEA; [5] *Energy today in Spain, 15 key issues for the next legislature* - Club Español de la Energía; [6] *World Energy Outlook 2014* - IEA; [7] *World Energy Scenarios 2016* - World Energy Council.

## 2.2 Business Model

The purpose of the business model defined by the Iberdrola group is the “supply of reliable, high-quality and environmentally-friendly energy”, through a sustainable, long-term industrial enterprise.

The model is built on three pillars, which constitute the **distinguishing factors** that make Iberdrola a different company: A **framework of trust** based on an advanced governance model; the **Mission, Vision and Values** as the Iberdrola group’s culture defined by the Board of Directors; and a **strategy** focused on the achievement of the group’s goals.

The model’s competitiveness is achieved through **responsible management of the tangible and intangible assets** of the company. To apply this model, Iberdrola has structured its management into three global businesses: The Networks Business, the Wholesale and Retail Business and the Renewables Business, with a Corporation as the group’s central management unit.



### Framework of trust

To ensure the sustainability of its business model, Iberdrola has implemented:

- A Corporate Governance System consistent with best international practices.
- Corporate ethics, internalised by the management units and the organisation as a whole.
- Social responsibility policies, which respond to the expectations of Stakeholders.
- An advanced risk control system, to maintain an optimal “risk/opportunity” balance, taking advantage of opportunities and mitigating risks.

© Corporate Governance Model  
/ page 80

### Mission, Vision and Values

“We want to be a global energy leader and create a better future for people, known for our commitment to ethical principles, safety, quality and the environment...”

This Vision is based on twelve Values:

- Sustainable creation of value
- Ethical principles
- Good corporate governance and transparency
- Development of our workforce
- Social commitment
- Sense of belonging
- Safety and reliability
- Quality
- Innovation
- Respect for the environment
- Customer focus
- Institutional loyalty

© Ethics and Social Responsibility  
/ page 92



## Iberdrola cultivates a responsible and sustainable business model, serving society and people

A responsible business model...	Fights against climate change	<ul style="list-style-type: none"> <li>• World leader in wind capacity, with 16,077 MW installed.</li> <li>• 66.7% of all installed capacity does not produce CO<sub>2</sub> emissions, with the intensity of emissions being 32% lower than the European average in 2017.</li> <li>• Pioneers in adopting the recommendations of the <i>Task Force for Climate Change Risks Financial Disclosure (TCFD)</i>.</li> </ul>
	Rapidly adopts new technologies and commits to innovation	<ul style="list-style-type: none"> <li>• Drives the development of <b>smart grids</b>. Has deployed more than 11 million smart meters throughout the world.</li> <li>• Invests in efficient storage using pumped storage hydroelectric plants (4,400 MW currently installed with this technology).</li> <li>• <b>Big data</b> projects to provide the best solutions to its customers.</li> </ul>
...with positive impacts on all of its Stakeholders...	Economic	<ul style="list-style-type: none"> <li>• Annually generates approximately <b>€31,000 million in Gross Domestic Product (GDP)</b> in the countries in which it operates<sup>(1)</sup>.</li> <li>• It contributes more than <b>€6,600 million in investments annually</b> to the capital formation of the world economy<sup>(1)</sup>.</li> </ul>
	Environmental	<ul style="list-style-type: none"> <li>• Invests more than <b>€2,900 million in renewable generation (2014-16)</b>, meaning:               <ul style="list-style-type: none"> <li>– Avoids the emission of more than <b>63 million tonnes of CO<sub>2</sub> over three years</b>.</li> <li>– Reduces its specific emissions to <b>187 gr / kWh in 2017</b>. The company's commitment is to <b>reach 150 gr / kWh by 2030</b>.</li> </ul> </li> </ul>
	Social	<ul style="list-style-type: none"> <li>• Creates close to <b>400,000 jobs worldwide</b> (direct, indirect and induced employment)<sup>(1)</sup>.</li> <li>• Invests <b>€63 million in projects contributing to the community</b><sup>(2)</sup>.</li> <li>• Makes <b>almost €8,700 million in purchase</b> from its suppliers throughout the world.</li> <li>• Contributes more than <b>€7,100 million in taxes</b> in the countries in which it does business.</li> </ul>
...leading to the creation of sustainable economic value.	<b>Balanced growth:</b> €32,000 million between 2018 and 2022, focused on business and countries with stable and predictable regulatory frameworks; 90% of which will be dedicated to regulated activities or long-term contracts.	
	The company's <b>sustainable growth in results</b> , reaching a Net Profit of between €3,500 and €3,700 million by 2022 (using current exchange rate estimates).	
	<b>Financial strength:</b> Financial strength: Funds from operations (FFO) will grow 34% during the period, to €42,000 million. It is estimated that the FFO/Net Debt ratio will reach 24% by 2022.	
	<b>Sustainable dividend:</b> Shareholder remuneration will grow in line with the increase in results, maintaining a pay-out ratio between 65% and 75%.	

<sup>(1)</sup> Data from a Study of Iberdrola's Impact, prepared by PwC, based on 2016 figures.

<sup>(2)</sup> According to the London Benchmarking Group (LBG) international standard.

## Iberdrola contributes to achieving the Sustainable Development Goals (SDGs)...

Iberdrola has committed to the Sustainable Development Goals defined by the United Nations for the 2015-2030 period. They are 17 global goals intended to transform our world, ending poverty, fighting against inequality and injustice, and confronting climate change.

Iberdrola has linked the SDGs to its business strategy. The company has thus prioritised the SDGs taking into account its business model, defining 3 levels of contribution:



Iberdrola has set ambitious challenges relating to the Goals selected as its principal focus:

- **Goal 13 Climate action:** 50% reduction in the intensity of CO<sub>2</sub> emissions by 2030 compared to those in 2007; reaching carbon neutrality by 2050.

By year-end 2017, 66.7% of its installed capacity was emission-free.

- **Goal 7 Affordable and clean energy:** Bring electricity to 4 million people who today lack access to this energy source by 2020.

By year-end 2017, we had reached 3.9 million people who benefited from access to electricity through projects carried out in various countries of Latin America and Africa.

### ... And supports the recommendations of the TCFD

Iberdrola supports the recommendations of the *Task Force on Climate-related Financial Disclosures* (TCFD) to disclose financial information relating to climate change. The company believes that this initiative will facilitate Stakeholders' evaluation of the risks and opportunities arising from climate change. For these reasons, Iberdrola supported the initiative in April, and in September 2017 joined a group of ten companies that were the first to assume the commitment to implement the recommendations of the TCFD within a period of three years. Some aspects relating to the key elements defined in the recommendations are summarised below.

#### Governance

Iberdrola's Board of Directors considers climate change to be a significant element for the company. Since 2010, the Corporate Social Responsibility Committee of the Board is in charge of reviewing aspects relating to climate change, among other things, and makes regular reports.

The inclusion in the company's bylaws of the concept of "Social Dividend" and the consideration thereof as an essential value for establishing the group's strategy means, among other things, the legacy of a clean and sustainable planet for future generations. There is also a link between the long-term incentive plan and the achievement of goals that support SDGs 7 and 13.

#### Strategy

Climate change has been a key element for defining the company's strategy. Iberdrola treats climate change not only as a risk factor, but also as a source of organic growth during the transition towards a low-carbon economy. Iberdrola is currently the world leader in wind power, and 66.7% of its installed capacity is emission-free.

In the coming months, it will work on the disclosure of climate scenarios and a new Adjustment Plan to validate long-term needs through an integrated process directed towards reducing future vulnerability to climate change. The group's strategy also includes communicating and raising awareness regarding climate change.

#### Risk management

The company recognizes the seriousness of the threat that global warming entails, which must be faced in a collective and coordinated manner by governments, multilateral agencies, the private sector and society as a whole. Climate change could entail various risks in the medium term, both transitional and physical (according to the types defined by the TCFD). Chapter 5.3 offers additional information about the group's risk management.

#### Metrics and objectives

Iberdrola's Sustainability and Integrated Reports include significant indicators to report on climate-related aspects, including the amount of emissions, the intensity of emissions, the use of energy, energy intensity, energy combination, use of water, source of water, cover and use of land, R&D&I and Capex in the development of products, services and/or technology with low carbon emissions.

## 2.3 Iberdrola, a Different Company

⊙ Iberdrola's Primary Businesses  
/ page 45

Focus on basic  
and regulated  
businesses

Approximately 85% of EBITDA comes from regulated businesses or long-term contracts.

Operational  
efficiency

An energy model based on clean energy, networks and digitisation has allowed our company to be 40% more efficient than the main competitors<sup>(1)</sup>.

⊙ Presence by Areas of Activity  
/ page 14

International  
diversification

Results are generated in a diversified manner (EBITDA by country):  
40% in Spain.  
19% in the United Kingdom.  
25% in the United States.  
8% in Brazil.  
8% in Mexico.

Financial strength  
and solidity  
of the group

- Strengthening of the balance sheet due to growth in EBITDA and FFO, which 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.

⊙ Financial Capital  
/ page 64

⊙ Natural Capital  
/ page 72

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.

Global, committed  
and qualified  
workforce

- Stable and high-quality jobs, with high level of training.
- Health and safety as values: "accident reduction" goal.
- 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).

⊙ Human Capital  
/ page 70

(1) Operating expenses by customer, based on external reports.

## 2.4 Management of Tangible and Intangible Assets

	Financial Capital / page 64	Manufactured Capital / page 66	Intellectual Capital / page 68
	Financial capital	Manufactured capital	Intellectual capital
What is it?	Financial resources that the company already has or obtains through financing.	Tangible assets or goods used by the company to carry out its business activities.	Intangible, knowledge-based assets.
Management approach	Create value for shareholders through sustainable growth.	Offer a competitive supply of energy in a safe and reliable environment.	Consider innovation as a strategic element of the company.
Significant aspects	<ul style="list-style-type: none"> <li>• Balanced and diversified growth.</li> <li>• Sound financial structure.</li> <li>• Operational excellence.</li> <li>• Sustainable results and dividends.</li> </ul>	<ul style="list-style-type: none"> <li>• Power generation assets.</li> <li>• Power transmission and distribution assets.</li> <li>• Other assets.</li> </ul>	<ul style="list-style-type: none"> <li>• Promotion of R&amp;D&amp;i.</li> <li>• Digitisation for efficiency and development of new products and services.</li> <li>• Disruptive technology and business models.</li> </ul>

The Iberdrola group holds valuable assets for the development of its business model. The strategy defined by the company transforms these assets to create value for all its Stakeholders.

<p>☉ Human Capital / page 70</p>	<p>☉ Natural Capital / page 72</p>	<p>☉ Social and Relational Capital / page 74</p>
Human capital	Natural capital	Social and relationship capital
Employee knowledge, skills, experience and motivation.	Natural resources affected by the company's activities.	Ability to share, relate and collaborate with its Stakeholders, promoting community development and well-being.
<p>Guarantee the availability of a committed and qualified workforce.</p> <p>Offer an inclusive and balanced work environment.</p>	<p>Ensure a sustainable use of natural resources and contribute to combating climate change.</p>	<p>Promote relations of trust with Stakeholders, improving the quality of life of people in areas where the group has a presence.</p>
<ul style="list-style-type: none"> <li>• Global human resources management.</li> <li>• Goal of "accident reduction".</li> <li>• Talent management.</li> <li>• Diversity, equal opportunity and reconciliation.</li> </ul>	<ul style="list-style-type: none"> <li>• Environmental management.</li> <li>• Preservation of biodiversity.</li> <li>• Prevention of pollution.</li> <li>• Operating excellence and energy efficiency.</li> <li>• Waste management.</li> </ul>	<ul style="list-style-type: none"> <li>• Stakeholder Relations Model.</li> <li>• Community support and electricity access programmes.</li> <li>• Foundations of the Iberdrola group.</li> <li>• Brand management.</li> <li>• Transparency and good governance.</li> <li>• Corporate reputation.</li> </ul>

## 2.5 Value Chain

### Power generation

Electricity production through the construction, operation and maintenance of generating plants, and purchase/sale of energy on wholesale markets.

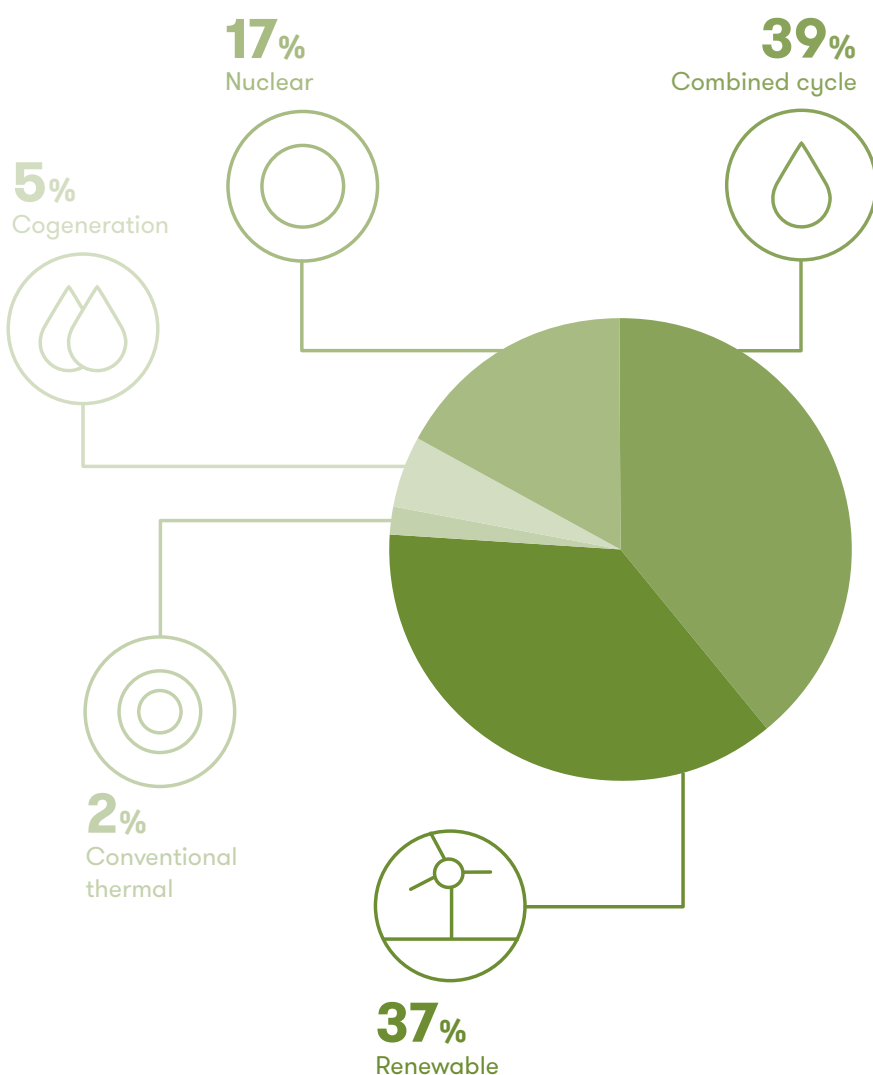


### Power transmission and distribution

Construction, operation and maintenance of electrical lines, substations, transformer centres and other infrastructure, to transfer electrical power from production centres to the end user.

### Generating plants\*

\* % of 2017 net output



### Electric grids\*

\* At 31 December 2017

#### Overhead lines



**4,000**

High and medium voltage transformer substations



**48,088 km**  
of transmission lines



**911,474 km**  
of distribution lines



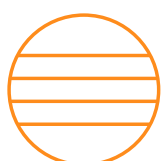
## Retail sale of energy

Supply to end users of  
energy and additional  
products and services.

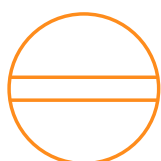
Underground  
lines



**1.5 million**  
Medium to low voltage  
distribution transformers



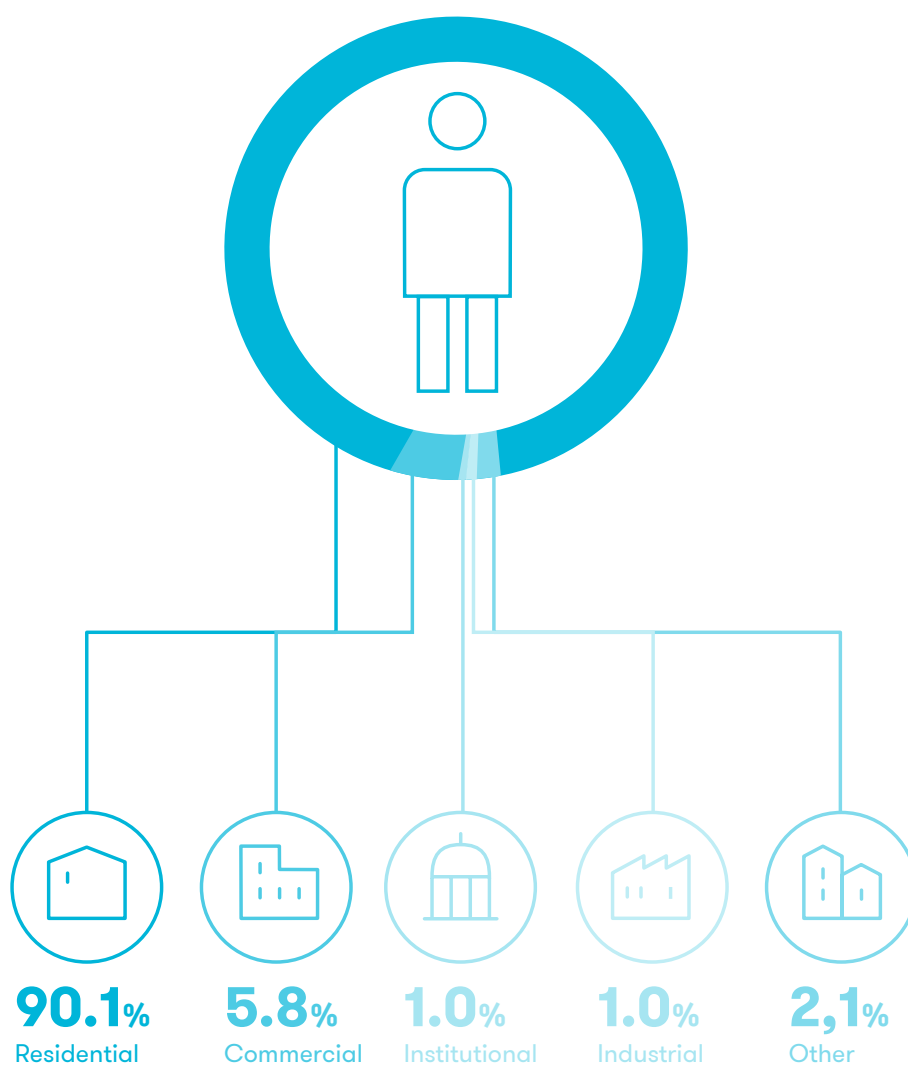
**1,999 km**  
of transmission lines



**195,050 km**  
of distribution lines

## Users\*

\* % by sector at 31 December 2017



## 2.6 Strategic Foundations

### for 2018-2022

#### Market conditions

Compared to prior forecasts, the current scenario for the energy markets during the 2018-2022 period calls for slightly higher electricity prices in Spain and the United Kingdom during the first two years of the period, explained by an increase in fuel prices. Over the longer term, the forecasts are for continued stability in prices.

The energy policies of the countries in which the Group does business continue to encourage investment in generation technologies based on renewable sources as well as the expansion, modernisation and digitisation of networks for the integration of elements of distributed generation and new renewable generation capacity.

Within this context, the diversification of businesses and countries will allow the company to develop its strategy of growth and value creation.

#### Challenges and opportunities

##### Challenges

- Decarbonisation in the energy sector. Demand for cleaner and more sustainable energy.
- Management of a scenario of constant prices for energy in the medium term.
- Attainment of higher efficiency levels in all businesses, applying innovation and digitisation in operations.
- Regulatory management in all businesses, with special emphasis on transmission and distribution businesses, and in the development of the single market in Europe.
- Implementation of an investment plan focused on growth in the businesses of regulated networks, renewables and long-term contracted generation.

##### Opportunities

- Balanced business model focused on regulated activities and renewable generation.
- Significant experience in the development and construction of network and emission-free generation projects.
- International diversification with a presence in countries with stable and predictable regulatory frameworks that require investment in the electricity and gas sectors.
- High quality of assets.
- Proven management capacity, culture of efficiency and results.
- Culture of innovation to implement digitisation in relation to customers and the development of new products and services.

#### Growth vectors 2018-2022

##### Investments

- United States: The company, through Avangrid, will continue with new onshore wind developments, taking advantage of the extension of tax credits to 2020, and is developing a significant portfolio of offshore wind projects. It is also facing growth in the area of distribution networks as well as in transmission.
- Mexico: It will consolidate its position as the largest private power generator in Mexico, through new plants under long-term contract with the Federal Electricity Commission (*Comisión Federal de Electricidad*) (CFE), and also taking advantage of the opportunities arising from the liberalisation of the sector.

- United Kingdom: Iberdrola continues with its growth phase in the power transmission and distribution businesses and with the start-up of onshore and offshore renewable energy projects. Offshore wind will gain significance beginning in 2019.
- Brazil: Strengthened growth in renewables, maintaining its position as largest electricity distributor by number of customers.
- Spain: Maintenance and improvement of facilities. Growth in smart grids.

##### Operational efficiency

- In all areas of activity, with a plan to save €1,300 million over the period.



## Strategic pillars

Iberdrola's proposed creation of value for the 2018-2022 period is supported by five strategic pillars: investment in projects with long-term profitable growth, operational excellence, a customer-focused business model, optimisation of capital invested, and finally, innovation and digitisation to optimise costs and create new opportunities within all of the businesses.

### 1. Balanced growth

The company will undertake a number of initiatives to develop this strategy, as described below:

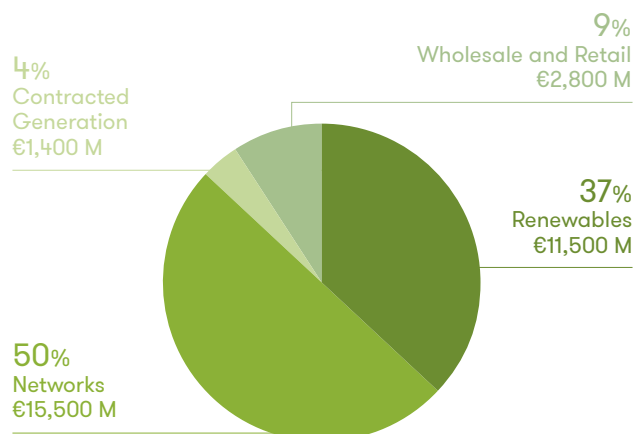
- Decarbonisation policies and technological change play an important role, as they will encourage significant investments in renewable generation and networks, supporting the growth of these businesses and contributing to improvements in efficiency.
- Within this context, net investment will reach €32,000 million, an increase of €2,000 million compared to the prior plan, excluding Neoenergia. Investments in Brazil reach a total of €5,000 million, which will be one of the engines for growth.
- The investments are focused on business and countries with stable and predictable regulatory frameworks; 90% of which will be dedicated to regulated activities or long-term contracts.
- Of the €32,000 million in planned investments, 75% are for projects secured as of today's date or that are highly likely to be executed.
- Electric power transmission and distribution networks will absorb 50% of net investments, €15,500 million. Of the overall amount, 37% and 4%, respectively, will be dedicated to renewable energy and long-term contracted generation. 9% of the total will be invested in the Wholesale and Retail business.
- Geographically, Iberdrola will concentrate the bulk of its growth in the international area. By currency, 38% will be invested in dollars, 19% in pounds Sterling, 25% in the Euro zone and 18% in Brazilian reais.

Investments continue to be concentrated on regulated activities and long-term contracts, which represent 90% of the total investment. By business, Networks will absorb 50%, €15,500 million.

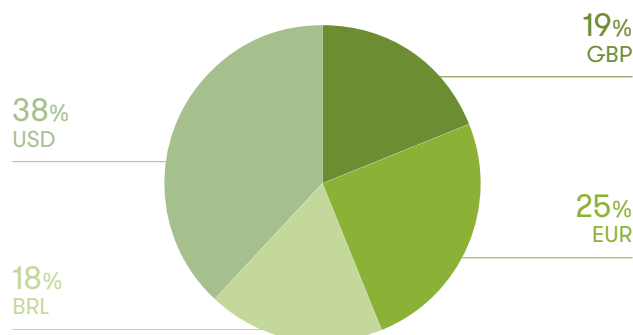
© Financial Capital  
/ page 64

### Investment by business and currency 2018-2022

#### Investments of the Businesses<sup>(1)</sup>



#### Investment by Currency



(1) Excluding Investments of the Corporation.

(2) Including hydroelectric.

## 2. Financial strength

Net Profit reached 2,804 million euros in 2017, with growth of 3.7% thanks to the group's business model, in a year that was strongly affected by poor hydraulic conditions and the situation in the United Kingdom wholesale and retail markets.

The positive impact of the United States tax reform, together with the gain from the Gamesa-Siemens merger, were mainly allocated to provisions and to adjust the value of certain assets. This will allow us to improve the group's future results.

Consolidated EBITDA decreased by 7.8% to €7,318.7 million, with a good showing by the Networks business thanks to the United States and Brazil (positively affected by the inclusion of Neoenergia) and contracted generation in Mexico, which was overcome by the impacts explained above.

This reported EBITDA includes €203 million of provisions for the efficiency plan 2018; adjusted EBITDA is thus €7,522 million.

During the 2018-2022 plan, the company will continue to grow and increase in profitability, reaching EBITDA of between €11,500 million and €12,000 million by 2022, and net profit of between €3,500 million and €3,700 million based on currently estimated exchange rates.

80% of EBITDA will come from regulated activities or long-term contracts, 35% in euros, 29% in dollars, 20% in pounds and 16% in Brazilian reais.

The profile of the company's businesses, together with a balanced investment plan, will allow for sustained growth in EBITDA and Net Profit.

- Funds from operations (FFO) will grow 34% compared to the prior Plan, to €42,000 million for the 2018-2022 period, amply exceeding the investments of all of the businesses, which will reach a total of €32,000 million.
- Maintenance of the current financial model to provide subsidiaries with an optimal capital structure giving appropriate financial signals and which is consistent with an investment grade rating, while respecting current guidelines for structural subordination.
- Optimisation of liquidity position (around €8,000 - €10,000 million, with a margin to increase it if necessary) to current market conditions in order to improve financial costs, maintaining 18 months of coverage even during stress scenarios. Neoenergia has its own liquidity policy covering 12 months of financial requirements.

- Strengthening of solvency ratios, affected in 2017 by the lower hydroelectric activity, the consolidation of Neoenergia and the growing investments, thanks to the increase in EBITDA and FFO. Based on the foregoing, it is estimated that the FFO/Net Debt ratio will reach 24% by 2022.

...resulting in the company proposing a sustainable shareholder remuneration policy linked to the growth in results.

## 3. Sustainable dividend

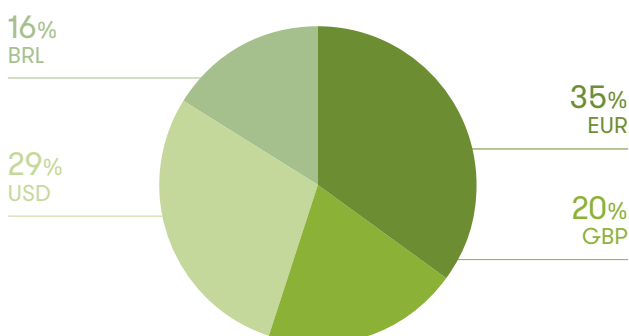
- Thanks to the strength of the results obtained, the company has announced a proposal to immediately increase the annual dividend to 0.323 euro per share with a charge to financial year 2017.
- Shareholder remuneration will continue to grow in line with results, maintaining a pay-out ratio between 65% and 75%, which would mean reaching a dividend per share of approximately 0.40 euro per share by 2022.

EBITDA by business (forecast to 2022)



(1) Including hydroelectric.

EBITDA by currency (forecast to 2022)



## 2.7. Capital/Business

### Relationship

The value created by the business strategy and model of Iberdrola translates into an increase in the value of its capital, which in turn feeds back into a cycle of value creation, thus efficiently inter-relating the operations of the businesses and the capital of the company. The chart below shows its strategic focus for each Chapter and quantifies an

aspiration or achievement of the company in this area.

This process creates shared value for both Iberdrola and for its Stakeholders, and constitutes a main vector for achieving the company's goal to offer a reliable, high-quality and environmentally-friendly energy supply.



<sup>(1)</sup> Data from a Study of Iberdrola's Impact, prepared by PwC, based on 2016 figures. Includes indirect and induced impacts.

## 2.8 Comparative Results

### and Awards

#### Comparative analysis\*

##### Comparative economic /financial variables 2017

###### Growth in EBITDA

CAGR (%)	Average comparables	Iberdrola
31-Dec.-07 / 31-Dec.-17	-1.0%**	2.8%

###### Growth in stock market capitalisation

Total growth (%)	Average comparables	Iberdrola
31-Dec.-07 / 31-Dec.-17	-49.6%	-21.4%

10 years ago, Iberdrola held fifth place among comparable companies in terms of capitalisation. It is now in second place.

###### Share price

Total growth (%)	Average comparables	Eurostoxx Utilities	Iberdrola
31-Dec.-07 / 31-Dec.-17	-70.4%	-55.5%	-37.9%

\* Comparable companies analysed: Engie, EDF, E.ON, Enel, RWE. ACGR: Annual Compound Growth Rate, i.e. weighted average annual growth.

\*\* For Engie, Enel, E.ON and RWE, the 2017 EBITDA figures are the estimates published by Bloomberg, due to the lack of final closing figures on the date of preparation of this document. In addition, for Engie, the 2007 figure is for GDF (prior to the merger of GDF and Suez SA).

##### Comparative performance of total shareholder return

Return (%)	Average comparables	Eurostoxx Utilities	Iberdrola
31-Dec.-07 / 31-Dec.-17	-44.5%	-28.47%	-8.68%

#### Iberdrola's performance

Over the last 10 years, Iberdrola increased its assets by 60%, increased its revenues 70%, increased its EBITDA by 40%, and increased its net profit by 20% and shareholder remuneration by 20%, while maintaining its financial strength.

Iberdrola	31-Dec.-07	31-Dec.-17	Multiple
Assets (€M)	67,532	110,689	1.6×
Revenues (€M)	17,468	31,263	1.8×
EBITDA (€M)	5,538	7,319	1.4×
Net Profit (€M)	2,354	2,804	1.2×
Dividends <sup>(1)</sup> (€/share)	0.26	0.312	1.2×
Net Debt/EBITDA	3.9	4.5	1.2×

(1) Not including the bonus for attending the General Shareholders' Meeting



Ignacio S. Galán  
Address by Iberdrola's  
chairman & CEO at Davos  
© Laurent Gillieron

## External awards

### For the company:

- Best Corporate Governance in Spain (World Finance): 2017, 2015, 2014 and 2012.
- Best Business Models in Europe (Morgan Stanley): 2017.
- World's Most Ethical Company Index (Ethisphere Institute): 2018, 2017, 2016, 2015 and 2014.
- Business Transparency 2017 Award, from the Spanish Accounting and Business Administration Association (Asociación Española de Contabilidad y Administración de Empresas, or AECA).
- Leading Ibex 35 company in the tax transparency ranking 2017, from *Fundación Compromiso y Transparencia*.

© Other Awards  
/ page 93

### For the chairman & CEO:

- Business Leadership Award (Vocento): 2017.
- Best European Utility CEO (Institutional Investor Research): 2017, 2016, 2015, 2014, 2013 and 2011.
- Commander of the Most Excellent Order of the British Empire: 2014.
- Honorary Doctorate from the Universities of Salamanca (2011), Strathclyde (2013) and Edinburgh (2011).

### For other members of the company:

- Best European Utility CFO (Institutional Investor Research): 2017, 2016, 2015, 2014, 2013, 2012 and 2011.
- Best European Utility Investor Relations (Institutional Investor Research): 2017, 2016, 2015, 2014, 2013, 2012 and 2011.



El Cabo Wind Farm  
/ United States

© Francis Tsang





# Iberdrola's Primary Businesses

**Regulation is a key factor in the performance of Iberdrola's activities.**

**Energy policies must set clear and predictable goals in order to incentivise the investment needed to guarantee a safe, competitive and sustainable supply, developing to the maximum its potential as a source of growth and employment.**

## 3.1 Regulatory Environment

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### European Union

- The European Commission published the *Clean Energy for all Europeans* package in November 2016. Among the more far-reaching measures are those concerning the market design reform, the safety of supply framework and the development of the role of a more active consumer. Proposals have also been submitted to modify the frameworks for renewables and for energy efficiency, in line with the 2030 goals. The process will end during 2018.
- The European Commission, Parliament and Council approved a reform of the Emissions Trading Scheme Directive in 2017. The main developments are a larger cut in new emission rights each year and the creation of a mechanism to stabilise the price of carbon (absorbing surpluses of emission rights in the market).
- In November 2017 the European Commission published its *Clean Mobility Package*, which develops measures to reduce emissions from the transport sector during the 2020-2030 period and adapt European industry to compliance with the Paris Agreement without losing global market share. This process will begin in 2018. It proposes a more stringent emissions standard and encourages the purchase of clean vehicles by public bodies.
- The technical standard to implement the COP21 agreements was developed in 2017. These agreements involve a multilateral commitment to implement emission reduction measures. It should encourage investment in low-carbon technologies.

### Spain

- After a strong tariff deficit during the 2005-2013 period and a slight surplus between 2014 and 2016, the system has reached financial balance. A Ministry Order freezing electricity usage charges for 2018 was published in December 2017.

- In 2017 the Government began preparation of a future *Climate Change and Energy Transition Act*, with a public participation process and the creation of a Commission of 14 experts to advise on potential energy scenarios. There has also been an announcement of a review of the generation capacity payment mechanisms during 2018, and work has begun on a draft Royal Decree that would regulate the shutdown of plants.

### United Kingdom

- On March 29, 2017 the Prime Minister Theresa May officially announced the exit of the United Kingdom from the European Union. Future trade agreements have still not yet been determined, but significant changes are expected in the energy regulatory environment in the short term.
- In November 2017 the government published its *Industrial Strategy*, which is largely based on the vision of a decarbonised economy, wagering on the promotion of electric vehicles, the development of smart systems and a reduction in the costs of energy.
- 2017 saw reforms in the capacity market to ensure a fair auction for all participants. These reforms include:
  1. The decision of Ofgem to reduce hidden subsidies for small diesel generators due to transport charges.
  2. The decision of the Department for Business, Energy and Industrial Strategy (BEIS) to modify the methodology for allocating the costs of the capacity market.
  3. The decision of the BEIS to modify the correction of available capacity in the capacity market for batteries, thereby reflecting their actual contribution to the system.



## United States and Canada

- On August 4, 2017 the Administration notified the UN of the intention of the United States to withdraw from the Paris Agreement. However, a bipartisan climate alliance (coalition of 14 states and the territory of Puerto Rico) has been formed in the country, announcing its intention to meet their part of the U.S. commitment to reduce greenhouse gas emissions.
- Year-end 2017 saw approval of the Tax Cuts and Jobs Act, which reduces the corporate income tax to 21% as from 2018, maintains the tax incentive (PTC/ITC) system for renewables, eliminates the Alternative Minimum Tax (AMT) and includes a Base Erosion Anti-Abuse (BEAT) Tax.

## Brazil

- The Ministry of Mines and Energy has launched a public consultation to analyse the liberalisation of the retail market and improve the Brazilian energy industry in order to carry out a revision of the sector and mitigate the risks facing the players involved.
- The government has taken measures to facilitate the privatisation of certain electric distribution companies forming part of the Eletrobras group.
- Due to the decrease in demand and the migration of customers to the free market, distributors found themselves to have contracted for an oversupply of energy. The regulatory agency and the ministry have approved various regulations to minimise the effects of the 2017 oversupply in the future.
- There have been a number of public consultations in order for the government to make decisions in order to reduce the existing litigation in the Brazilian electricity industry, mainly generated by disputes between hydroelectric generators and the government regarding hydrologic irrigation.

## Mexico

- 2017 saw continued development of the energy reform, which encourages private investment in the generation, sale and supply of electric power. It also promotes raising the share of clean energy to 35% by 2024 through the creation of a clean energy certification system that will determine supply obligations.
- One of the most significant milestones of this reform was the publication in 2017 of a new calculation method for the regulated tariff that applies to basic supply. It will be implemented progressively during the first months of 2018, except for domestic consumption, which will remain with the old methodology indefinitely.
- A Clearing House was created in 2017 to serve as a counterparty between buyers and sellers in auctions, reducing the credit risk arising from the liberalisation of the wholesale market. There was also a third long-term Auction, which will add 2.6 GW of new capacity, and the first medium-term Auction, which will award power and capacity contracts in 2018 with terms of 1 to 3 years.
- The liberalisation of the natural gas market commenced in 2017 in order to promote equitable conditions for the participation of new traders in the market and to protect the interests of natural gas end users in the country.





Western Link Project transformer substation  
/ United Kingdom

© John James



## 3.2 Networks

### Regulatory environment of the business

#### Spain

- 2017 was the first year in which facilities that commenced operation in 2015 were evaluated under the new remuneration methodology based on unit costs.
- The Order on tolls for 2017, ETU/1976/2016 of 23 December, keeps the figures published for 2016 on remuneration for distribution (5,175 million euros for the sector and 1,655.5 million euros for IBERDROLA) and transmission (1,709 million euros for the sector), in the absence of a calculation of the amount for 2017.

#### United States

- A new three-year tariff agreement entered into effect for the electricity distribution company UI (Connecticut) in January 2017, with an ROE of 9.1%, an equity percentage of 50% and planned investments of \$105 million annually.
- The new 3-year SCG gas distribution tariff agreement was also approved in Connecticut in November, which will become effective as from 2018. The recognised ROE is 9.2%, equity of 52.4% and planned investments of \$195 million from 2018 to 2020.
- The tariff conditions for the gas distributors of the State of New York (NYSEG and RG&E), with a recognised ROE of 9.0%, are kept the same until April 2019. Forecasted investments are approximately \$700 million annually.

#### United Kingdom

- Ofgem has commenced a public consultation regarding the new RIIO-T2 regulatory framework to enter into force in 2021. Until then, ScottishPower Transmission Ltd. continues to comply with all investment and quality goals agreed to in 2013 with Ofgem within the current RIIO-T1 scheme.
- Distributors ScottishPower Distribution Ltd. and ScottishPower Manweb Plc continue to carry out their activities during the first regulatory period RIIO-ED1, which will extend through March 2023.

#### Brazil

- The new tariff agreement for Celpe came into force in April 2017 and will be in effect for five years. The recognised RAB is 20% thanks to the broad investment programme from the last tariff cycle.
- The tariff agreements for Coelba and Cosern will remain in effect until April 2018, and that for Elektro until 2019.
- The remuneration for the distribution activities of Elektro, Coelba and Cosern has been adjusted based on inflation in Brazil.
- The Brazilian regulator, ANEEL, held two auctions of transmission projects in 2017 in which Iberdrola participated and in which it was awarded six projects. ANEEL auctioned a total of more than 23,000 million reais in transmission projects in the two auctions, in which more than 45 companies from around the world participated.

## Objectives, risks and principal activities

### Objectives

- Zero accidents.
- Offer our customers excellent service based on the quality of supply and information regarding the network.
- Maximise efficiency in system operations through operational excellence and the digitisation of our assets.
- Lead the transformation towards more efficient integration of distributed energy and the penetration of electric vehicles.

### Significant risks

- Risk of occupational and third-party injuries at owned facilities.
- Impacts on supply from meteorological events.
- Technological and cybersecurity risks affecting the security of the facilities and service to our customers.

### Principal activities 2017

- Spain: the Star network digitisation and automation project, with the installation of more than 10.3 million meters (97.6%) and the digitisation of more than 73,800

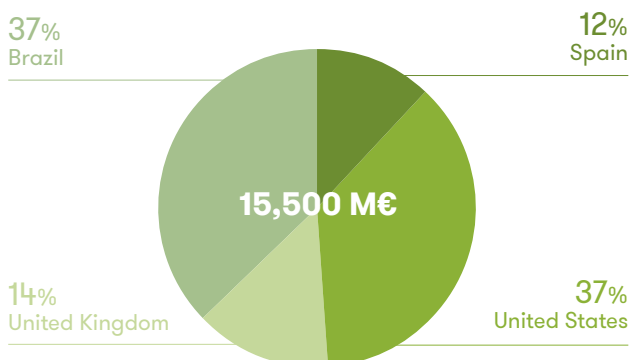
transformer centres (88%), is nearing completion.

- United Kingdom: there is continued compliance with the investment targets contained in RIIO-T1 and RIIO-ED1. The *Western Link HDVC* project entered into operation in monopole configuration in December. The double circuit will be available in 2018.
- United States: November saw the start-up in Woodbridge (Connecticut) of a micro-grid, which will guarantee the supply of critical facilities using a 2.8 MW fuel cell. A project to install approximately 1.8 million smart meters in the State of New York is expected to be approved in 2018.
- Brazil: operational strengthening of Neoenergia's distributors, improving all parameters: quality of supply, late payments and losses. ANEEL's Quality Plan was finalised. Award of 6 transmission projects in ANEEL's auctions in the total amount of 2,800 millions reais.

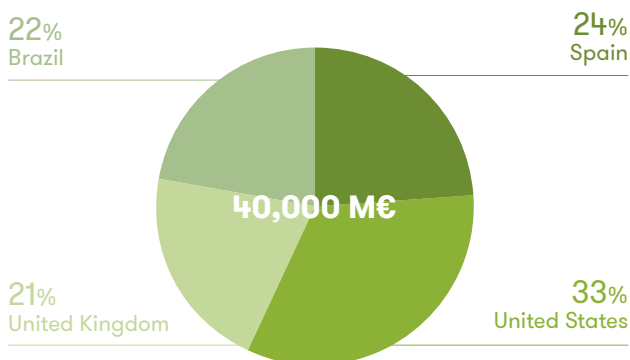
## Outlook 2018-2022

- Increased regulatory visibility in all countries, with investments of €15,500 million during the period, in order to obtain growth in EBITDA of €1,000 million and RAB of €11,000 million by 2022.
- Improvement in operating efficiency, achieving cumulative savings through 2022 of €700 million, to be shared with the customer.
- €3,900 million investment in digitisation for the growth and expansion of our technological platform, increasing service quality by 20% and reducing the "cost-to-serve" by 18% during the 2017-2022 period.
- Opportunities for growth in transmission in Brazil and the United States, taking advantage of synergies with our traditional transmission and distribution business.

**Net investment of €15,500 million between 2018 and 2022, mainly in the United States and Brazil**



**€11,000 million growth in RAB, reaching a value of €40,000 million by 2022**



# Key figures of the Networks Business

Item	Unit	Spain		United Kingdom		United States		Brazil <sup>(1)</sup>		Total	
		2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
Gross margin	€M	2,029	2,003	1,267	1,174	2,537	2,754	328	856	6,160	6,787
EBITDA	€M	1,603	1,520	976	886	1,270	1,334	233	488	4,082	4,228
Electric power distributed	GWh	92,307	93,284	35,734	34,967	39,120	38,349	62,759	63,522	229,920	230,122
Users (Electricity)	Millions	10.9	11.0	3.5	3.5	2.2	2.2	13.4	13.6	30.0	30.3
Gas supply	GWh	-	-	-	-	59,585	59,880	-	-	59,585	59,880
Users (Gas)	Millions	-	-	-	-	1.0	1.0	-	-	1.0	1.0
Investments	€M	389	352	628	561	752	861	76	313	1,845	2,086
Workforce	No. of people	3,887	4,038	2,819	2,969	5,734	5,410	9,111	9,708	21,551	22,125

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

(1) 2016 operational information is deemed to be 100% from Neoenergia.

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Customer service, operational efficiency and digitisation of networks are the strategic pillars of the Networks Business.

## Customer service

- More than 50,000 people, including employees and subcontractors, committed to the restoration of service lost due to extreme weather events in Spain (heavy rains in January, storms Ana and Bruno in December), the United Kingdom (storms Doris in February, Aileen in September and Ophelia in October) and the United States (summer storms in New York).
- In Brazil, ANEEL recognised the efforts and progress made by Celpe and Coelba on Quality of Supply in 2017. Elektro was awarded for its excellence in supply by the Brazilian Distributors Association (ABRADEE).
- More than 600,000 homes have already benefited from the *Light for Everyone* programme.

## Efficiency

- Controlled increase in operating expenses despite strong increase in activity.
- Reduction in energy losses thanks to the fight against electricity fraud in Brazil and Spain.
- Improvement in debt indicators with customers in Brazil thanks to the plan to decrease late payments.

## Digitisation

- The 2018-2022 Digital Plan launched in 2017 with a planned investment of more than 3,900 million euros in digital solutions for customers. The Plan includes projects to increase the automation of the medium-voltage network as well as the digitisation of the low-voltage network in Spain.
- Iberdrola is the top distributor in remote meter reading quality in Spain (according to CNMC report of 23 February 2017).
- Measures to protect against cybersecurity risks associated with new grid management technologies have been strengthened.
- Promotion of the deployment of electric vehicles through active management of the network and improvements ensuring greater efficiency for the system.



Dulces Nombres Combined Cycle Plant  
Monterrey / Mexico

© Francis Tsang



## 3.3 Wholesale and Retail

### Regulatory environment of the business

#### Spain

- In October 2017 there was approval of Royal Decree 897/2017 and Order ETU/943/2017, which regulate: vulnerable consumers, subsidised rates and other measures to protect domestic electricity consumers. They establish various discounts off the price, based on family unit size and income level. The discount increases for special groups. All suppliers are required to fund it based on their number of customers.
- In November 2017 Order ETU/1133/2017 was approved to extend the availability incentive for thermal generation plants during half the year (from January to June 2018), and hydroelectric plants are excluded from this incentive beginning on 1 January 2018. The concept of interruptibility was also modified, establishing an auction award period for the first 5 months of 2018.
- Order ETU/754/2017 denying renewal of the authorisation for operation of the Santa María de Garoña nuclear power plant was published in August 2017.

#### United Kingdom

- The T-1 capacity auction for 2017/2018 was held in February 2017, resulting in the award of a total of 2,255 MW to Iberdrola at a price of 6.95 £/kW. The T-4 capacity auction for 2021/2022 was also held in February 2018, resulting in the award of a total of 2,300 MW to Iberdrola at a price of 8.40 £/kW. Existing plants as well as demand management assets participated in both auctions.
- Following the plan for implementing the measures recommended by the CMA in June 2016, Ofgem announced the application of a price limit on pre-paid contracts as from April 2017, which has been extended to vulnerable customers since February 2018.

#### Mexico

- In March 2017 Iberdrola was awarded the Topolobampo III plant in the last auction under the PIE model, which involves a long-term contract with the Federal Energy Commission (regulated generation). It is a 779 MW combined cycle plant located in the state of Sinaloa.



## Objectives, risks and principal activities

### Objectives

- Competitive supply and excellence in service to customers.
- Occupational safety.
- 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.

### 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.
- Credit, exchange-rate and interest-rate risks.

- Technological and cybersecurity risks affecting the security of the facilities or the information of our customers.

### Principal activities 2017

- Spain: On-going development of products and services adapted to the needs of customers (Customised Plans, Iberdrola Smart Home, Smart solar, etc.).
- United Kingdom: The increase in dual tariffs for domestic customers (7.8%) became effective in March 2017. At year-end 2017 a cumulative total of 738,184 smart meters had been installed, meeting the goal set by Ofgem.
- Mexico: Installation of 403 MW (Baja California III 324 MW CC, Altamira 57 MW cogeneration, 22 MW repowerings). Approximately 3,600 MW thermal under construction.
- Italy: Commencement of commercial activities. Almost 6,000 contracts in portfolio reached during 2017.

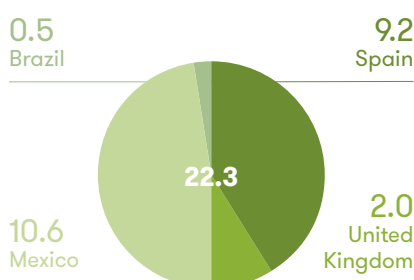
## Outlook 2018-2022

- Net investments of €4,200 million during the period, with 75% (€3,100 million) allocated to growth in order to increase installed capacity in Mexico, continue with the deployment of meters in the United Kingdom, maintain retail growth in the core markets, and expand retail activities.
- 4.8 GW will enter into service during the period, reaching a total capacity of 22.3 GW by 2022. In Retail, Smart Solutions and cost efficiencies will allow for 32 million contracts with customers to be reached by 2022.
- Efficiencies deriving from digitisation, the deployment of smart meters and preventative maintenance based on artificial intelligence and data analytics.

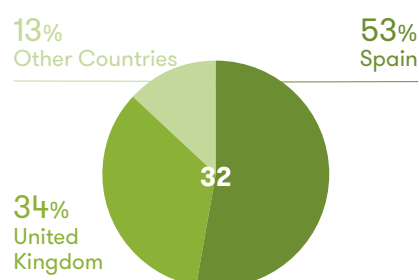
**Net investment growth  
2018-2022 (€M)**



**Installed Capacity  
in 2022 (GW)**



**Contracts with customers  
in 2022 (M contracted)**



# Key figures of the Wholesale and Retail Business

Item	Unit	Spain		United Kingdom		United States and Canada		Brazil		Mexico		Total	
		2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
Gross margin	€M	3,072	2,690	1,000	796	48	17	6	89	509	646	4,634	4,238
EBITDA	€M	1,521	902	294	139	6	-26	-3	60	436	525	2,253	1,601
Electricity contracts	Millions	10.3	10.2	3.2	3.1	-	-	-	-	-	-	13.5	13.3
Gas contracts	Millions	0.9	1.0	2.1	2.0	-	-	-	-	-	-	3.0	3.0
Products and services contracts	Millions	5.0	5.3	0.1	0.9	-	-	-	-	-	-	5.1	6.2
Total retail contracts	Millions	16.3	16.5	5.4	6.0	-	-	-	-	-	-	21.7	22.6
Investments	€M	240	351	134	225	5	5	0	48	341	694	720	1,323
Workforce	No. of people	3,164	3,592	2,254	2,023	110	103	55	298	491	711	6,074	6,727

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

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The Wholesale and Retail Business concentrates its efforts on the safety of operations, environmental management, operational efficiency, customer loyalty, development of new products and services, and growth in Mexico, which will provide stability in results and the generation of funds for the group.

## Efficiency

- Optimisation of thermal production.
- Facilitating operations in complementary markets.
- Operating improvements and increase in availability and energetic yield of the thermal facilities in Mexico and Spain.

## Prices

- Management of risks through appropriate hedging of all generation, including renewable generation.

## Growth

- Mexico: Approximately 3,600 MW under construction, with the most significant projects including:
  - Escobedo I CCGT (878 MW).
  - Noroeste CCGT (911 MW).
  - El Carmen CCGT (866 MW).
  - Topolobampo III CCGT (779 MW)
- United Kingdom: Continued widespread deployment of smart meters that began in 2016.

## Customers

- Loyalty-building and development of new products and personalised services adapted to the needs of customers.
- Retail development in Mexico pursuant to changes in legal provisions on energy reform.
- Leaders in industrial customers in Portugal.
- Commencement of sales of electricity, gas and products and services in Italy in the residential segment.



Andalusia Substation Wiking Offshore  
Wind Farm / Germany

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## 3.4 Renewables

### Regulatory environment of the business

#### Spain

- There were two auctions of renewable capacity in Spain during 2017, with the award of a total of 4,100 MW of wind power and 3,900 MW of photovoltaic power. The winners must commence operations of the facilities before the end of 2019. The possibility of holding a new capacity auction in 2018 has been announced.
- Royal Decree-law 10/2017 was approved in June 2017, with measures to alleviate the drought at certain basins, increasing the hydraulic fee to 25.5% of revenues obtained from hydroelectric production, with no time limit.

#### United Kingdom

- The British government continues to encourage decarbonisation of the economy, and has confirmed the existing budget of £557 million for auctions in the coming years, although none are expected to be held until 2019.
- There is clear support for offshore wind technology. There could also be opportunities for onshore wind, yet to be confirmed.

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

#### United States

- The tax reform approved in December 2017 did not change the PTC/ITC rules, although it extended the period for monetising tax credits.
- The States continue with their renewables support systems through the Renewables Portfolio Standard (RPS), and the policies are expected to remain stable.

#### Mexico

- A new long-term auction took place in 2017 for the sale of 20-year Clean Energy Certificates (*Certificados de Energía Limpia*) (CELs), with the award of 5.95 million certificates.
- The CEL goals were defined in March, doubling to 14% between 2020 and 2022, as were the respective penalties for non-compliance.

#### Brazil

- The country, which is leaving behind the recession of 2015 and 2016, has returned to renewables auctions, with two auctions in December. In the A-6 auction, Neoenergia Renewables was awarded 295 MW in wind projects. New auctions are expected in 2018.

#### Continental Europe

- The German electricity network has been connected to the Winker offshore wind farm, with an installed capacity of 350 MW, capable of supplying renewable energy to approximately 350,000 homes.

## Objectives, risks and principal activities

### Objectives

- Safety in operations.
- Efficiency in operations to maximise the profitability of the assets.
- Efficiency in construction costs, with a particular emphasis on offshore wind projects.
- Profitable growth in various technologies in the countries that are strategic for the group, and in new countries of interest.

### Significant risks

- Competitive auction processes in the markets in which it operates.
- Prices of energy sold in short-term markets.
- Risk of access to evacuation networks and limits on production due to technical restrictions of the networks.
- Operational and technological risk.
- Limitations on operation due to environmental risks.

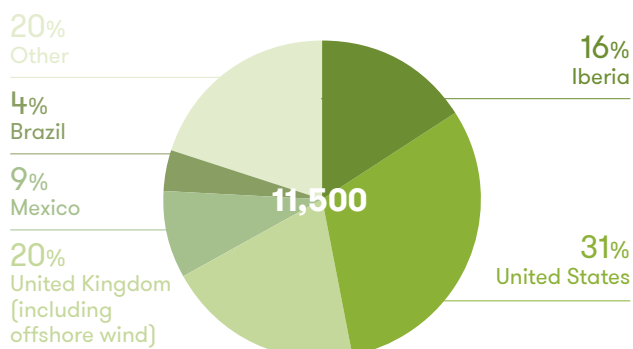
### Principal activities 2017

- 1,164 MW of new installed capacity was added during the year:
  - Onshore wind: 590 MW in the United States, 95 MW in Brazil, 94 MW in the United Kingdom, 43 MW in Mexico, 2.3 MW in Spain and -10 MW due to the sale of the company Lucana in Italy.
  - Offshore wind: 350 MW in Germany.
- 1,485 MW of onshore wind power is under construction: 846 MW in the United States, 326 MW in Mexico, 295 MW in Brazil and 18 MW in Spain.
- There is 10 MW of photovoltaic solar capacity under construction in the United States and 227 MW in Mexico.
- There is continued growth in offshore wind capacity with the construction in the United Kingdom of the East Anglia I project with 714 MW of capacity and commencement of the St. Brieuc (France) project.
- Work is underway on the construction of hydroelectric plants in Brazil and construction continues on the Tâmega hydroelectric project (1,158 MW) in Portugal.

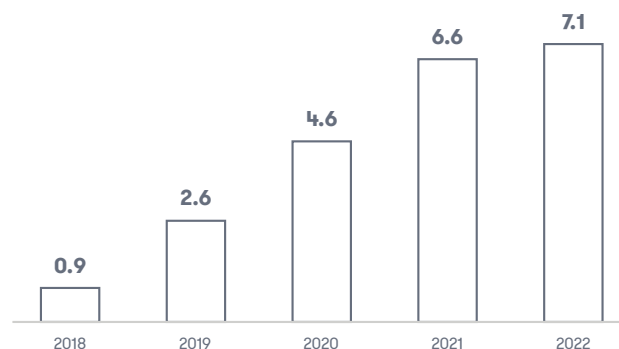
## Outlook 2018-2022

- Investments of €11,500 million, mainly to increase installed capacity in the United States, the United Kingdom, Spain, Portugal, Brazil and Mexico, generating additional EBITDA of €1,200 million by 2022.
- Installed capacity of 7.1 GW is expected to be installed during the 2018-2022 period, including the 714 MW East Anglia I offshore wind farm and the 1,158 MW Tâmega hydroelectric plant.
- Operational excellence achieved through management of the life cycle of assets via digitisation, maximising revenues and continuing with the advanced O&M model.

Investment plan of €11,500 million over the period, of which €10,200 million are for growth



New additional aggregate capacity during the 2018-2022 period (GW)



# Key figures of the Renewables Business

Item	Unit	Spain		United Kingdom <sup>(1)</sup>		United States		Brazil		Mexico		Other <sup>(2)</sup>		Total	
		2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
Gross margin	€M	764	777	385	493	802	783	37	78	69	71	123	125	2,180	2,327
EBITDA	€M	497	493	267	361	564	530	25	57	52	53	95	99	1,500	1,592
Load factor <sup>(3)</sup>	%	22.4	21.9	21.0	24	29.9	29	38.8	46.9	34.7	30	25.0	25.6	25.8	25.8
Investments	€M	20	18	391	399	735	857	4.8	105	5	323	502	677	1,658	2,380

Notes:

International Financial Reporting Standard IFRS-11RRe has been applied in the preparation of this table.

(1) The figures for the United Kingdom include those of the offshore wind division, except for Wikingen.

(2) Other includes Wikingen as it is an offshore wind farm outside of the United Kingdom.

(3) The load factor includes all renewable technologies.

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The business will focus on sustainable development, mainly based on investments in onshore and offshore wind and in photovoltaic in the countries most important to the group, and in the safety of operations. Efficiency is a key factor for business sustainability in the medium and long terms. Iberdrola will take technological advances into account and will act on the supply chain to encourage greater efficiency in the coming years.

## Load factor

Maximising the load factor of facilities, while minimising downtime through operating and maintenance measures, as well as other external factors.

## 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 projects in Spain, the United Kingdom, the United States, Brazil and Mexico, the photovoltaic projects in Spain, the United States and Mexico, and the East Anglia 3 offshore wind project (United Kingdom).



## 3.5 Regulatory Positioning

Iberdrola shares its Regulatory Positions, which are valid for all countries and businesses, as part of its desire for transparency and in accordance with the *Stakeholder Relations Policy*. Iberdrola provides public access to complete information, along with informational videos, on its website.

### General Regulatory Positioning

#### Decarbonisation of the economy

- Renewables and firm capacity facilities require remuneration schemes that complement the price of electricity.
- A strong signal that represents the price of CO<sub>2</sub> is required.
- All energies (gas, electricity, petrol) should assume the cost of their emissions and of the renewables that must be developed to offset such emissions.

#### Electricity sector of the future

- The grid is the backbone of the electricity sector of the future.
- Network tariffs must be upgraded.
- The climate action costs should be removed from tariffs to encourage competition between energy types and between suppliers of electricity.

All sectors should contribute to the decarbonisation of the economy according to the environmental harm they produce.

Electrification of the economy is key to achieving decarbonisation; it is therefore essential for tariffs to exclude costs other than the cost of supply.

### Internal consumption

- Distributed generation and internal consumption from renewable energy sources contribute to a reduction in emissions and help create a more sustainable system.
- Distributed generation should make overall economic sense:

The net balance or excess premiums could bring economic sustainability problems in the electricity system.

Rates should be upgraded, so all customers pay for grid costs under equal conditions.

- Distributed generation is not a source of efficiency (it doesn't reduce the amount of energy consumed), but rather an electricity production source.

### Climate action

- Electrification of the economy is the path to achieving its decarbonisation.
- The electricity sector is the energy vector that can incorporate renewable energies most effectively, which is why it is the sector that has made the biggest effort to develop them as well as to meet emission reduction goals.
- The penetration cost of renewable energies should be shared between electricity, gas, petrol and diesel oil, under the "polluting party pays" principle.

## Market design

- The current energy markets in Europe were designed 20 years ago.
- The challenge is decarbonisation.  
By 2050 there will be a high penetration of renewable energies and a very low use of thermal power plants, which will exist only to guarantee supply if renewable resources fail.
- Iberdrola supports a remodelling of the market design, which:
  - Introduces revenue stabilisation mechanisms for renewable energies.
  - Introduces capacity mechanisms for power plants to guarantee firm capacity.

## The price of CO<sub>2</sub>

- To progress with decarbonisation, all energies (gas, electricity, petrol) should assume the cost generated by their emissions.
- The European Emissions Trading System (EU ETS) is a key element to reduce emissions more efficiently.
- Currently, the price of CO<sub>2</sub> in the EU ETS does not support investment in clean and/or low-carbon technologies.
- Iberdrola proposes a minimum price for emission rights of €20-30/t CO<sub>2</sub>.

The market must evolve to encourage and maintain investments in both firm generation and flexible generation like renewable generation. Properly designed auction mechanisms are a good regulatory practice.

A signal is required to encourage the replacement of carbon-based generation with other energies.

## Value of the grid

- The grid provides value to its users and increases the efficiency and safety of the system.
- Grid tariffs must be upgraded, avoiding cross-subsidies, and sending proper price signals to each grid user type.
- The grid remuneration model should incentivise the optimum use of both existing and new infrastructures, as well as distributed resources.

## Electric vehicle

Given the environmental sustainability of electricity generated from renewable sources, which will constitute the majority of primary energy in the coming decades, the electric vehicle is the most efficient and viable way to transform transportation.

Iberdrola supports the electrification of transportation. This alternative this alternative requires for its development:

- Reducing economic and regulatory barriers within a level playing field.
- Ensuring that electric vehicles represent a reasonable share of the total number of new vehicles purchased.
- Ensuring the deployment of a basic charging network on public roads.

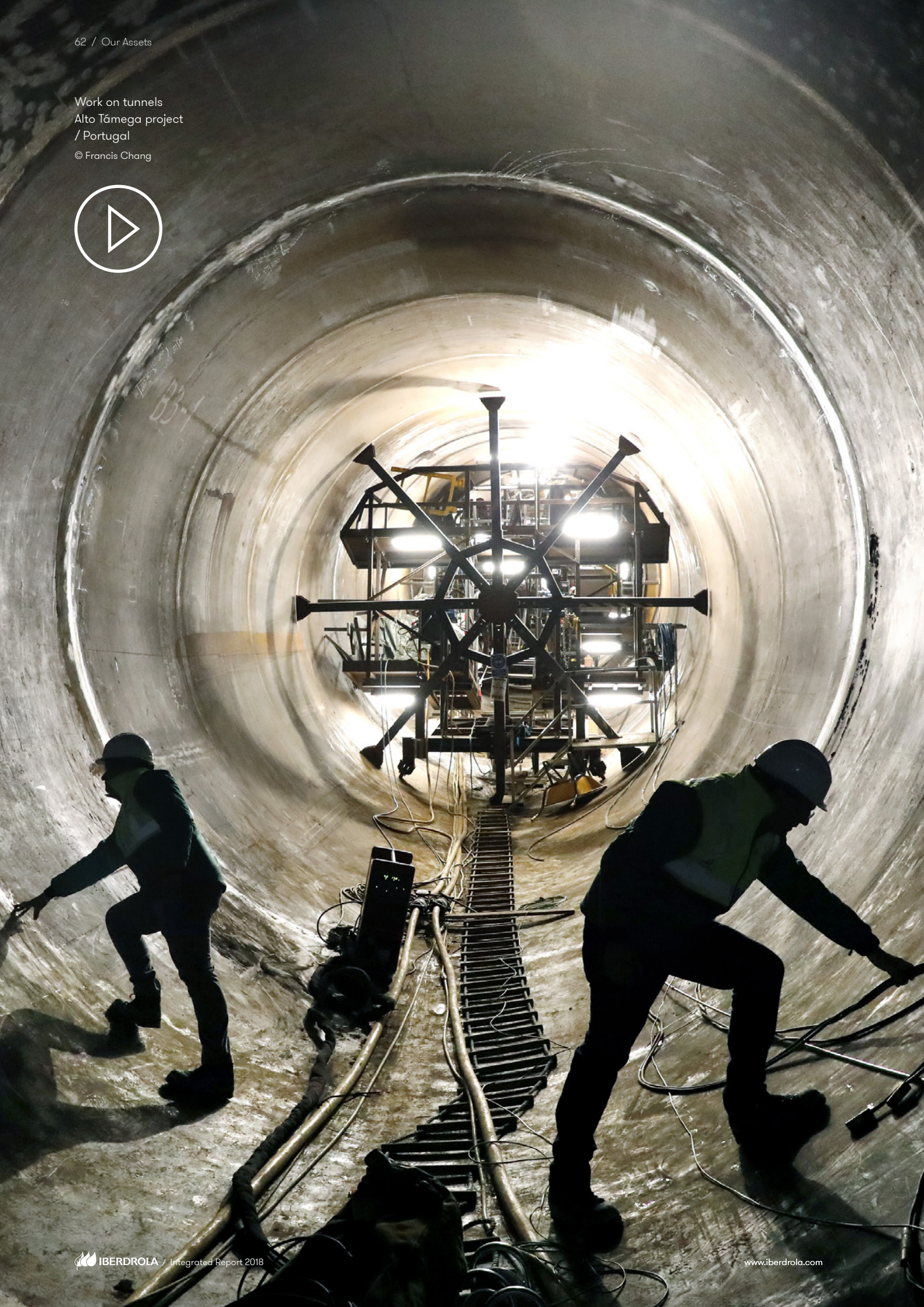
The grid is a key element for evolution towards the electricity sector of the future, with increased development of new technologies and distributed generation.

The regulation of distribution should incentivise technological innovation and digitisation of the grids of the future.

Deployment of the electrical vehicle requires a basic charging network that is trusted by potential users.



Work on tunnels  
Alto Tâmega project  
/ Portugal  
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# Our Assets

**Iberdrola's assets are the basis for the creation of value by the company, which carries out its activities through the sound management thereof.**

**In this report, Iberdrola's assets are identified in accordance with the IIRC classification system:**

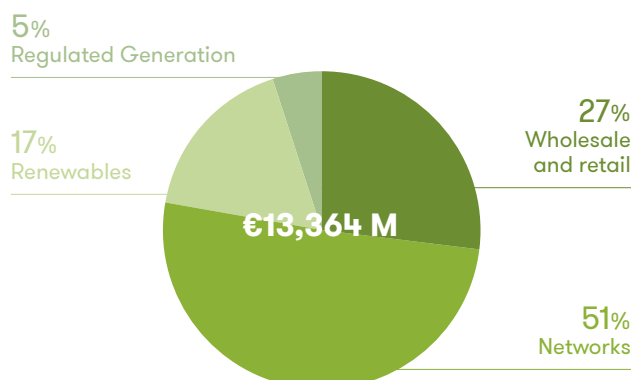
- **Financial capital**
- **Manufactured capital**
- **Intellectual capital**
- **Human capital**
- **Natural capital**
- **Social and relationship capital**

# 4.1 Financial Capital

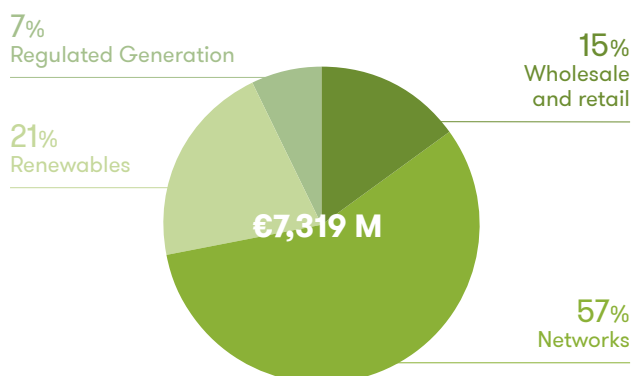
	Management approach	Results	2017 Outlook
<b>Balanced growth</b>	<p>The company has an investment policy consistent with its strategic vision and financial policy. The main goals are:</p> <ul style="list-style-type: none"> <li>• Ensure a return on capital through projects and investments preferably in regulated businesses, renewable assets or long-term contracts.</li> <li>• Increase geographic diversification, further balancing the contribution of the countries in which it does business.</li> <li>• Tailor investment levels to the actual needs of each market.</li> </ul>	<ul style="list-style-type: none"> <li>• Total investment of €5,891 million, with almost 88% channelled into regulated businesses or long-term contracts.</li> <li>• Almost €900 million was invested in the Networks Business in the United States and €2,300 million in Renewables, mainly in onshore wind farms in the United States and the <i>Wikingen</i> (Germany) and <i>East Anglia 1</i> (United Kingdom) offshore wind farms. The investments in Mexico reached €700 million, including the construction of 3,400 MW at the Topolobampo 2 and 3, Escobedo and El Carmen facilities. All of them will commence operations between 2018 and 2020.</li> </ul>	<ul style="list-style-type: none"> <li>• Strict investment criteria based on earnings security, project profitability and strategic fit.</li> <li>• Investments continue to be concentrated on regulated activities and long-term contracts.</li> <li>• Net investment of more than €32,000 million over the 2018-2022 period, of which approximately 90% will be dedicated to regulated businesses, renewables or long-term contracts.</li> <li>• By business, Networks will absorb 50%, €15,500 million. Investments in dollars will represent 38%, followed by 25% in euros, 19% in pounds and 18% in Brazilian reais.</li> </ul>
<b>Solid financial structure</b>	<ul style="list-style-type: none"> <li>• Iberdrola considers financial strength to be an essential factor that allows it to successfully face potential turbulence in the markets and to be in a position to exploit growth opportunities in the countries in which it does business.</li> <li>• The financial policy seeks improvement in solvency ratios, balancing an increase in debt with the generation of additional cash flow from new investments.</li> <li>• The debt structure is in line with the profile of the business, which is mostly regulated, and the composition thereof reflects the results obtained in the relevant currencies.</li> </ul>	<ul style="list-style-type: none"> <li>• Gross margin of €13,364 million (+3.5%).</li> <li>• Net profit of €2,804 million (+3.7%). The positive impacts of the tax reform in the United States and the gain from the Siemens-Gamesa merger offset non-recurring aspects like the low hydraulicity in Spain, storms in the United States, and write-offs in the gas business in the United States. Efficiency measures were also provisioned.</li> <li>• Adjusted net financial debt is €32,856 million, increasing €3,626 million over the year, as a result of the inclusion of Neoenergia (€2,817 million) and the investments made during 2017.</li> <li>• Liquidity of €8,616 million, which covers more than 24 months of financing needs.</li> </ul>	<ul style="list-style-type: none"> <li>• During the 2018-2022 plan, the company will continue to grow and increase in profitability, reaching EBITDA of between €11,500 million and €12,000 million by 2022, and net profit of between €3,500 million and €3,700 million.</li> <li>• Net investments of approximately €32,000 million, financed by cash flow generation (FFO) of €42,000 million.</li> <li>• The new investment cycle will be funded while maintaining financial discipline: growth in cash flow, new financing schemes and rotation of assets.</li> <li>• Optimisation of the liquidity position to cover financing needs for 18 months in a stress scenario.</li> </ul>
<b>Operational excellence</b>	<ul style="list-style-type: none"> <li>• Notwithstanding the high efficiency levels that have been reached, the company believes that there is still a margin for improvement thanks to investments in digitisation and innovation.</li> <li>• The implementation of best practices in all areas will allow for additional savings and an increase in synergies at the global level.</li> </ul>	<ul style="list-style-type: none"> <li>• Net operating expenses increased 20.3% to €4,170.6 million, mainly impacted by the consolidation of Neoenergia (€259.3 million), the costs of storms in the United States (€106.5 million) and the efficiency plans that have been provisioned (€162.4 million). Excluding such impacts and the exchange rate impact, NOE would have increased by 7.1%.</li> </ul>	<ul style="list-style-type: none"> <li>• Additional efficiencies thanks to data analytics and artificial intelligence. Specific plans to transfer best practices to the networks processes in Brazil and the United States.</li> <li>• Cumulative efficiency improvements of more than €1,000 million on homogenous terms, to achieve incremental EBITDA of ~€350 million by 2022.</li> </ul>
<b>Sustainable results and dividends</b>	<ul style="list-style-type: none"> <li>• Iberdrola offers its shareholders an industrial enterprise for the long-term creation of value. The confidence of its shareholders enables Iberdrola to secure the resources needed to move its enterprise forward.</li> </ul>	<ul style="list-style-type: none"> <li>• Shareholder remuneration of 0.317 euro per share, equal to a dividend yield of 4.9%.</li> <li>• Flexible dividend offering tax benefits, the repurchase of shares to avoid dilution, adding the cash payment option.</li> </ul>	<ul style="list-style-type: none"> <li>• Increase of dividend to 0.323 euro per share, with a charge to 2017 profits.</li> <li>• Maintenance of the flexible dividend programme, adding the cash payment option.</li> <li>• Target of maintaining the number of shares at 6,240 million, neutralising the capital increases associated with implementation of the flexible dividend programme.</li> <li>• Growing shareholder remuneration, in line with the increase in results, converging on a pay-out ratio of between 65% and 75%.</li> </ul>

# Create value for the shareholder with sustainable growth

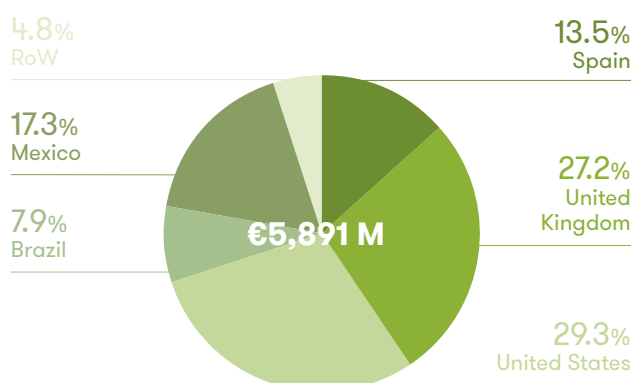
## Gross margin by business 2017



## EBITDA by business 2017

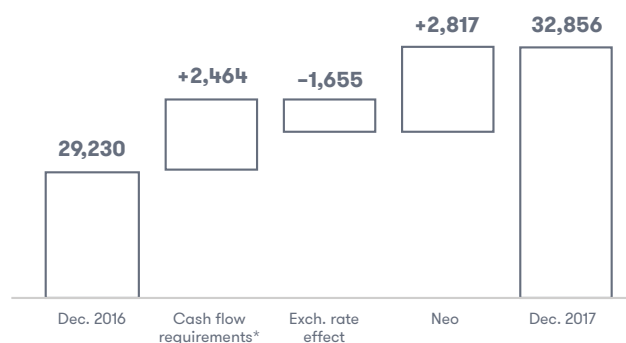


## Investment by geographic area 2017



Diversification of investments, with a heavy concentration outside of the euro zone.

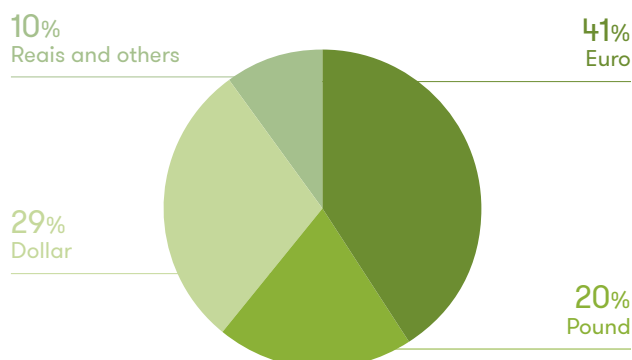
## Net Debt (€M)



\* Including 1,000 €M of hybrid green bond

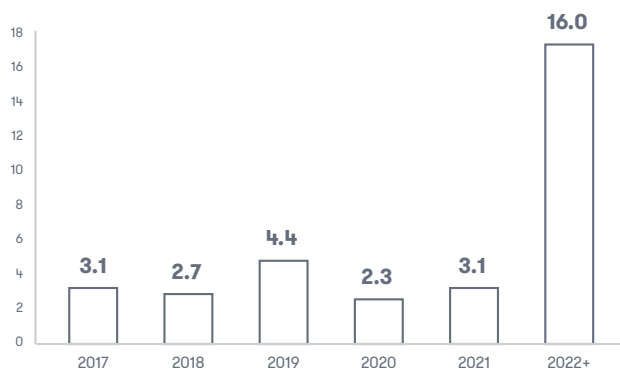
Net financial debt adjusted by treasury stock cumulative hedges at 31 December 2017 is €32,856 million, increasing €3,626 million over December 2016 mainly as a result of the integration of Neoenergia (€2,817 million), the investments made during 2017, and the worse operating conditions, partially offset by the exchange rate effect.

## Debt structure by currency in 2017



Debt structured by origin of cash flow earned in each currency. Includes derivatives to hedge net investment.

## Maturity of financial debt (€M)



Comfortable maturity profile. Excludes credit lines and Neoenergia.

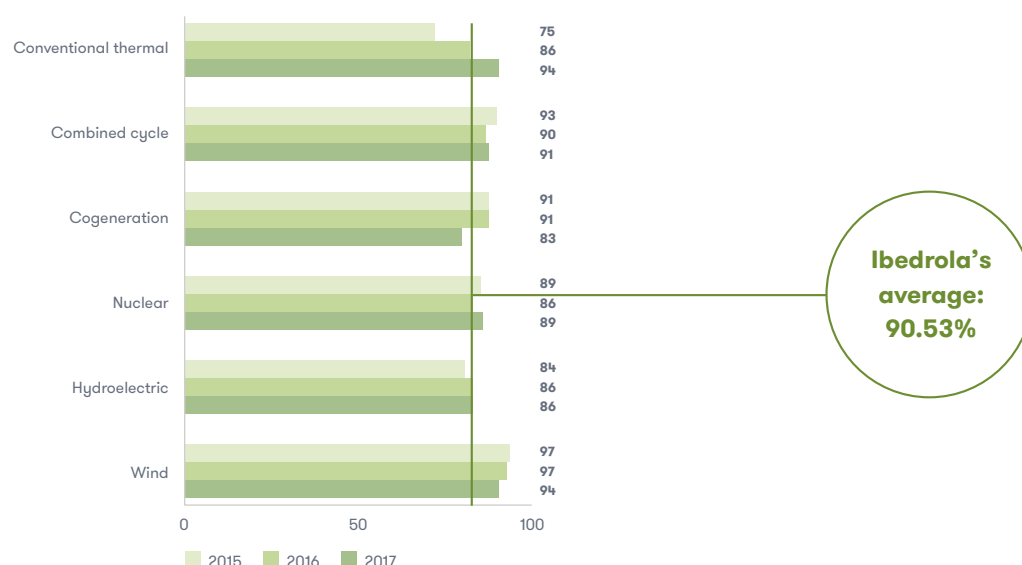
## 4.2 Manufactured Capital

	Size	Principal activities 2017	Outlook
<b>Electric power generation assets</b>	<ul style="list-style-type: none"> <li>Iberdrola's generation assets comprise nearly 300 windfarms, almost 90 hydroelectric power plants (in addition to the mini-hydro plants), 7 solar farms, 37 thermal power stations using various technologies, 5 of which are nuclear, and other facilities built and operated according to the best available practices.</li> </ul>	<ul style="list-style-type: none"> <li>ISO 9000 certification has been renewed for the operation of windfarms in Spain and the United Kingdom.</li> <li>The Topolobampo III plant, a 779 MW combined cycle plant, has been awarded.</li> <li>The year ended with additional installed capacity of 1,398 MW, of which 1,164 MW are renewable, including the 350 MW Wikinger offshore wind farm.</li> </ul>	<ul style="list-style-type: none"> <li>Construction continues on 1,485 MW of onshore wind, 237 MW of photovoltaic and 714 MW of offshore wind within the East Anglia One project. The project for an additional 496 MW of offshore wind at St. Brieuc (France) has commenced.</li> <li>In Mexico, construction continues on almost 3,600 MW in combined cycles.</li> <li>In Portugal, there is continued construction of the Tâmega hydroelectric complex, with 1,158 MW.</li> <li>In Brazil, work continues on the construction of the hydroelectric plants.</li> </ul>
<b>Power transmission and distribution assets</b>	<ul style="list-style-type: none"> <li>Iberdrola's electricity transmission and distribution networks comprise over 1 million km of distribution lines, more than 4,000 substations and 1.5 million transformers, built and operated to supply a high-quality, reliable service to 30.3 million supply points.</li> <li>Iberdrola also has more than 40,000 kilometres of gas pipelines for the transport and distribution of gas in the United States.</li> </ul>	<ul style="list-style-type: none"> <li>In Spain, more than 10.3 million smart meters have been installed (97.6%) and 73,800 transformer centres have been digitised (88%).</li> <li>The Western Link project entered into operation in monopole configuration in the United Kingdom.</li> <li>There is continued deployment of smart meters in the United Kingdom, increasing the rate ahead of the goals established by the British regulator Ofgem.</li> <li>In Brazil, the ANEEL auctions have awarded the construction of close to 1,650 kilometres of transmission lines, 2 new substations and 11 expansions, with an investment of R\$ 2,800 million.</li> </ul>	<ul style="list-style-type: none"> <li>The projects awarded in the auctions in Brazil will be placed into service between 2020 and 2022.</li> <li>In 2018 it is expected that there will be deployment of 1.8 million smart meters in New York and automation of the network, putting Avangrid at the forefront of the REV initiative.</li> <li>Progress with the digitisation of the network to lead the transformation towards a Distribution System Operator.</li> </ul>
<b>Other assets</b>	<ul style="list-style-type: none"> <li>Iberdrola manages approximately 1,600,000 m<sup>2</sup> of offices and work centres throughout the world, with a total of 816 properties, of which 266 are located in Spain, 106 in the United Kingdom, 173 in the United States, 251 in Brazil and 20 in the rest of the world. These properties, which follow the same corporate criteria in the interior spaces, are designed, built and operated in accordance with the strictest sustainability and efficiency standards.</li> </ul>	<ul style="list-style-type: none"> <li>Consolidation of the Iberdrola Campus as a centre for Iberdrola's training and events. It has the space and means necessary to hold training at different levels and to host conventions, seminars, workshops and working meetings for the entire Iberdrola group.</li> <li>Commencement of construction on phase II of the Iberdrola Campus.</li> <li>Culmination of the transfer of all Scottish Power employees to the new corporate headquarters in Glasgow, from where almost 1,700 employees have been doing their work this year.</li> <li>Inauguration of the new corporate headquarters of Avangrid at 180 Marsh Hill Road, Orange, CT.</li> </ul>	<ul style="list-style-type: none"> <li>The merger of Neoenergia is planned for completion during 2018, and which is expected to lead to significant improvements in real estate management operations.</li> <li>Avangrid plans to increase consolidation of the real estate portfolio of offices in the various states in which it does business.</li> <li>Hand-in-hand with the Wholesale and Retail Business, and motivated by the expansion of Retail, we expect to open new offices in Paris, Rome and Milan in 2018.</li> <li>At Iberdrola, we are committed to the modernisation of work spaces, for which reason we will continue to develop new spaces for collaboration within the corporate buildings.</li> </ul>



# Offer a secure supply of energy that is competitive in price and quality

## Average availability factor of Iberdrola's generation facilities



## Quality of electricity supply

### Average power outage duration

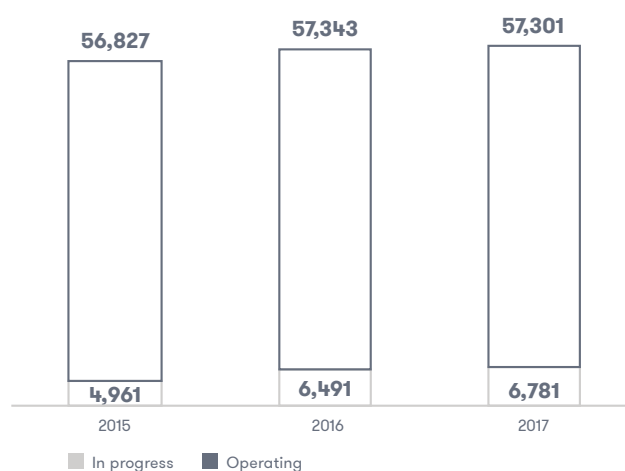
		2016	2017
Spain (*)	TIEPI (min)	54.0	52.7
United Kingdom	CML (min)	33.8	31.0
United States	CAIDI (h)	1.84	1.91
Brazil	DEC (h)	17.14	15.96

### Power outage frequency

		2016	2017
Spain	NIEPI (number)	1.04	1.14
United Kingdom	CI (ratio)	42.7	36.0
United States	SAIFI (index)	1.15	1.15
Brazil	FEC (frequency)	7.44	7.15

TIEPI: Installed Capacity Equivalent Interrupt Time.  
 CML: Customer Minutes Lost Per Connected Customer.  
 CAIDI: Customer Average Interruption Duration Index.  
 DEC: Equivalent Duration of Interruption by Consumer Unit.  
 NIEPI: Installed Capacity Equivalent Interrupt Number.  
 CI: Customer Interruptions Per 100 Connected Customers.  
 SAIFI: System Average Interruptions Frequency Index.  
 FEC: Equivalent Frequency of Interruption by Consumer Unit.  
 (\*) Excludes 18.8 min due to persistent strong rains suffered in Spain in the month of January, deemed to be force majeure.

## Property, plant and equipment (€M)



## 4.3 Intellectual Capital

	Management approach	Principal activities 2017	Outlook
<b>Promotion of R&amp;D</b>	<ul style="list-style-type: none"> <li>Iberdrola is a leading multinational group in the energy sector thanks to an innovative strategy based on a strong commitment to clean energy, smart grids, efficient energy storage, the development of custom-tailored solutions for customers, and digital transformation.</li> </ul>	<ul style="list-style-type: none"> <li>More than €246 million of investment in R&amp;D&amp;I in 2017, a 17% increase over 2016.</li> <li>Launch of the <i>Iberdrola University Programme</i>, which gathers together all activities with the academic world. University chairs, R&amp;D&amp;I projects, training and the <i>Young Entrepreneurs initiative</i>.</li> <li>Wager on internal talent through the <i>Accelerator project</i>, identifying key factors of the utility of the future.</li> <li>Strengthening of the <i>Innovation with Suppliers Programme</i>.</li> <li>Receipt of <i>Best Digital Transformation Award</i> in 2017.</li> </ul>	<ul style="list-style-type: none"> <li>Compliance with <i>R&amp;D&amp;I 2015-2017 Plan</i> and definition of new <i>R&amp;D&amp;I Plan 2018-2022</i>.</li> <li>Iberdrola will continue to wager on innovation as one of the foundations for successfully facing the future energy scenario, promoting energy efficiency, decarbonisation and the electrification of the economy.</li> <li>The wager on digital transformation will be key, with a planned investment of €4,800 million between 2018-2022.</li> </ul>
<b>Efficiency and new products and services</b>	<ul style="list-style-type: none"> <li>Continuous optimisation of our operations, management of the lifecycle of facilities and equipment, reduction in operating and maintenance costs, and decreasing environmental impact.</li> <li>Development of new and competitive products and services that adapt to an increasingly global and digitised market, the main goal of which is to meet the needs of customers.</li> </ul>	<ul style="list-style-type: none"> <li>There are currently more than 200 projects to promote sustainable development, the encouragement of renewable energies and emerging technologies.</li> <li>Improvement of the customer experience, increasing customer engagement.</li> <li>Launching innovative campaigns and projects towards increased personalisation of content and offers based on consumption.</li> <li>Delivery of proactive communications in real time and use of online self-service, with quick and simple online contracting.</li> </ul>	<ul style="list-style-type: none"> <li>As a result of its commitment to innovation, digitisation and the on-going search for excellence and quality, Iberdrola has designed unique products and services for its more than 16 million customers. It will continue investing to offer customers two-way communication and a personalised service that exceeds their expectations and meets their specific needs.</li> </ul>
<b>Disruptive technology and business models</b>	<p>Through the <i>Iberdrola-PERSEO</i> international start-up programme, there has been more than €50 million invested since 2008 in technologies and new disruptive business models, which ensure the sustainability of the energy model. Lines of activity:</p> <ul style="list-style-type: none"> <li>Technologies favouring the integration of renewable energies: flexibility and storage.</li> <li>Aggregation and management of distributed energy resources (batteries, solar, etc.).</li> <li>Innovative solutions for customers (demand-side management, digital solutions, etc.).</li> <li>Advanced technologies for operation and maintenance of energy assets.</li> <li>Electromobility: charging infrastructures and new solutions.</li> </ul>	<ul style="list-style-type: none"> <li>Iberdrola was recognised by the European Commission among corporations best working with start-ups within the framework of the <i>Start-up Europe Partnership initiative</i>, also receiving the special <i>Start-up Procurement Award</i> prize for its innovation with suppliers programme.</li> <li>Investment in the equity of the U.S. company <i>Innowatts</i>, focused on the development of digital solutions and innovation for the energy sector through its analysis and artificial intelligence platform. It has offices in Houston, Silicon Valley and India, and it has offices and more than 14 million smart meters in its artificial intelligence platform.</li> <li>Investment in the company <i>Ilum México</i>, dedicated to lighting and electrification in rural areas of Mexico. This investment is a very significant contribution to reducing the number of people without access to electricity, with an estimated 250,000 people who can benefit from this initiative in the coming years.</li> </ul>	<ul style="list-style-type: none"> <li>Ensure Iberdrola's access to the energy technologies of the future.</li> <li>Foster entrepreneurship and the development of an innovative entrepreneurial fabric within the energy sector. Investment in initiatives with a high social and job creation component.</li> <li>Establish alliances with key technology providers for Iberdrola (<i>Open Innovation Ventures</i>).</li> </ul>

# Highlight the value of the company's intangible assets

## Main R&D&i research projects

### Renewable energy

- There are noteworthy projects to improve the efficiency of assets. These include the European *ROMEO* project for the early detection of failures in the turbines based on “big data” techniques.
- In the offshore wind area, the installation of turbines at the Wiking offshore wind farm, as well as the substation, with an innovative design, have been completed.
- Projects for the integration of renewable energies include *ESS2GRID*, which analyses the use of battery storage systems at renewables facilities.

### Smart grids

- The *UPGRID* project has been completed, strengthening the operation and maintenance of low-voltage grids in view of the risks of integrating distributed generation. There is also *GRIDSTORAGE*, developing an advanced micro-grid and storage model.
- In the United Kingdom, the *Fusion* and *LV Engine* projects are directed towards the optimisation of low-voltage grids to achieve a more flexible system.

### Clean generation

- There has been completion of the *CO<sub>2</sub> Formare* project to avoid macrofouling of the cooling systems of the generation plants, reducing environmental impact.
- The *Prexes* project has been successfully carried out, with the development of a model for predicting expansion in concrete hydraulic structures.

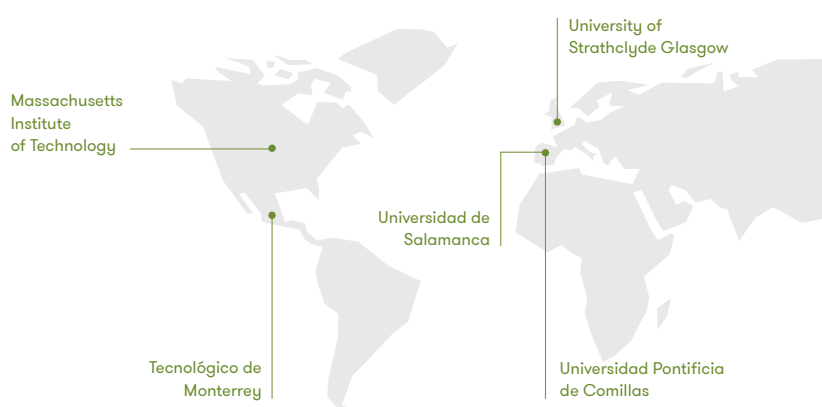
### Customers

- Customised plans (*Planes a tu Medida*), in which customers can choose the 8 hours of the day that best suit their consumption (at a lower price), which can be different for each day of the week.
- *Smart solar*: Distributed generation solution for self-consumption, providing a personalised online offer based on an analysis of consumption and the location of the facility.
- In the United Kingdom, there is *PowerUp*, which allows consumers to buy gas or electricity in packages up to 180 days in advance at a pre-established price.

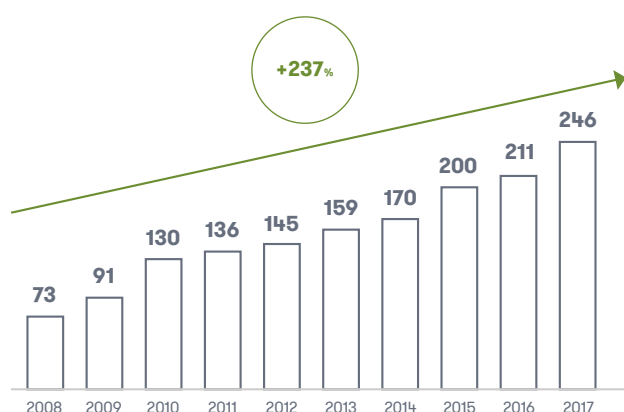
## Transferring knowledge and attracting talent - Universities

Iberdrola has launched a *University Program*, which focuses its efforts on strengthening the relationship between the company and the academic world, aimed at attracting talent and transferring knowledge. Iberdrola has signed agreements with major universities in the countries in which it has a presence.

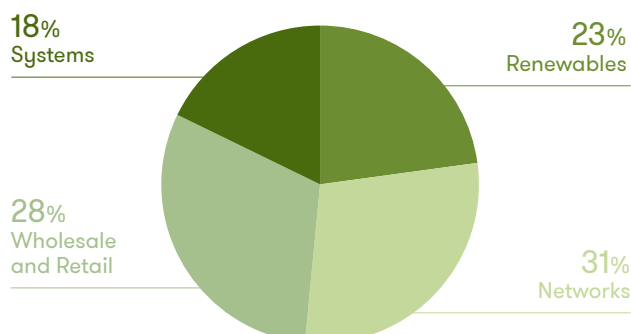
The programme includes development of the *Young Entrepreneurs* initiative, to develop talent and the entrepreneurial skills of the students. There were 5 “hackathons” and “bootcamps” in 2017 with 800 entrepreneurs and the collaboration of more than 100 mentors.



## Investments in R&D&i (€M)



### % R&D&i investment by strategic area



## 4.4 Human Capital

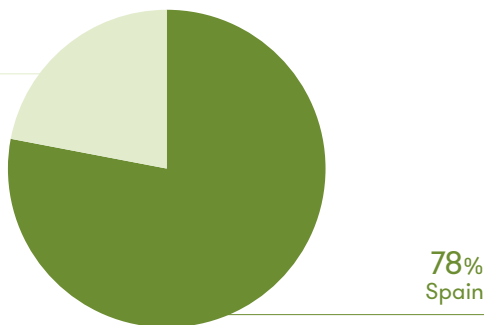
	Management approach	Principal activities 2017	Outlook
<b>Global human resources management</b>	<ul style="list-style-type: none"> <li>• Achieve the goals of competitiveness and business efficiency in a climate of social peace, fostering stable, high-quality employment.</li> <li>• Harmonise human resources processes and make inroads with implementing the Iberdrola culture in all countries, respecting specific local conditions.</li> </ul>	<ul style="list-style-type: none"> <li>• Management of an appropriate labour relations framework that can be adapted to suit business and social requirements.</li> <li>• Homogenise the variable remuneration process throughout the group.</li> </ul>	<ul style="list-style-type: none"> <li>• Consolidate the Human Resources function at Neoenergia, extending and unifying best practices.</li> <li>• Strengthen the commitment to social responsibility, fostering ethical and responsible behaviour.</li> </ul>
<b>Goal of “accident reduction”</b>	<ul style="list-style-type: none"> <li>• Prioritise the safety of individuals at the group's facilities and within its sphere of influence, fostering a progressive reduction in incident rates and improving health and safety conditions.</li> <li>• Replicate throughout the group the best practices identified in the area of occupational health and safety, fostering a culture of excellence in management and coordinating global preventive activities.</li> </ul>	<ul style="list-style-type: none"> <li>• Attainment and/or maintenance of the OHSAS 18001 certification, and approval of a system of global prevention standards in accordance with the group's policy. Assessment of level of conformance to global standards.</li> <li>• Monitoring of proactive and reactive indicators among the group's companies for the global scorecard.</li> <li>• Establishment of goals for the management of occupational health and safety at subcontractors.</li> <li>• Identification and application of best safety practices. Exchange of lessons learnt. Creation of groups to promote safe behaviour.</li> </ul>	<ul style="list-style-type: none"> <li>• Continue the assessment of the level of level of conformance to global standards and the implementation of improvement groups to promote safe behaviour.</li> <li>• Expand the number of certifications within the group in accordance with OHSAS 18001.</li> <li>• Integrate Neoenergia into the culture and model of the Iberdrola group.</li> <li>• Improve the management of contractors from the viewpoint of occupational safety and health: qualification of contractors and evaluation of performance.</li> <li>• Engage in global campaigns to raise awareness on certain types of common accidents.</li> </ul>
<b>Talent management</b>	<ul style="list-style-type: none"> <li>• Drive staff qualifications, preparing employees to work in a multicultural environment and making continual efforts to improve their employability.</li> <li>• Develop alternatives to compensate for factors stemming from the ageing of the workforce.</li> <li>• Maintain a team of competent, committed and motivated professionals, which is key for the sustained success of the business.</li> </ul>	<ul style="list-style-type: none"> <li>• Revise the international mobility model.</li> <li>• Launch the leadership development programme for team leaders in Spain.</li> <li>• Implementation and monitoring of a plan for development of high-potential leaders.</li> <li>• Encouragement of mobility through a strengthening of the process for publishing internal vacancies at the global level and initiatives like job swaps.</li> <li>• Definition of the global recruitment and selection process.</li> <li>• Integrate Neoenergia into the talent management processes.</li> </ul>	<ul style="list-style-type: none"> <li>• Revise and/or launch leadership development programme for team leaders in Mexico, the United States, the United Kingdom and Brazil.</li> <li>• Attract the best talent, strengthening excellence in our selection processes and improving our presence on social media and at leading universities.</li> <li>• Integrated talent management in order to train future leaders, preparing them now to assume larger responsibilities.</li> <li>• Launch Climate Survey at the global level.</li> </ul>
<b>Diversity, equal opportunity and reconciliation</b>	<ul style="list-style-type: none"> <li>• Guarantee a social model committed to professional excellence and the quality of life of our employees.</li> <li>• Development of labour relations based on equal opportunity, non-discrimination and respect for diversity.</li> <li>• Create a high-quality labour environment by committing to reconciliation, and promote a position of leadership in these areas in the countries in which it does business similar to that enjoyed in Spain.</li> <li>• Align the <i>Corporate Volunteering Programme</i> with the Sustainable Development Goals defined by the United Nations.</li> </ul>	<ul style="list-style-type: none"> <li>• International cultural exchanges.</li> <li>• Corporate Volunteerism Activities to improve the quality of life and the integration of vulnerable groups, including <i>International Volunteering Day</i>, the <i>INVOLVE</i> international volunteering programme, the project for improving the electricity situation of refugee camps in Ethiopia, and the <i>Lights and Action</i> project to improve youth employability through energy efficiency.</li> <li>• Implementation and execution in Spain and Mexico of a volunteer project regarding the fight against climate change. Sustainable Development Goals.</li> <li>• Promotion of flexible workday for 75% of the workforce, together with the encouragement of stable and high-quality employment (98% of workforce with permanent contracts).</li> </ul>	<ul style="list-style-type: none"> <li>• New selection tool (based on equal opportunity) to homogenise the selection processes at the global level.</li> <li>• Continue to foster improvements in the quality of people's lives through social-welfare activities in all of the countries in which the group has a presence.</li> <li>• Promote the internationalisation of social programmes and strengthen ties among the employees of the company at the global level. Strengthening of the global volunteer community.</li> <li>• Contribute to achieving the Sustainable Development Goals defined by the United Nations for the 2015-2030 horizon.</li> </ul>

# Ensure the availability of a committed, qualified workforce in a safe and stable environment

## Growth and geographic diversification of the workforce

2006: 16,155 employees

22%  
Latin America



2017: 34,255 employees

3%  
Mexico

1%  
Other countries

29%  
Brazil

19%  
United States

30%  
Spain

18%  
United Kingdom

Key Figures  
/ page 12

## Social commitment



Various corporate volunteer activities by employees in Spain, the United States, Brazil, Mexico and the United Kingdom

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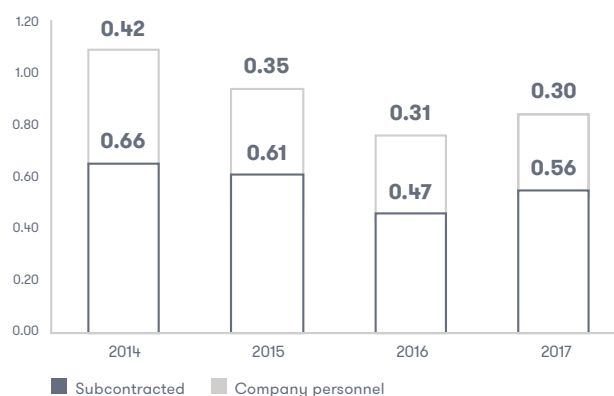
## Iberdrola strengthens its commitment to women's sport



Renewal in 2017 of agreements with the *Universo Mujer* programme.

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## Injury rate (2014-2017)<sup>(1)</sup>



■ Subcontracted ■ Company personnel

<sup>(1)</sup> Neoenergia data has been 100% consolidated for all periods.

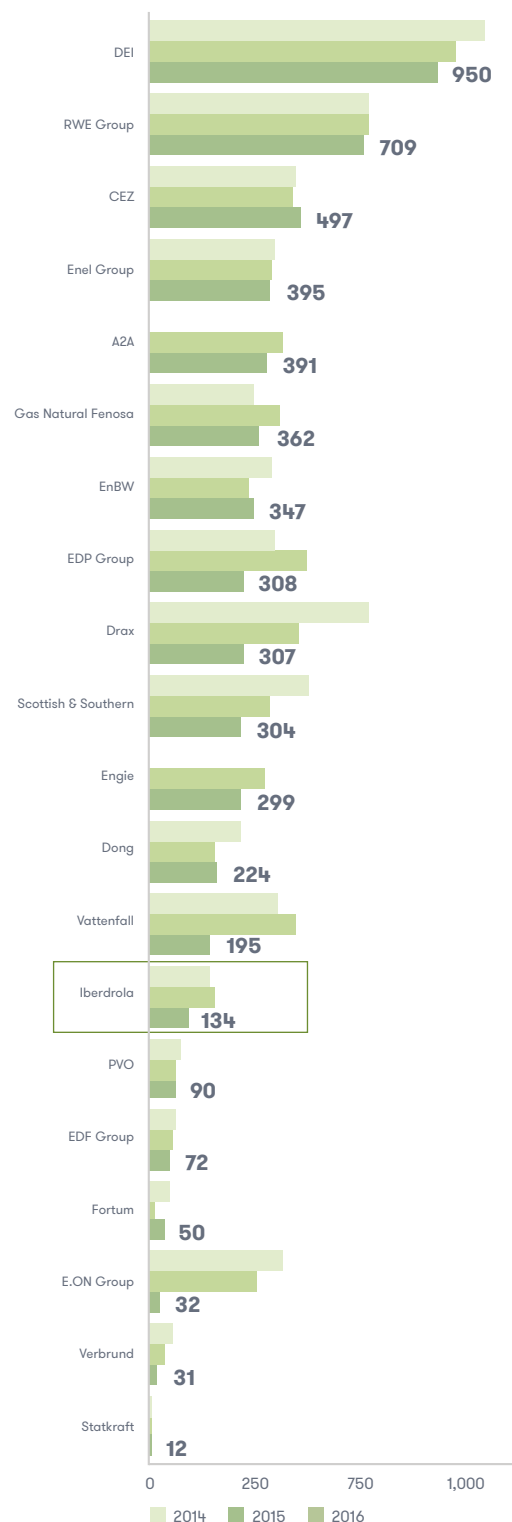
# 4.5 Natural Capital

	Management approach	Principal activities 2017	Outlook
<b>Protect the environment and stop the loss of biodiversity</b>	<ul style="list-style-type: none"> <li>• Conserve and recover the ecosystems associated with our activities, coordinating the biodiversity plans of the businesses in affected areas.</li> <li>• Improve the compatibility of Iberdrola's infrastructure with protection of the environment.</li> <li>• Avoid discharges and pollution of water and soil, all in line with Iberdrola's <i>Biodiversity Policy</i> and <i>Environmental Policy</i>.</li> <li>• Promote the protection of ecosystems in the surroundings of the facilities.</li> </ul>	<ul style="list-style-type: none"> <li>• Sustainable General Shareholders' Meeting 2017:               <ul style="list-style-type: none"> <li>– ISO 20121 certification.</li> <li>– Shareholders Day 2017</li> </ul> </li> <li>• Environmental Declaration (<i>Erronka Garbia Certificate</i>).</li> <li>• Acquisition of ISO-TS 14072 Certificate for Corporate Environmental Footprint (CEF) 2016.</li> <li>• Energy efficiency project for the facilities of Iberdrola España.</li> <li>• Climate Change Adaptation Report for activities in Spain.</li> <li>• Biodiversity Report, 2014-2017 Edition.</li> </ul>	<ul style="list-style-type: none"> <li>• Adaptation to ISO 14001 2015 standard.</li> <li>• Development of a strategic plan for climate change adaptation.</li> <li>• Environmental guidelines linked to impacts of the CEF.</li> <li>• Restoration, recovery, improvement and maintenance of surroundings and habitats.</li> <li>• Integrate the concept of natural capital.</li> </ul>
<b>Combat climate change and its effects</b>	<ul style="list-style-type: none"> <li>• Prevent pollution and the emission of greenhouse gases (GHGs) through practices that reduce or eliminate the production of pollutants at source.</li> <li>• Reduce the emissions of non-GHGs into the air.</li> <li>• Gradually replace equipment using substances that reduce the ozone layer.</li> <li>• Promotion of awareness-raising campaigns regarding air quality.</li> <li>• New GHG emissions-free facilities (renewable, wind, hydroelectric, etc.).</li> </ul>	<ul style="list-style-type: none"> <li>• 42% reduction in intensity of CO<sub>2</sub> emissions per kWh produced since 2007.</li> <li>• Thermal emission factor has decreased from 391 g/thermal kWh generated in 2016 to 388 g/kWh generated in 2017.</li> <li>• Increase in emission-free installed capacity to 66.7%.</li> <li>• New commitment to reduce emissions, and active participation in the Bonn Climate Change Conference (Germany).</li> <li>• Sustainable mobility plan to promote and develop electric cars.</li> </ul>	<ul style="list-style-type: none"> <li>• Achieve a 50% reduction in emissions intensity by the year 2030 in comparison to 2007.</li> <li>• Be carbon neutral by 2050.</li> <li>• Develop innovation projects geared towards reducing pollution.</li> <li>• Active participation in achieving the Sustainable Development Goals approved in September 2015 (goals 6, 7 and 13).</li> </ul>
<b>Guarantee sustainable modes of production and consumption</b>	<ul style="list-style-type: none"> <li>• Continuous improvement in operational performance.</li> <li>• Implementation of actions to increase energy efficiency.</li> <li>• Decrease in consumption of natural resources.</li> <li>• Inclusion of environmental variable in the design of infrastructure (Eco-design).</li> <li>• Improvement in control and management of waste generated.</li> </ul>	<ul style="list-style-type: none"> <li>• Innovative activities in environmental management and control.</li> <li>• Assurance of quality in environmental management.</li> <li>• Efficient management of water consumption.</li> <li>• Improvement of efficiency at buildings.</li> <li>• Improvement in withdrawal and consumption of inland water at all generation facilities.</li> <li>• Reuse and recycling of water.</li> <li>• Improvement in reuse and recycling of waste.</li> </ul>	<ul style="list-style-type: none"> <li>• Development and promotion of ecodesign initiatives.</li> <li>• Life-cycle and green purchasing analysis.</li> <li>• Life Cycle Costing.</li> <li>• Study of implementation of ISO 50001, Energy Efficiency, in Spain.</li> <li>• The circular economy as strategic cornerstone.</li> </ul>
<b>Revitalise alliances with Stakeholders for sustainable development</b>	<ul style="list-style-type: none"> <li>• Strengthen transparent dialogue with Stakeholders in order to work together in seeking solutions to environmental problems.</li> <li>• Manage environmental compliance by suppliers.</li> <li>• Transparently report on environmental results and activities.</li> <li>• Optimisation of and innovation in environmental management systems.</li> </ul>	<ul style="list-style-type: none"> <li>• Preparing or providing information for the following reports:               <ul style="list-style-type: none"> <li>– Sustainability Report 2017.</li> <li>– Greenhouse Gas Report.</li> <li>– CEF Report 2016.</li> <li>– Biodiversity Report.</li> </ul> </li> <li>• 85% of suppliers have ISO 14001 environmental certification.</li> <li>• Public-private cooperation with the Basque Government on environmental issues.</li> </ul>	<ul style="list-style-type: none"> <li>• <i>Environmental transparency and communication:</i> <ul style="list-style-type: none"> <li>– <i>Corporate Environmental Footprint Report</i> by country.</li> <li>– Development of new EPDs (Environmental Product Declarations)</li> </ul> </li> <li>• Communication of environmental performance, development of methodology.</li> </ul>



# The environmental dimension is a key factor in the concept of sustainability

## CO<sub>2</sub> emissions at companies in the sector (Carbon factor in kg of CO<sub>2</sub>/MWh)

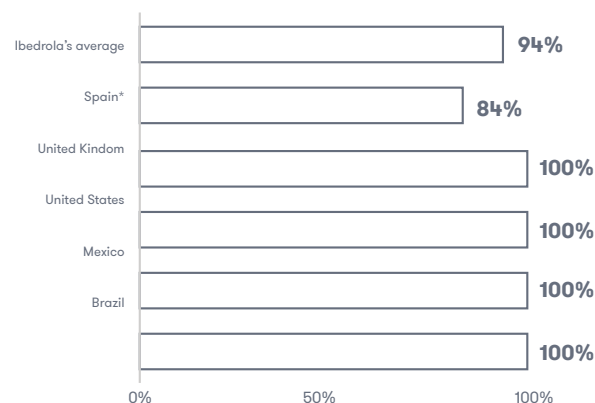


European carbon factor 2016: 275 kg CO<sub>2</sub>/MWh

Source: "Facteur carbone européen Comparaison des émissions de CO<sub>2</sub> des principaux électriciens européens" PwC France. Jan. 2018

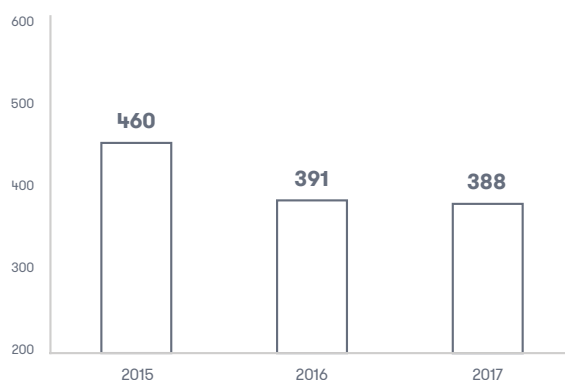
(1) The 134 kg CO<sub>2</sub> in this chart refers to emissions from Iberdrola's facilities in Europe during 2016. The other companies only include the European space.

## Production of Iberdrola plants using local energy sources in the countries in which it operates

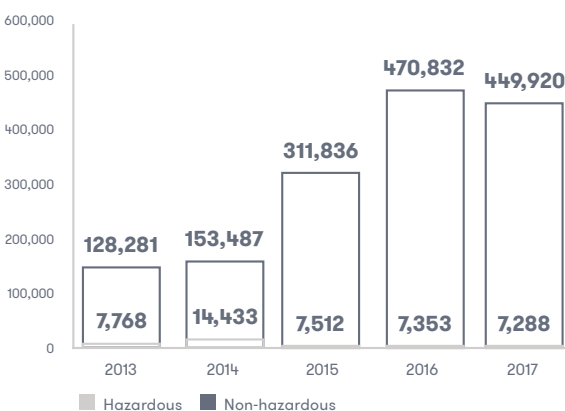


\* Nuclear fuel acquired from the Spanish company Enusa is considered a local source.

## Intensity of emissions at the thermal plants of the group (CO<sub>2</sub>/MWh)



## Volume of recovered, reused or recycled waste (t)



© Key Figures  
/ page 12

# 4.6 Social and Relationship Capital

## Stakeholder relations

Iberdrola cultivates a responsible and sustainable business model, which puts Stakeholders at the centre of decisions. The company's intent is to build relations of confidence with its various Stakeholders, as well as to deepen their engagement and sense of belonging to Iberdrola. The *By-Laws* as well as the *Mission, Vision and Values* of Iberdrola and its *Stakeholder Relations Policy* clearly express this intent.

### Iberdrola's Stakeholders. Relationship principles and goals

Workforce



Suppliers



Shareholders and financial community



Media



Regulatory entities



Society in general



Customers



Environment



#### Principles

- Two-way communication
- Transparency
- Active listening
- Equal treatment

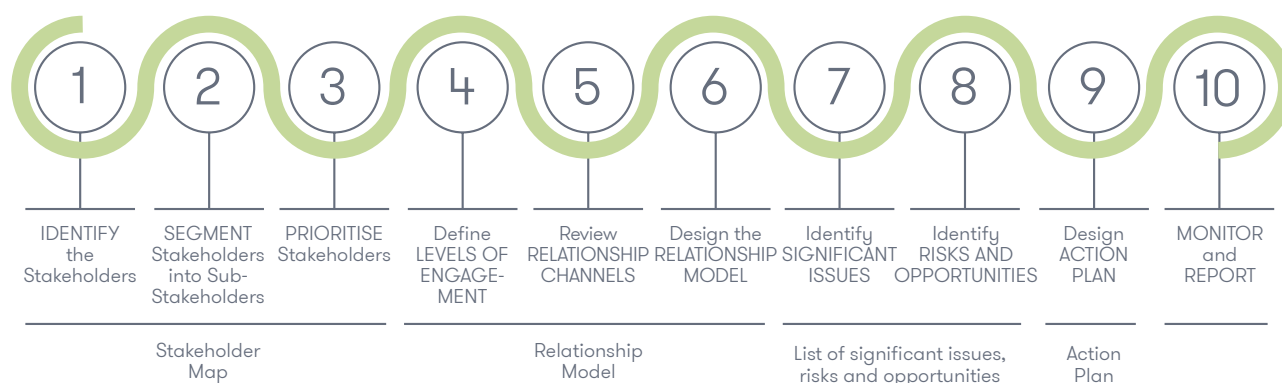
#### Objectives

- Take into consideration the legitimate interests of the Stakeholders.
- Effectively disclose information regarding the activities and businesses of the group.
- Contribute to improving the reputation of the company.

### Global Stakeholder Relations Management Model

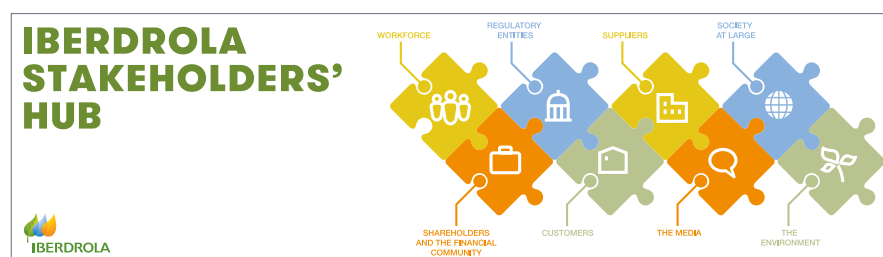
Iberdrola has a new *Global Stakeholder Relations Model* that began to be implemented in 2017. This model is based on the AA1000 Stakeholder Engagement Standard (AA1000SES) 2015 and on its three requirements of inclusiveness, materiality and responsiveness, as well as the most stringent international standards in this area.

The Model itself constitutes a process of structured continuous improvement in the following three phases:



Iberdrola implements this Model in the management of its eight Stakeholder groups in five leading countries, at the Generation and Renewables facilities and in the various geographic areas of the Networks Business.

## Iberdrola Stakeholders' Hub



Iberdrola has an internal coordination body called the Iberdrola Stakeholders' Hub, which was created in 2017 to facilitate the implementation of the *Global Stakeholder Relations Model*, and in which the areas responsible for managing the eight Stakeholder groups participate. Representatives from the various countries are gradually being included.

## Channels of communication with Stakeholders

Iberdrola has numerous channels of communication with its Stakeholders, from conventional channels accessible to everyone (telephone, email inboxes, communications, etc.), to other more specific channels (many of them digital) to address the particular nature of each Stakeholder group. Iberdrola's websites and social media channels are also essential mediums for interaction. The most important channels of communication can be found in the *Sustainability Report 2017*.

## Most significant issues for Stakeholders

Implementation of the *Global Stakeholder Relations Model* allows for internal identification of the issues that are most important to these groups. Both the priority issues and Iberdrola's response are also described in the *Sustainability Report 2017*. The process of understanding significant issues is completed with a *Materiality Study* prepared by an independent firm, the priorities matrix of which is the following:



### Material issues

1. Socially responsible investment
2. Economic performance
3. Ethics and integrity (anti-corruption, free competition and fiscal responsibility)
4. Responsible supply chain
6. Electric and gas infrastructure
7. Management of natural capital
9. Innovation and new business models
10. Integration of renewable energy within the electric system
11. Climate change
13. Management of biodiversity
14. Energy transition
15. Availability and management of water
16. Customer satisfaction
17. Diversity and equal opportunity
18. Occupational health and safety
19. Impact on local communities
20. Human rights
22. Attraction, development and retention of human capital
23. Connectivity, digitisation and cybersecurity

### Other issues identified

5. Public policy
8. Circular economy
12. Environmental performance: "Eco-efficiency"
21. Vulnerable customers

## Examples of good practices

### Stakeholder panels in the United Kingdom

The Networks Business in the United Kingdom holds regular panels with Stakeholders, attended by representatives of domestic, local, industry and third sector (civil society) institutions, among others.

### Customer Experience project in Spain.

The Wholesale and Retail Business launched the *Customer Experience* in Spain to evaluate the customer experience throughout the relationship cycle with Iberdrola. Focus groups, interviews, panels and surveys are carried out within this framework.

### Supplier of the Year Award

The Procurement Area organises local and global awards to promote and recognise excellence, internationalisation, innovation and social responsibility among its suppliers.

# Community support and electricity access programmes

## Primary programmes

### Activities 2017

- Contribution of €63 million to the community in the countries in which Iberdrola operates, measured according to the London Benchmarking Group (LBG) international standard.
- *International corporate volunteering programme*, offering various volunteering opportunities to employees in Spain, the United Kingdom, the United States, Brazil and Mexico.
- Entrepreneurial support: over €38 million of procurement from companies in operation for less than 5 years, and €70 million in venture capital for new initiatives with high technological value.
- Programmes and pricing to aid vulnerable groups in Spain, the United Kingdom, the United States and Brazil.
- Rural electrification programmes in Brazil, to which €278 million has been allocated.
- Programmes implemented by the foundations created by Iberdrola in the principal countries in which it operates.
- Development of the *Electricity for All* programme.

### Electricity for Everyone

- The Sustainable Development Goals (SDGs) 2015-2030, approved at the UN Sustainable Development Summit in New York, entail the recognition of energy as an engine of sustainable growth.
- The *Electricity for All* programme is Iberdrola's response to this demand to extend universal access to modern forms of energy, with environmentally sustainable, financially affordable and socially inclusive models. This initiative is focused on sustainable electrification activities in emerging and developing countries.
- Iberdrola has set itself the goal of reaching 4 million beneficiaries of this programme by 2020. At year-end 2017, the programme had reached 3.9 million users.

### Economic value distributed (€M)

Item	2016	2017
Procurement from suppliers	7,508	8,648
Payments to providers of capital	2,692	2,916
Payments to government administrations	2,740	2,723
Employee remuneration	2,260	2,517

© Sustainability Report

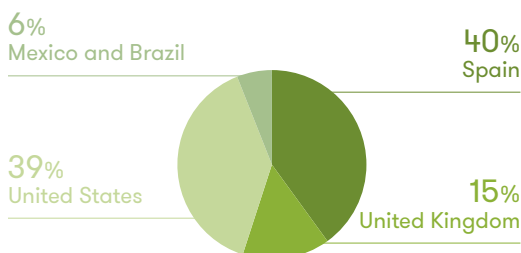
## Foundations of the Iberdrola group

### Activities 2017

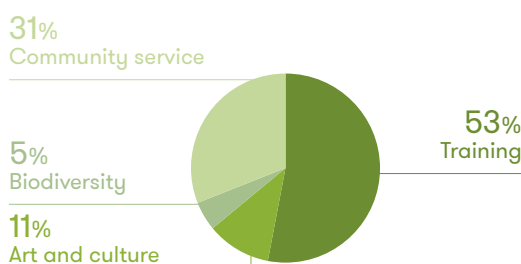
- Iberdrola has strengthened the operation of its foundations in Spain, the United Kingdom, the United States, Brazil and Mexico.
- Overall investment dedicated to activities in all countries has increased to a total of €13.5 million.
- As regards the activities themselves, four areas (Training and Research, Art and Culture, Sustainability and Biodiversity, and Cooperation and Solidarity) have been cultivated in all of the countries.
- In the training area, Iberdrola's *Scholarships and Research Assistance Programme* gave a total of 176 scholarships for students in the five countries in 2017.
- In Art and Culture, 313 restoration and illumination projects have been undertaken, including the Chapel of the Holy Chalice of the Cathedral of Valencia and the Fort of Five Points in Pernambuco. There are also collaborative efforts with the Prado Museum, the National Museum of Scotland and the Rochester International Art Festival.
- In Biodiversity and Climate Change, there is the *MIGRA* programme to protect birds in danger of extinction, in collaboration with the Royal Society for the Protection of Birds Scotland (RSPB) and multiple collaborative efforts with educational and environmental centres in the United States.
- In the area of cooperation and solidarity, there has been a strengthening of the social programme in Spain and the United States. There has been a direct impact on more than 200,000 people in all five countries.
- In 2017 the Foundations Committee, as a body coordinating all of their activities, and the corresponding Boards of Trustees of each country, approved the *New Master Plan* for the 2018-2020 period, focusing on the Sustainable Development Goals (SDGs).

### Programmes 2017

#### Contribution by region (%)



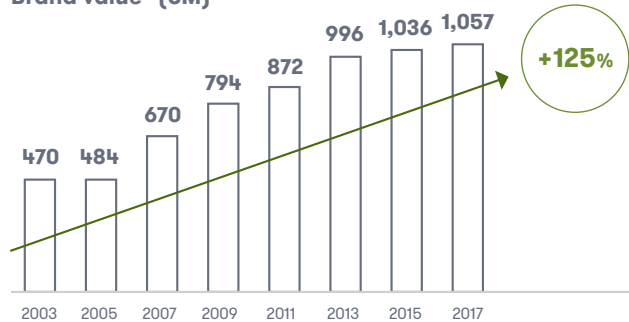
#### Contribution by programme (%)



### Soundness and strength of the brand

- Management of the brand in such a way that it transmits the principles set out in the *Mission, Vision and Values of the Iberdrola group* and reflects the company's strategy of commitment to the environment and social responsibility.
- Consolidation of an international brand, strengthening communication and alignment under a single brand positioning strategy in the countries in which the company operates.

#### Brand value\* (€M)



\* Source: Ranking of Best Spanish Brands by Interbrand.

### Evolution of the digital ecosystem

- Offer useful and dynamic information, with messages adapted to each stakeholder.
- Facilitate direct interaction with our stakeholders, overcoming barriers and making use of existing synergies.
- Iberdrola on social media and the Internet:



### Reputation

- Iberdrola considers reputation to be an intangible asset of enormous value that influences aspects as important as the attraction and retention of talent, business relations with customers, valuation of the company in the capital markets, and its integration within the communities in which it does business.
- The Stakeholder Relations Model is a fundamental tool that the company uses to detect operational and business aspects that impact outside views of the company and to propose goals leading to the strengthening of reputation and its relationship with the Stakeholders.
- Additionally, both the study of best external practices in all business and relational areas as well as the analysis the analysis of content in the media are supplements to the relationship model that contribute to on-going improvement. The following image shows the variables in reputation management.



- Evaluation of reputation follows a multivariable standard that includes measurements from various sources: reputational surveys and indices, public recognition, presence on sustainability indices, etc.
- The integration of the company's financial and non-financial strategy and goals with the external communication function is another fundamental element to ensure proper transmission of the company's values.



Iberdrola Tower, Bilbao  
/ Spain

© Iberdrola, S.A.





# A Framework of Trust

# 5.1 Corporate Governance Model

## Foundations of Iberdrola's corporate governance model

### A. Corporate Governance System

Iberdrola is a leading multinational group in the energy sector that seeks to create value sustainably for all of its Stakeholders through the use of environmentally friendly energy sources. It is committed to the fight against climate change, the social dividend and the generation of employment and wealth in its surroundings, considering its employees to be a strategic asset.

Iberdrola has a Corporate Governance System made up of the *Mission, Vision and Values of the group*, the *By-Laws*, the *Corporate Policies*, the *Governance Rules of the Corporate Bodies* and *Internal Committees and Compliance*, all available at [www.iberdrola.com](http://www.iberdrola.com).

The content thereof is inspired by and based on a commitment to best corporate governance practices, business ethics and social responsibility in all of its areas of activity.

Position	Director	Status	Date of last appointment	Ending date
Chairman & CEO	José Ignacio Sánchez Galán (Salamanca, Spain, 1950)	Executive	27-03-2015	27-03-2019
Director	Íñigo Víctor de Oriol Ibarra (Madrid, Spain, 1962)	Other external	08-04-2016	08-04-2020
Director	Inés Macho Stadler <sup>(1)</sup> (Bilbao, Spain, 1959)	Independent	08-04-2016	08-04-2020
Director	Braulio Medel Cámara (Marchena, Spain, 1947)	Independent	08-04-2016	08-04-2020
Director	Samantha Barber (Dunfermline, Fife, Scotland, United Kingdom, 1969)	Independent	08-04-2016	08-04-2020
Director	María Helena Antolín Raybaud (Toulon, France, 1966)	Independent	27-03-2015	27-03-2019
Director	Ángel Acebes Paniagua (Ávila, Spain, 1958)	Independent	27-03-2015	27-03-2019
Director	Georgina Kessel Martínez (Mexico City, Mexico, 1950)	Independent	28-03-2014	28-03-2018
Director	Denise Mary Holt (Vienna, Austria, 1949)	Independent	27-03-2015	27-03-2019
Director	José W. Fernández (Cienfuegos, Cuba, 1955)	Independent	27-03-2015	27-03-2019
Director	Manuel Moreu Munaiz (Pontevedra, Spain, 1953)	Independent	27-03-2015	27-03-2019
Director	Xabier Sagredo Ormaza (Portugalete, Spain, 1972)	Other external	08-04-2016	08-04-2020
Director	Juan Manuel González Serna (Madrid, Spain, 1955)	Independent	31-03-2017	27-03-2021
Director	Francisco Martínez Córcoles (Alicante, Spain, 1956)	Executive	31-03-2017	27-03-2021

(1) Inés Macho Stadler is the lead independent director.

## B. Governance model

Duly differentiates between the duties of strategy and supervision and those of guidance and management:

- Iberdrola's Board of Directors, made up of a large majority of independent directors (one of whom is the lead independent director), focuses its activity on the determination, supervision and monitoring of the policies, strategies and general guidelines of the Iberdrola group.
- The chairman of the Board of Directors & chief executive officer and the rest of the management team are responsible for the organisation and strategic coordination of the group.
- In the principal countries in which the group operates, organisation and strategic coordination is implemented through country subholding companies, which group together equity stakes in the head of business companies and centralise the provision of common services. Each of these companies has its own CEO.

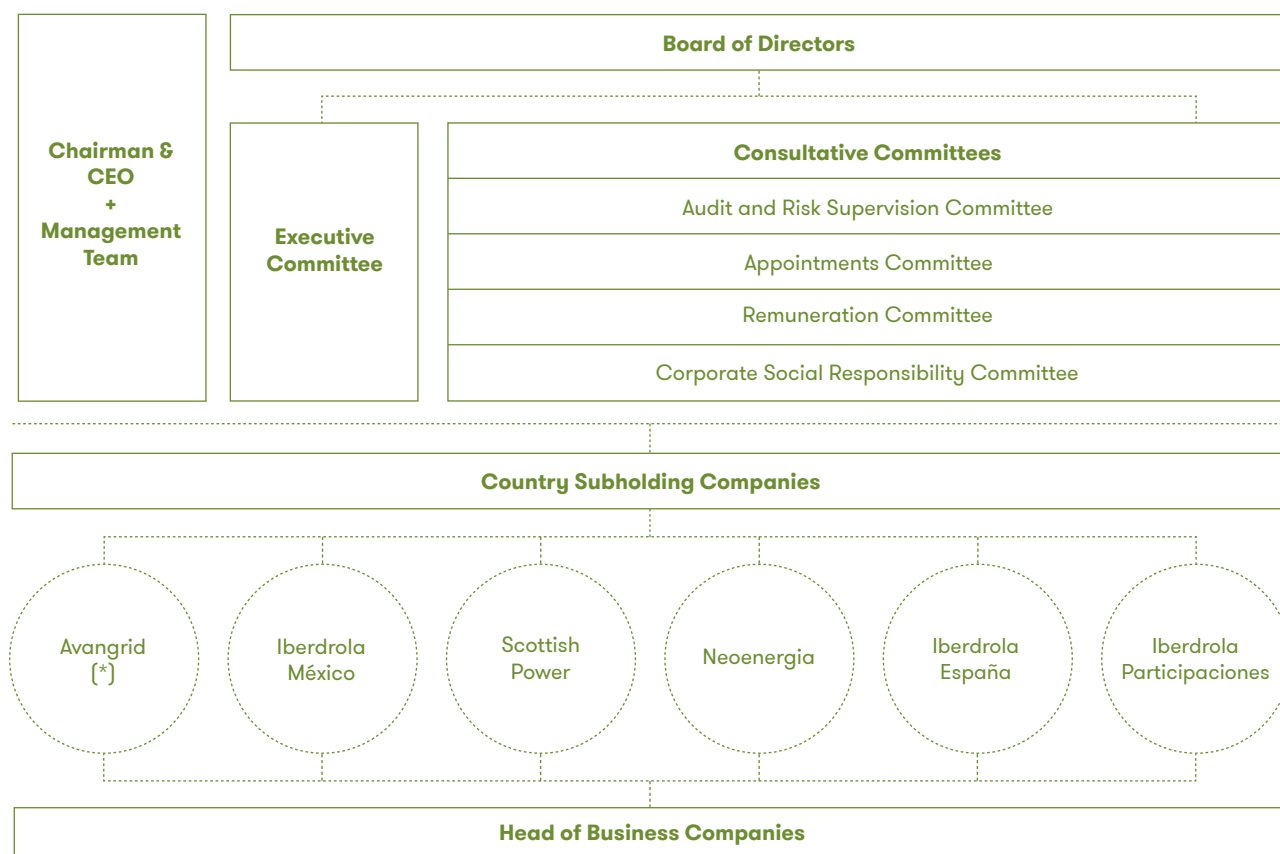
The Iberdrola group also has a country subholding company, Iberdrola Participaciones, S.A. (Sociedad Unipersonal), that groups together the non-energy businesses.

Country subholding companies have boards of directors, including independent directors, and their own audit and compliance committees, internal audit divisions and compliance units or divisions.

Listed country subholding companies like Avangrid, Inc. have a framework of strengthened autonomy.

- The head of business companies are in charge of the day-to-day administration and effective management of each business. They also have boards of directors, which include independent directors and specific management teams.
- The *Activities Report of the Board of Directors and of the Committees thereof* reports on their operation.

## Corporate and governance structure of Iberdrola, S.A.

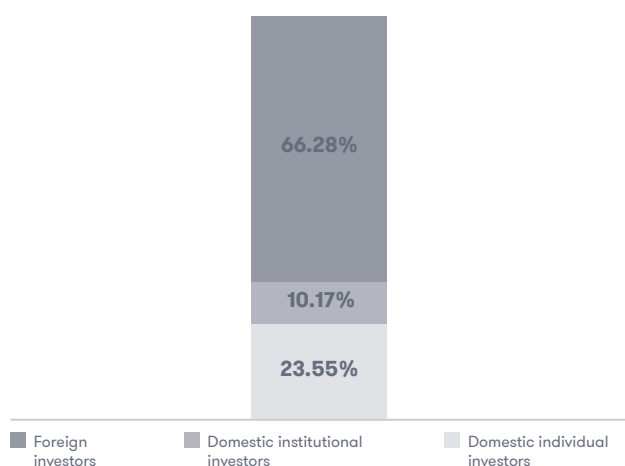


(\*) Company listed on the New York Stock Exchange.



## C. Equity structure

Iberdrola has more than 600,000 shareholders throughout the world, and none of them has a controlling interest.



Status at 31 Dec 2017.

Foreign institutional shareholders account for 66.28% of the capital.

⊙ External corporate governance awards / page 43

## Iberdrola's response to the corporate governance challenge

### A. Corporate governance strategy

The key elements defining Iberdrola's corporate governance strategy are:

- Shareholder engagement
- Social dividend and sustainability
- Active listening and commitment to the legitimate interests of the other Stakeholders
- Strategic leadership by the Board of Directors
- Diverse and balanced composition of the Board of Directors
- Effective system of checks and balances
- Corporate structure and Governance Model
- Prudent and balanced management of risks
- Proactive compliance function

⊙ Corporate Governance System

## B. Continuous Improvement of its corporate governance rules and practices

On corporate governance matters, the company looks to the Good Governance Code of Listed Companies published by the CNMV and generally accepted practices in the international markets.

71.4% of the directors are independent.

Director Remuneration Report	
Remuneration policy	Executive directors' variable remuneration tied to objectives.
	Clause on cancellation and reimbursement of variable remuneration.
	71.4% of directors are independent.
	System of checks and balances, including a lead independent director.
Operation of the Board	Gender diversity: 5 women on the Board. All consultative committees are chaired by women.
	Diversity of skills, experience, nationality and origin.
	External evaluation of governance bodies.
	Corporate Social Responsibility Committee.
Social responsibility and corporate reputation	Social Responsibility Policies focused on the maximisation of the social dividend and Stakeholder engagement.
	Fight against Climate Change.
	General Shareholders' Meeting conceived of and certified as a sustainable event.

⊙ Ethics and Social Responsibility / page 92



## C. Commitment to shareholders and investors

- The Iberdrola group has a strong industrial and financial model based on balanced growth, focused on the regulated networks businesses, renewables, and long-term contract assets, focused on the achievement of growing profits and an increase in shareholder remuneration.
- The *Shareholder Engagement Policy* is intended to understand the opinions and concerns of the shareholders in the areas of corporate governance and social responsibility, encourage their sense of belonging and align their interests with those of Iberdrola.
- Boost shareholders' participation throughout the year, and especially at the General Shareholders' Meeting.

The quorum in attendance at the 2017 General Shareholders' Meeting was 77.2%.



## D. Remuneration policy

- Director remuneration aligned with strategic objectives and shareholder return. The remuneration model for directors is based primarily on three components:

### Remuneration model for the Board

Type of remuneration	External (non-executive) directors	Executive directors
Fixed	According to their duties	On market terms.
Short-term variable	Not applicable	Tied to financial and non-financial targets.
Long-term variable	Not applicable	Tied to multi-annual targets payable in shares (3-year accrual period and payment deferred over 3 years following accrual).

The *Annual Director Remuneration Report 2016* received 96.74% votes in favour (not counting abstentions or blank votes).

### Parameters to which the annual variable remuneration of executive directors is tied in 2018

Financial	Results. Shareholder return. Financial strength. Operational efficiency.
Social responsibility	Presence on international indices. Encourage gender equality in management positions. Professional training. Occupational safety.

### Parameters to which the multi-annual variable remuneration of executive directors is tied (2017-2019)

Growth in net profit.  
Total shareholder return.  
Maintenance of financial strength.  
Reduction in CO<sub>2</sub> emissions.

## Principal activities of the Board of Directors

### Key issues in 2017

Iberdrola's Board of Directors has focused its activities mainly in the following areas:

#### Strategy

Growth	The Board of Directors designs the group's strategy and decides the key investments.	Long-term view of the electricity industry and of the principal challenges and trends.
		Update of the <i>Outlook 2016-2020</i> , with an increase in investments of €1,000 million.
		Approval of the strategy and budgets for financial year 2018.
		Monitoring of the inclusion of the businesses of Elektro into Neoenergia, creating a leading electric company in Brazil and Latin America.
Sustainable remuneration	The Board of Directors reviews the alignment of shareholder remuneration with the group's performance.	Shareholder remuneration 2016-2020 in line with the increase in results, with a pay-out in the range of 65-75%.
		Approval of an increase of close to 11% in shareholder remuneration with a charge to 2016.
		Establishment of the <i>Iberdrola Flexible Remuneration</i> scheme.
Maximisation of social dividend	The Board of Directors defines the guidelines that direct the group's activities in the area of social responsibility.	Evaluation of contribution to and impact on society using parameters that determine the <i>Social Dividend</i> .
		Update of the company's strategic positioning in relation to <i>Climate Change</i> and integration of the <i>Sustainable Development Goals</i> into the strategy.
		Supervision of the group's activities in the area of sustainability and <i>Social Responsibility</i> .
		Update of the <i>Stakeholder Relations Policy</i> and the <i>Policy on Respect for Human Rights</i> .
Financial strength	The Board of Directors monitors the evaluation of the financial situation to ensure economic/ financial strength over the long term.	Monitoring of the financing policy and of the principal transactions in the capital markets.

#### Supervision

Supervision	The Board of Directors, with the support of the Executive Committee, supervises the implementation of the group's strategy and the development of the group's organisational model on an ongoing basis.	Detailed study of the markets, with special attention on issues with strategic impact.
		Monitoring of the corporate reorganisation in Brazil.
		Regular supervision of key financial indicators.
		Supervision of the implementation of the strategy to maximise the social dividend.

© **Activities Report of the Board and its Committees**

## Risk supervision

The Board of Directors monitors the level of risk by means of periodic tracking of the most significant threats.

Regular supervision and control of **corporate risks**.

**On-going review** of the internal control system.

Amendment and update of the Risk Policies.

Supervision of the **Strategic Plan** and cybersecurity risks.

## Corporate governance

Ongoing efforts to identify and implement best corporate governance practices are key pillars for the creation of sustainable value.

**Selection and composition of the governance bodies.**

**Analysis of the composition of the committees of the Board of Directors.**

**Appointment of new directors.**

**Evaluation and re-election of directors.**

**Making various improvements designed to encourage shareholder participation in the General Shareholders' Meeting.**

**Approval of the remuneration of the directors and senior officers.**

**Subsequent reforms of the Corporate Governance System.**

**Coordination and supervision of the process of evaluation of the Board of Directors.**

## Social responsibility and sustainability

The Board is committed to the fight against climate change, the development of clean energy and respect for the environment and biodiversity, as well as the maximisation of the social dividend.

**Modification of various Social responsibility and sustainability policies.**

**Approval of incentives to strengthen the group's commitment to innovation.**

**Monitoring the group's activities in the area of Social Responsibility and the alignment thereof with the main leading bodies.**

**Review of the company's cybersecurity activities and protocols for conduct in the event of reputational impact.**

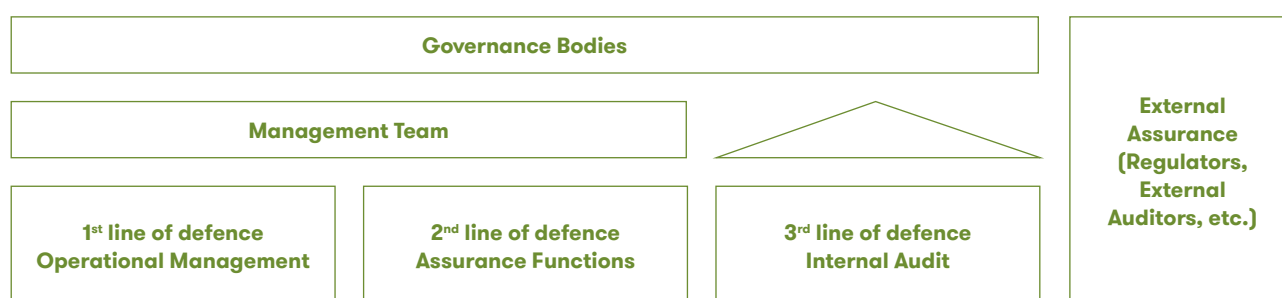
The Board of Directors has focused its work on defining strategy, monitoring the implementation and control of risks and advancing best corporate governance practices.

## 5.2 Three Lines of Defence

### Three lines of defence model

The Internal Control System of Iberdrola and the companies of its group is configured by reference to international best practices.

It is based on a guarantee combined around three lines of defence, providing a comprehensive view of how the different parts of the organisation interact in an effective and coordinated manner, increasing the efficiency of the processes for management and internal control of the entity's significant risks.



Based on the document "Guidance on the 8th EU Company Law Directive, article 41" ECIIA/FERMA, September 2010.

#### 1<sup>st</sup> line of defence

##### Operational Management

As the first line of defence, the management team and the professionals of Iberdrola and its group are the direct managers of the risks of the entity.

Thus, the company's Management is responsible for maintaining effective control and implementing procedures to control risks on a continuous basis.

#### Internal Control Objectives (COSO. May 2013)

**Operations objectives-** Pertain to the effectiveness and efficiency of the entity's operations, including operational and financial performance goals, and safeguarding assets against loss.

**Reporting objectives-** Pertain to internal and external financial and non-financial reporting and may encompass reliability, timeliness, transparency or other terms as set forth by regulators, recognised standard setters or the entity's policies.

**Compliance objectives-** Pertain to adherence to laws and regulations to which the entity is subject.

© **Significant Risks Facing Iberdrola's Primary Businesses**  
/ pages 50, 54, 58

#### 2<sup>nd</sup> line of defence

##### Assurance Functions

As the second line of defence, certain functions provide the foundation for the entity's internal control system, proposing guidelines to the Board of Directors and monitoring how the first line of defence implements them.

The primary assurance functions within Iberdrola, within their respective areas of responsibility, are: (i) the group's Risk Division, within the framework of its functions within the Comprehensive Risk Control and Management System; (ii) the Compliance Unit, which is responsible for proactively ensuring the effective operation of the Compliance System; and (iii) the Internal Control Division, which is part of the Administration and Control Division, within its duties relating to the internal control and risk management systems in relation to the preparation of financial information (ICFRS).

Iberdrola adopts the three lines of defence model to ensure effective and integrated management of its Internal Control System.

© **Comprehensive Risk Control and Management System**  
/ page 88

© **Compliance Unit**  
/ page 92

### 3<sup>rd</sup> line of defence

#### Internal Audit

The function of the Internal Audit area, as the third line of defence, is to proactively ensure the proper functioning of the internal control, risk management, and governance systems, systematically auditing the first and second lines in the performance of their respective duties of management and control.

To ensure its independence, the director of the Internal Audit Area reports hierarchically to the chairman of the Board of Directors and functionally to the Audit and Risk Supervision Committee. The Internal Audit divisions of the various country subholding companies have this same positioning, and are coordinated under the framework of the *Basic Internal Audit Regulations of Iberdrola and its group*.

The 2017 annual activity plans of the Internal Audit Area Division of Iberdrola and of the Internal Audit divisions of the group, with a risk-based focus looking to support the achievement of the company's goals, responded to the requirements established by the Audit and Risk Supervision Committee of Iberdrola and the respective Audit and Compliance Committees of the country subholding companies, and included work for the senior management and the rest of the organisation, including:

- Half-yearly reviews of the operation of the most critical controls of the Internal Control Over Financial Reporting (ICFR) System, as well as reviews of the various cycles of preparation of the financial information of Iberdrola, S.A. and the various companies of the group, within the framework of the general goal of reviewing the entire ICFR over a period of 3 years.
- Audits of key corporate and business processes and risks, based on the Risk Policies approved by the Board of Directors on an annual basis.
- Audits of compliance programmes and frameworks established by the group in the various areas of application, such as the crime prevention programme and the regulatory compliance programmes of the businesses.

Continuing with the commitment made in 2005, the Internal Audit area submits to an exhaustive review every five years of compliance with professional internal audit rules (called a Quality Assurance Review) by the Global Institute of Internal Auditors. During the last review in 2015, the certification of Iberdrola, S.A. and of ScottishPower was renewed and the scope of the certification was expanded to include Iberdrola España and Avangrid.

Furthermore, since the Internal Audit area obtained ISO 9001 certification in 1999, it has continued to renew it annually, with an update to version ISO 9001:2015 in 2017. This ensures that all of the group's internal auditors perform duties under the same framework and that such framework is aligned with the international professional rules of the function.

#### Basic Internal Audit Regulations of Iberdrola, S.A. and its group

Approved by the Board of Directors of Iberdrola upon a proposal of its Audit and Risk Supervision Committee (updated on 15-Dec-2015).

Defines its nature, as an independent internal unit, and establishes the regulation, competencies, powers and duties of Internal Audit, among other things.

Establishes the framework of relations with: i) the Board of Directors, its Chairman and Committees; ii) the Internal Audit divisions of the other companies of the group; and iii) the rest of the organisation.

Disseminates the knowledge of the Internal Audit function among the professionals of the group.

Serves as a reference for the management model and the quality system of the Internal Audit Area of the company and the Internal Audit divisions of the other companies of the group.

#### External assurance

Regulatory bodies and other entities external to the organisation play a significant role in the general structure of governance, internal control and risks of Iberdrola, especially in the regulated businesses. The regulators establish requirements intended to strengthen the controls of an organisation and perform a function of independent and separate monitoring, and the auditors provide assurance regarding the true and fair view of the entity's financial information. In this regard, the powers of the Audit and Risk Supervision Committee of Iberdrola and the Audit and Compliance Committees of the country subholding companies include ensuring the preservation of the independence of the auditors in the performance of their duties.

© Regulatory Environment  
/ page 46

© Audit Report on the Consolidated Financial Statements



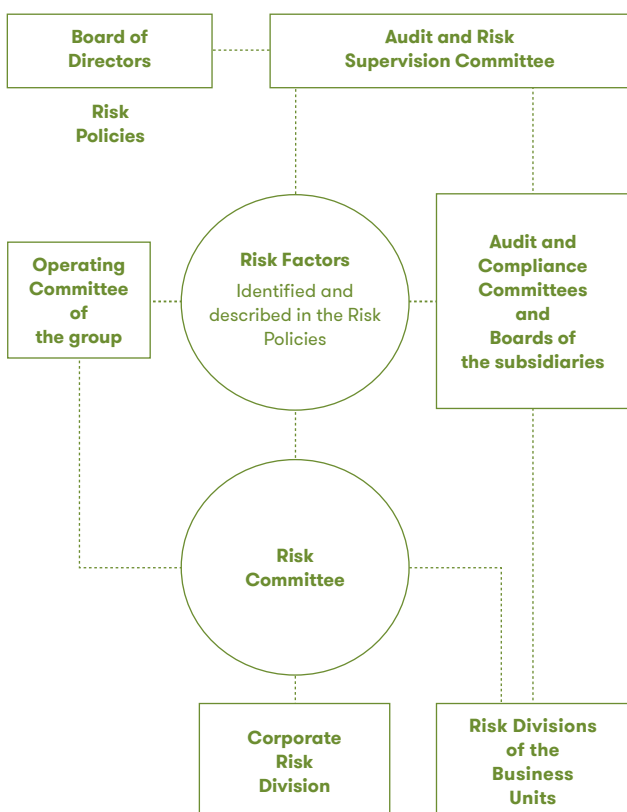
## 5.3 Risks

Risk management within the Iberdrola group is based on foresight, independence, commitment to the group's business objectives and the engagement of senior management and the Board.

### Commitment of the Board of Directors and of senior management

Iberdrola's Board of Directors and senior management is strongly committed to and engaged in the management of the group's risks:

- **Ex-ante:** acceptable levels of risk tolerance are reviewed and approved on an annual basis through risk policies and limits that establish the qualitative and quantitative risk appetite at the group level and at each of the main businesses and corporate functions.
- **Ex-post:** periodic monitoring of significant risks and threats and the various exposures of the group, as well as of compliance with the approved risk policies, limits and indicators.



### Comprehensive Risk Control and Management System

The *General Risk Control and Management Policy* of the group approved by the Board of Directors establishes the mechanisms and basic principles for appropriate management of the risk/opportunity ratio, at a risk level that makes it possible to:

- Attain strategic goals with controlled volatility.
- Provide the maximum level of assurance.
- Protect the results and reputation of the group.
- Defend the interests of the Stakeholders and guarantee the business stability and financial strength of the group.

At the operational level, the Comprehensive Risk Control and Management System is structured around a Risk Committee and an independent specialised Risk Division that analyses and quantifies the risks within the main businesses of the group.

#### Duties of the Risk Division

##### Active management

**Credit risk.** Approval of counterparties and limits and/or establishment of admission criteria in order to minimise credit losses within the group.

**Market risk.** Approval of detailed limits in order to delimit the effects of volatility in the markets in which the group operates.

##### ERM\* focus

Ensure that there are mechanisms for all significant risks of the group to be adequately identified, measured, managed and controlled at all times and that they are regularly reported to the various committees.

Instruments and reports:

- Risk policies and risk limits and indicators.
- Quarterly report on key risks.
- On-going monitoring and detection of emerging risks.

Operational risk is centrally managed through the group's corporate Insurance, Information Technology and Cybersecurity units.

(\*) ERM: Enterprise Risk Management.

## Risk policies and limits of the Iberdrola group

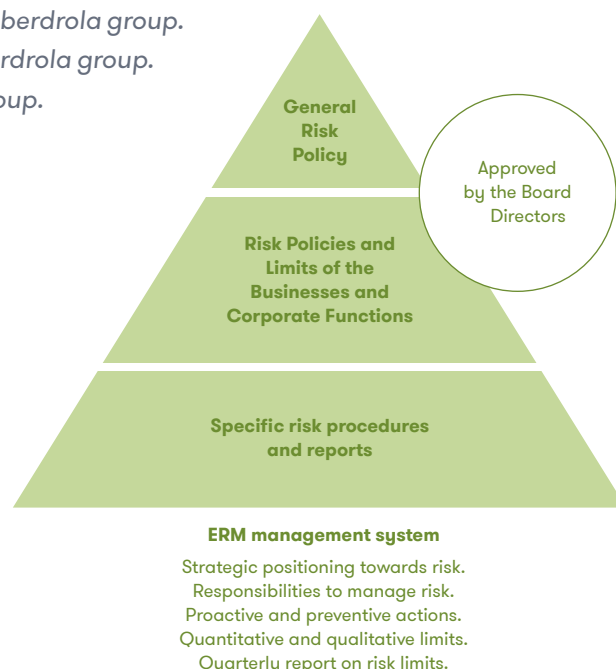
The *General Risk Control and Management Policy* is further developed and supplemented with specific policies established in relation to certain risks, corporate functions or businesses of the group, which are also annually approved by the Board of Directors at the head of the group, and which are as follows:

### Specific risk policies for the various businesses of the group:

- Risk Policy for the Wholesale and Retail Businesses of the Iberdrola group.
- Risk Policy for the Renewable Energy Businesses of the Iberdrola group.
- Risk Policy for the Networks Businesses of the Iberdrola group.
- Risk Policies for the Real Estate Business.

### Corporate risk policies:

- Corporate Credit Risk Policy.
- Corporate Market Risk Policy.
- Operational Risk in Market Transactions Policy.
- Insurance Policy.
- Investment Policy.
- Financing and Financial Risk Policy.
- Treasury Share Policy.
- Risk Policy for Equity Interests in Listed Companies.
- Reputational Risk Framework Policy.
- Procurement Policy.
- Information Technologies Policy.
- Cybersecurity Risk Policy.



The country subholding companies adopt the group's risk policies and specify the application thereof, approving the guidelines on specific risk limits, based on the nature and particularities of the businesses in each country. The listed country subholding companies, under their own special framework of strengthened autonomy, approve their own risk policies.

## Principal risk factors of the Iberdrola group

The group is exposed to various risks inherent in the different countries, industries and markets in which it operates, and which may prevent it from achieving its objectives and implementing its strategies. These risks are grouped into:

**Credit risks:** possibility of contractual breach by a counterparty, causing economic or financial losses.

**Market risks:** exposure to volatility in variables like prices of electricity and other energy commodities, exchange rate, interest rate, etc.

**Business risks:** deriving from the uncertainty of the behaviour of variables intrinsic to the business, characteristics of demand, climatology, etc.

**Operational, Technological, Environmental, Social and Legal Risks:** economic losses resulting from inadequate internal procedures, technical failures, human errors, climate change, etc.

**Political and regulatory risks:** coming from regulatory changes made by the regulators that can affect remuneration of the regulated businesses, environmental or tax provisions, etc.

**Reputational risks:** potential negative impacts on the company arising from performance below the expectations of its Stakeholders.

**Corporate governance risks:** those that endanger the corporate interest and strategy of the company.

## Risk factors and mitigation measures

Greater detail is offered below regarding the main risk factors for the income statement of a specific financial year and the main measures of mitigation to address them.

Price and demand risks			
Changes in the price of electricity	The main variable affecting the results of the group's Wholesale and Retail Businesses as regards market prices is the price of electricity, which relatively corresponds to the price of fuel and applicable emission rights, required to produce such electricity.		
	The group's Renewables Businesses preferentially sell their energy at: i) regulated tariff; or ii) fixed price via PPAs. The remaining market exposure of the Spain and United Kingdom Renewables Businesses is transferred to the Wholesale and Retail Business of such countries.		
Changes in energy commodity prices	Offsetting at-risk positions between wholesale and retail activities allows for a large reduction in the group's market risk; the remaining risk is mitigated via diversification of purchase/sale agreements and the specific clauses thereof, and by trading in derivatives.		
	– Spain	● Integrated Wholesale, Retail and Renewables Risk (Windfarms prior to 2004)	
	– United Kingdom	● Integrated Wholesale, Retail and Renewables Risk (power component of wind farms subject to ROCs)	
	– Mexico	● The PPAs with the CFE do not have a market risk	
	– United States	● For windfarms exposed to the market	
Change in demand	Higher or lower growth in annual demand has a moderate short-term impact on the group's results, given the characteristics of the group's generation facilities and the structure of the long-term power purchase agreements.	Possible impact of 1% reduction in demand	● Wholesale and Retail Spain ● Wholesale and Retail United Kingdom
Resource risks			
Change in hydroelectric resources Spain	In the long term, wet years compensate for dry years. In the short-to-medium term, the storage capacity of multi-year reservoirs and the group's portfolio of power plants mitigate the level of volatility of the annual results.	Possible impact of lower hydroelectric production (*)	● Spain Wholesale and Retail Business
Change in wind resources of the group	The geographical spread of the Iberdrola group's wind farms mitigates the annual volatility of wind production at the group level and its possible impact on results for a specific year.	Possible impact of lower wind production	● Group Renewables Business
(*) Corresponding to dry year, followed by two dry or semi-dry years.			
Financial risks			
Change in interest rate	In order to mitigate this risk, the Iberdrola group maintains a fixed-rate and variable-rate debt structure, based on the structure of its revenues and the sensitivity thereof to changes in interest rates.	Possible impact on financial cost of +25 bps increase	● Group financial cost
Change in exchange rate	The group mitigates this risk by taking on debt and carrying out all its financial flows in the functional currency corresponding to each company, whenever possible and economically efficient, and managing its open positions with financial derivatives. The risk associated with the translation of expected results from subsidiaries in a currency other than the euro is closed out annually.	Possible impact on financial cost of 5% increase in currency	● Group financial cost
Other risks			
Credit risk	This risk is appropriately managed and limited based on the type of transaction and the credit standing of the counterparties. As regards the credit risk of accounts receivable for retail activity, late payments/defaults have been kept to moderate levels, close to 1% of the total invoicing for this activity.		
Operational risk	These risks are mitigated by making the necessary investments, applying operation and maintenance procedures and programmes (supported by quality systems), planning appropriate training and skills development for staff, and finally by obtaining appropriate casualty and civil liability insurance.		
Regulatory and political risk	The group is subject to laws and regulations on tariffs and other regulatory aspects of its activities in the countries in which it does business. The introduction of new laws/regulations or amendments to existing ones could adversely affect operations, annual results and the financial value of the businesses of the group.		

● <15 M€ ● 15-50 M€ ● >50M€





Reception at Iberdrola Tower, Bilbao  
/ Spain

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## 5.4 Ethics and Social Responsibility

### Compliance Unit

Iberdrola has a Compliance Unit, as a collective, internal and permanent body linked to the Corporate Social Responsibility Committee of the Board of Directors.

There are also Audit and Compliance Committees at the level of each country subholding company and/or head of business company. Their duties include promoting a culture of ethical behaviour and zero tolerance for the commission of unlawful acts or fraud.

Iberdrola's Compliance System is made up of the substantive rules, formal procedures and major activities within the group to encourage the organisation to act in accordance with applicable ethical principles and legal provisions, through a set of procedures and actions designed to prevent, detect and react to irregular actions, fraud or actions contrary to the Iberdrola group's *Code of Ethics* or applicable laws and regulations.

#### Main activities in the area of ethics and compliance

Within the framework of the Compliance System, the group engages in various monitoring actions and systems in different areas relating to regulatory compliance.

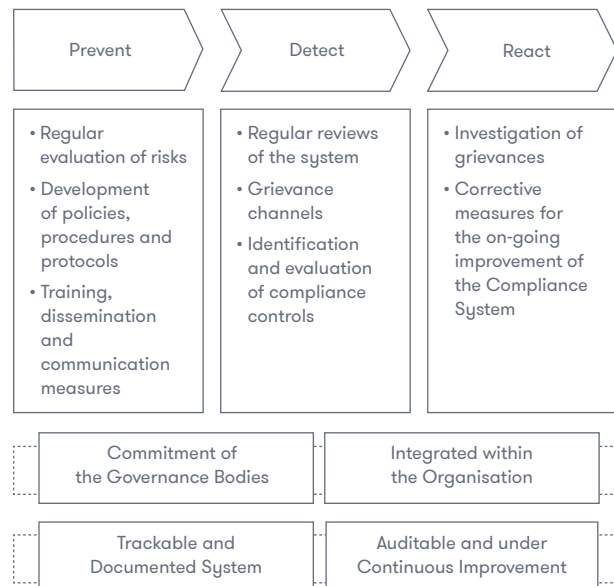
These include (i) the crime prevention programmes, which are developed within the provisions of the Spanish Criminal Code (without prejudice to additional actions required by the laws of any other jurisdiction in which the group does business), (ii) measures for compliance with the *Code of Ethics*, which includes specific training and communication plans for all professionals of the group, as well as the grievance channels, and (iii) specific internal rules on fraud and corruption.

Iberdrola also has a Compliance Unit Office (the "Office"), managed by the Iberdrola's Compliance Director and made up of members representing the areas or functions with responsibility or powers in areas relating to compliance. These functions are coordinated through the Office, thus ensuring the effective functioning of the Compliance System as a whole.

#### Powers of the Unit

The Compliance Unit has powers related to the *Code of Ethics*, the *Anti-Corruption and Anti-Fraud Policy*, the *Crime Prevention Policy*, the *Internal Regulations for Conduct in the Securities Markets*, legal provisions regarding the separation of activities, and all other powers that may be entrusted thereto by the Corporate Social Responsibility Committee or the Board of Directors of the company or that are established in Iberdrola's Corporate Governance System.

#### The Iberdrola group's compliance system



#### Principal recognitions

In 2017 AENOR granted Iberdrola certification under the *UNE-ISO 37001* standard, by which it is verified that the company has an effective anti-bribery management system, resulting in Iberdrola being the first Spanish company and one of the first in the world to obtain this recognition.

AENOR has also certified that the Iberdrola's criminal compliance management system is effective and conforms to the provisions of the *UNE 19601* standard. Finally, Iberdrola has been chosen for the fifth consecutive year as one of the most ethical companies in the world, according to the *World's Most Ethical Companies* ranking prepared by the *Ethisphere Institute*. This ranking recognises organisations that are committed to ethical leadership and behaviour at the corporate level.

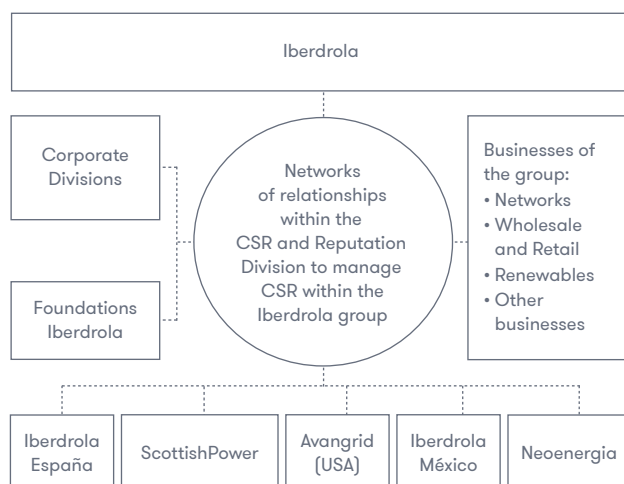




Iberdrola considers its corporate values to include ethical principles, good governance and transparency, and social commitment.

## Organisation of social responsibility within the group

The Iberdrola group has an organisational structure designed to promote and manage responsible actions with its Stakeholders.



The Corporate Social Responsibility and Reputation Committee and the CSR and Reputation Committees of the country subholding companies coordinate the balanced development of social responsibility within the Iberdrola group. The CSR Committee of the Board of Directors performs the duties of supervision within its purview.

## CSR plans of the group

2015 saw the approval of the *CSR Plan 2015-2017* for the Iberdrola group, covering five areas of activity (dialogue with local communities, measurement tools, etc.), with a focus based on the various Stakeholders groups.

The CSR Plan is made up of various programmes, projects and monitoring indicators, both cross-sectional for all involved organisations of Iberdrola as well as specific for each business or corporate area of the company.

Monitoring of the Plan is analysed on a half-yearly basis by the Corporate CSR and Reputation Committees and the CSR Committee of the Board of Directors.

At the time of publication of this report, this plan was already satisfactorily completed, and a new CSR Plan is being prepared.

## External awards

Only European electric utility included in the 18 editions, regarded as one of the eight top sustainable electric utilities in the world.



Top utility with nuclear assets selected for the index 7 years in a row.



FTSE4Good

A rating in CDP Climate Change.



Iberdrola a sponsor.



Iberdrola selected AAA.



Iberdrola selected.



Classified as "Silver Class" in the electricity sector.



First Spanish utility and fifth worldwide.



Leader among Spanish utilities: energy, gas and water.



Iberdrola classified as Prime.



Iberdrola classified as the top utility in the sustainability reporting performance 2017 report.



Rated on the Stoxx ESG Leaders/Eurostoxx Sustainability 40.



Only utility in continental Europe included in the index.





Iberdrola Tower, Bilbao  
/ Spain

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# About this Report

**This report, which Iberdrola directs to both its shareholders and investors and all of its Stakeholders, has been prepared under the innovative “integrated report” concept, and constitutes one more example of the group’s desire to be innovative in the area of transparency.**

# 6.1 About this Report

## Integrated report

- This report has been prepared in accordance with the reporting framework published by the International Integrated Reporting Council (IIRC) and in accordance with the recommendations thereof, taking into consideration the individual and consolidated financial statements of the company formulated by the Board of Directors, audited and pending approval by the shareholders at the General Shareholders' Meeting of Iberdrola.
- A multi-disciplinary team made up of corporate businesses and areas of the group was created in order to provide a complete view of the company, its business model, the challenges and risks it faces, and its social, environmental, financial and governance performance. The participating organisations guarantee the completeness of the information included.
- The content of this document has been reviewed by the company's Operating Committee. It has also been reported on favourably by the Corporate Social Responsibility Committee, which has submitted the report to the Board of Directors for its final consideration.

Based on all of the foregoing, the Board of Directors approved this *Integrated Report February 2018* at its meeting of 20 February 2018.

## Information boundaries

- The information submitted covers Iberdrola and its subsidiaries and affiliates. The information boundaries are defined in the group's consolidated annual financial statements and *Sustainability Report*.
- The group's performance in recent years has been influenced by external corporate transactions, which the reader should take into account in order to properly interpret this report. These transactions and activities are described in the group's public information, the following being particularly noteworthy:
  - The integration of UIL Holdings Corporation into Iberdrola USA (December 2015), which is now called Avangrid, a company listed on the New York Stock Exchange and the country subholding company of the group in the United States.
  - All of the businesses of the group held in Brazil through Elektro Holding were incorporated into Neoenergia on 24 August 2017. As a result of this transaction, Iberdrola's interest in Neoenergia increased from 39% to 52%.

This report has been prepared in accordance with the reporting framework published by the International Integrated Reporting Council (IIRC).

## Material aspects identified

- Iberdrola has channels of communication and dialogue with its Stakeholders, developed in accordance with the principles of the *AA1000 Assurance Standard*, as described in detail in the *Stakeholder Relations Policy* and in the *Sustainability Report*.
- The company also performs materiality analyses that help identify matters of significance to its Stakeholders, bringing to light particularly sensitive financial, environmental or social issues related to the business in the various communities and geographic areas in which the group operates.
- The contents of this report have been selected by taking into account the existing channels for dialogue as well as the materiality analyses and the framework defined by the IIRC for this kind of information.

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## Internal and external verification

- This report has been subject to a process of internal verification, by means of a limited review performed by the Management of the Internal Audit Division of Iberdrola.
- Although it has not been subject to a process of independent external verification, a significant portion of the information contained herein relating to financial year 2017 and to previous years comes from annual financial reports and sustainability reports, all of which have been the subject of an external audit or verification for which the respective certificates are available. The remaining information comes mainly from other reports or public presentations made by the company.

**Legal disclaimer with respect to forward-looking statements, errors and omissions**

- This document contains information and forward-looking statements regarding Iberdrola. Such statements include projections and estimates and their underlying assumptions, statements regarding plans, objectives and expectations with respect to future transactions, investments, synergies, products and services, and statements regarding future performance. Forward-looking statements are not historical facts and are generally identified by the words “expects”, “anticipates”, “believes”, “intends”, “estimates” and similar expressions.
- In this regard, although Iberdrola believes that the expectations reflected in such statements are reasonable, investors and holders of Iberdrola shares are cautioned that forward-looking information and statements are subject to risks and uncertainties, many of which are difficult to predict and generally beyond the control of Iberdrola, which risks could cause actual results and developments to differ materially from those expressed in, or implied or projected by, the forward-looking information and statements. These risks and uncertainties include those identified in the documents sent by Iberdrola to the National Securities Market Commission (*Comisión Nacional del Mercado de Valores*) and which are accessible to the public.
- Forward-looking statements are not guarantees of future performance and have not been reviewed by the auditors of Iberdrola. You are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date they were made. All forward-looking statements reflected in this report are subject to the warnings provided and are based on information available as of the date of approval hereof. Except as required by applicable law, Iberdrola does not undertake any obligation to publicly update its forward-looking statements or to revise any forward-looking information, even if new data are published or new events occur.



## Glossary of terms and abbreviations

Term	Definition	Term	Definition
ACGR	Annual Compound Growth Rate. Page 42	ITC	Investment Tax Credit. Pages 47, 57
ANEEL	<i>Agência Nacional de Energia Elétrica</i> . Pages 49, 50, 51, 66	LBG	London Benchmarking Group. Pages 31, 76
BEIS	<i>Department of Business, Energy and Industrial Strategy (UK)</i> . Page 46	NOE	Net Operating Expenses. Pages 50, 64
CEF	Corporate Environmental Footprint. Page 72	NYSEG	New York State Electric and Gas Corporation. Page 49
CEL	Clean Energy Certificates. Page 57	Ofgem	<i>Office of Gas and Electricity Markets (UK)</i> . Pages 46, 49, 53, 54, 66
CEO	Chief Executive Officer. Page 43	PPA	Power Purchase Agreement. Pages 90, 91
CFE	Comisión Federal de Electricidad. Pages 38, 90, 91	PTC	Production Tax Credit. Pages 47, 57
CFO	Chief Financial Officer. Page 43	RAB	Regulated Asset Base. Pages 49, 50
COP21	Paris Climate Conference - UN Framework and Convention on Climate Change (UNFCCC). Pages 28, 46	REV	Reforming the Energy Vision. Page 66
EBITDA	Earnings Before Interests, Taxes, Depreciations and Amortizations. Pages 7, 11, 33, 40, 42, 51, 55, 59, 64, 65, 90	RG&E	Rochester Gas and Electric. Page 49
EPD	Environmental Product Declaration. Page 72	RIIO-ED1	Revenue=Incentives + Innovation + +Outputs. Electricity Distribution 1. Pages 49, 50
EU ETS	European Union Emissions Trading System. Page 61	RIIO-T1	Revenue=Incentives + Innovation + +Outputs. Transmission 1. Pages 49, 50
FFO	Funds from operations. Pages 31, 40, 64	RIIO-T2	Revenue=Incentives + Innovation + + Outputs. Transmission 2. Page 49
GDP	Gross Domestic Product. Pages 7, 14, 16, 18, 20, 22, 31, 41	ROE	Return on equity. Page 49
GHG	Greenhouse Gas. Page 72	SCG	Southern Connecticut Gas. Page 49
ICFRS	Internal Control Over Financial Reporting System. Page 86	SDGs	Sustainable Development Goals. Pages 32, 76
IEA	International Energy Agency. Pages 28, 29	TCFD	Task Force for Climate Change Risk Financial Disclosure. Pages 31, 32
IIRC	International Integrated Reporting Council. Pages 63, 96	UI	United Illuminating. Pages 49

Integrated Report, February 2018

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Spain

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