

Innovation Policy

20 December 2016

The Board of Directors of IBERDROLA, S.A. (the “Company”) directs innovation in the Company and the companies belonging to the group of which the Company is the controlling entity, within the meaning established by law (the “Group”), towards an ever more efficient management of available resources and knowledge, while ensuring that the best technologies are efficiently introduced, providing competitive advantages for the Group as well as benefits for the shareholders, customers, employees, and other stakeholders of the Company.

1. Purpose

Innovation is the Group’s principal tool for ensuring sustainability, efficiency, and competitiveness, and is a strategic variable that affects all of its businesses and all of its activities.

This *Innovation Policy* further develops the provisions of the Group’s values relating to innovation and seeks to define and disseminate the strategy allowing the Company and its Group to become leaders in innovation in the energy industry, with their activities in this field pivoting around sustainable development, development of renewable energy, and emerging technology, always complying strictly with applicable law and with other commitments of the Group.

The Company sees innovation as an open and decentralised process. It is decentralised because it is carried out independently in each business unit, with the support of and coordinated by the Company’s Innovation, Environment, and Quality Division, which is subordinate to the Chairman’s Office. It is open because the Company considers itself to be a technology driver and, as such, its vocation is to involve technology suppliers of the Group, such as universities, technology centres, and equipment manufacturers, in its innovation process.

In addition, the Company believes that the innovation process must be consistent among all business units, and, to that end, the Innovation, Environment, and Quality Division is responsible for the implementation thereof.

2. Main Principles of Conduct

The *Innovation Policy* is based on the following principles of conduct:

- a) Promote research, development and innovation (RD&I) activities, focusing on efficiency aimed at the ongoing optimisation of the Group’s business operations, management of facilities and equipment lifespans, reduction of operation and maintenance costs, and decrease in environmental impact, as well as the development of new products and services to satisfy the needs of the customers.
- b) Place the Group at the forefront of new technologies and disruptive business models, by practising a “culture of innovation” that pervades the entire organisation and creates motivating work environments that favour and reward the generation of ideas and innovative practices by professionals, accepting risk and recognising creative contributions.
- c) Create innovations fostering sustainable growth and the efficient management of resources and contributing to the social and economic development of the surroundings in which the Group does business.
- d) Engage in projects in the area of universalisation of energy services based on models that are environmentally sustainable, economically feasible, and socially inclusive.
- e) Incorporate innovation into all training within the companies of the Group by means of courses and specific programmes to develop skills relating to creativity.
- f) Implement an innovation management system that includes the establishment of annual targets and goals as part of an ongoing improvement process, managing the Company’s human and intellectual capital as an effective support for the entire creative and innovative process.
- g) Promote a system of technological monitoring and prospecting to identify opportunities and challenges for the businesses of the Group and detect the need for innovation in processes or services to allow it to act in advance of technological changes in the market.
- h) Foster cooperation and alliances with the academic world and with other interested parties, by means of links that make it possible to multiply the innovative capacity of the Group.
- i) Circulate internally the knowledge gained, so that all professionals are familiar with the best practices applicable to their activity in the search for efficiency and effectiveness in the processes of the Group.
- j) Protect the results of the innovation process, managing intellectual and industrial property suitably and ethically, which shall in every case entail respect for the intellectual and industrial property of third parties.
- k) Support innovations that provide added value for users and boost the satisfaction of shareholders, customers, employees, and other stakeholders.

3. Innovation Strategy of the Listed Country Subholding Companies of the Group

The provisions of this *Innovation Policy* shall in any case be deemed to be without prejudice to the strengthened autonomy enjoyed by the listed country subholding companies of the Group to determine their own innovation strategy, which must be consistent with the policy established for the rest of the Group and with the provisions of this *Innovation Policy*.

This *Innovation Policy* was initially approved by the Board of Directors on 18 December 2007 and was last amended on 20 December 2016.

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