



General Shareholders' Meeting / 2019

Report of the Board of
Directors
Proposed amendments
of the By-Laws



REPORT OF THE BOARD OF DIRECTORS OF IBERDROLA, S.A. REGARDING THE PROPOSED AMENDMENTS OF THE BY-LAWS INCLUDED IN ITEMS NUMBER FIVE AND SIX ON THE AGENDA FOR THE 2019 GENERAL SHAREHOLDERS' MEETING

1. Object of the Report

This report has been prepared by the Board of Directors of IBERDROLA, S.A. ("**Iberdrola**" or the "**Company**") pursuant to the provisions of section 286 of the *Companies Act (Ley de Sociedades de Capital)*, in order to provide a rationale for the proposed amendments of the *By-Laws* included in items number five and six on the agenda.

Pursuant to such section, the Board of Directors has prepared this report setting forth the purpose of and rationale for the proposed by-law amendments, attaching such proposed amendments below.

In addition, in order to provide the shareholders with a clear view of the scope of the amendment and a comparison between the new text of the articles proposed to be amended and the text currently in effect, attached to this report as an annex is a verbatim transcription of both texts organised in a two-column table, for information purposes. The text contained in the right-hand column shows the changes proposed to be made to the text currently in force, which is contained in the left-hand column.

2. Purpose of and Rationale for the Proposals

The amendment submitted to the shareholders for approval at the General Shareholders' Meeting seeks to achieve several aims: to reflect the purpose and values of the Iberdrola group, to formalise its commitment to the Sustainable Development Goals approved by the United Nations (the "**SDGs**"), to update the references to the Corporate Social Responsibility Committee, which is now called the Sustainable Development Committee, and to introduce improvements to the text using inclusive language.

The purpose of each of such amendments and a detailed description of the rationale therefor are set forth in the sections below.

2.1 **The purpose and values of the Iberdrola group**

The future entails challenges and opportunities. A distinctive feature of the Iberdrola group has historically been its record of growth and anticipation of the energy needs of society through the adoption of solutions that preserve the environment for future generations.

It is along this path that Iberdrola has become a world leader in renewable energy. In particular, over the last 15 years, the Company has undertaken a profound transformation, decisively getting ahead of the energy transition in order to face the challenges posed by climate change and the need for clean electricity.

Iberdrola has thus attained a position built upon strong values, through an integration process involving contributions from different cultures on both sides of the Atlantic, held together by a *raison d'être*, a purpose.

The main objective of the by-law amendment submitted to the shareholders for approval at the General Shareholders' Meeting is to formalise such purpose, which is the product of deep reflection about the reasons why Iberdrola exists and why it does what it does.

Cemented by a history of business success, this process of reflection looks to the challenges and opportunities presented by the future of the energy industry, which is undergoing continuous change based on three main pillars: technological progress, decarbonisation and electrification, and an increase in customer connectivity. Iberdrola is convinced that this transformation process must necessarily lead to a change in the energy model. A better model: healthier, more accessible and based on electricity.

The Iberdrola group is aware of the need for this change, and also of the need to tackle it in collaboration with all of its stakeholders.

Such change is the purpose pursued by the Iberdrola group: "to continue building together each day a healthier, more accessible energy model, based on electricity".

This purpose, in line with the provisions of the *General Sustainable Development Policy* and with the strategic pillars underlying the "Outlook 2018-2022", expresses:

- The Iberdrola group's commitment to what today constitutes an urgent social need: the transformation of the current energy model towards a new model that prioritises the well-being of people and the preservation of the planet.
- The commitment to a real and global energy transition based on decarbonisation and electrification of the energy sector and of the economy as a whole, decidedly contributes to the fight against climate change, and at the same time favours the creation of new opportunities for economic, social and environmental development.



- Foresight. The fact that Iberdrola has spent more than a decade working to make this transformation a reality, driving the development of clean energy throughout the world, and that it continues to invest its resources to reach the objectives of the Paris Agreement.
- The Iberdrola group's determination to continue building a more electricity-based energy model, which abandons the use of fossil fuels and generalises the use of renewable energy sources, the efficient storage of energy, smart grids and digital transformation.
- The conviction that a more electricity-based energy model is also healthier for people, whose health and well-being in the short term depend to a large extent on the environmental quality of their surroundings (air, water, food, biodiversity, etc.), and in the long term to the success of the fight against climate change.
- The Iberdrola group's aspiration for the new energy model to be not only more electricity-based and healthy, but also more accessible to all, thus favouring inclusiveness, equality, equity and social development.
- The Iberdrola group's desire to continue building this new model in collaboration with all involved players, pursuant to the provisions of the *Stakeholder Relations Policy*.

This corporate purpose is also aligned with the Iberdrola group's commitment to the shared creation of value and the generation of a social dividend, its sustainable development and corporate social responsibility strategy, and thus the 2030 Agenda and the Sustainable Development Goals (SDGs) approved by the United Nations.

This is a shared proposal, to which Iberdrola contributes with its activities and which is based on three key values, which inspire and guide its strategy and all of its actions, which are common to all companies making up the Iberdrola group:

- Sustainable energy:

The first of the three new values, sustainable energy, is explained by the Iberdrola group's desire to always be a model of inspiration, creating economic, social and environmental value throughout its environment and thinking about the future, which is given shape in the Company's sustainable development policies and in its entire corporate social responsibility strategy.

This value also expresses the commitment to responsibility, ethics, safety and transparency.

In this regard, the value of sustainable energy seeks to express the idea that the Iberdrola group and all of its professionals act responsibly towards people, communities and the environment, committed to Iberdrola's sustainable development strategy, seeking maximisation of the social dividend generated by the group's activities and businesses, from which all of its stakeholders benefit.

- Integrating force:

The second of the values is made up of the integrating force. This means to express the force and responsibility of the group, which works to involve all of its stakeholders in accordance with the provisions of the *Stakeholder Relations Policy* and its strategy in this area.

This value, which expresses the commitment to diversity, dialogue, empathy and solidarity, attempts to reflect the Iberdrola group's aspiration for all of its professionals to form a diverse team united around a common purpose, which works without geographic, cultural or operational barriers, which shares talent, knowledge and information, and which has a global, long-term vision. This second value also links the group's *Human Resources Framework Policy* to its talent recruitment and management strategy.

- Driving force:

The third of the values is the driving force, which reflects the innovative commitment of the Iberdrola group, seeking to make into a reality small and large changes that make life easier for people, being efficient and self-demanding, always seeking continuous improvement, and which expresses the commitment to other values like simplicity, agility and foresight.

The value of driving force seeks to express the non-conformist attitude that the Iberdrola group expects from its professionals, the constant pursuit of excellence and opportunities for improvement, embracing change and new ideas, as well as the desire to learn from mistakes and make progress based on feedback to their actions, staying ahead of the customers' needs

The value of driving force is also consistent with the fact that the Iberdrola group favours work organisation and information exchange processes that are simple, agile and efficient and which make good use of technology.

In order to include the purpose and the corporate values within the *By-Laws* of the Company, expressly acknowledge the regulatory nature thereof and update the references therein to the *Mission, Vision and Values of the Iberdrola group*, which after the approval by the Board of Directors of the Amendment of the provision on 19 February 2019, is now called the *Purpose and Values of the Iberdrola group*, it is proposed to amend the preamble



and articles 4, 6, 8 and 32 of the *By-Laws*. Various technical improvements are also included in the text of article 4 in order to make the regulation of the group's corporate structure more flexible.

2.2 Formalisation of the Iberdrola group's commitment to the SDGs

Secondly, the amendment of the *By-Laws* is aimed at formalising the Iberdrola group's commitment to the SDGs.

Consistently with its activities, the Iberdrola group focuses its efforts on the supply of affordable and clean energy (SDG number seven) and on climate action (SDG number thirteen), for which purpose it has designed a specific plan of long-term incentives. In addition, the group contributes directly to ensuring the availability of clean water and sanitation (SDG number six), has increased its investments in R&D+i (SDG number nine), promotes respect for terrestrial ecosystems (SDG number fifteen) and works on the establishment of partnerships to achieve the goals (SDG number seventeen).

Iberdrola also contributes in an indirect manner to the other SDGs, the achievement of which it supports and whose underlying principles guide all of its activities. The Iberdrola group's contribution to the social and economic development of the communities in which it does business and to the protection of the environment is channelled through its sustainable energy business model and translates into the social dividend generated.

On 23 October 2018, the Board of Directors of Iberdrola approved a wide-ranging reform of its Corporate Governance System in order to include the SDGs in its business strategy and its internal regulations.

As a culmination point in this reform process, it is proposed to amend the preamble and article 7 of the *By-Laws* in order to include the Iberdrola group's commitment to the achievement of the SDGs at the highest rule-making level.

2.3 Reflecting the change of name of the Corporate Social Responsibility Committee, which is now called the Sustainable Development Committee

At the meeting held on 23 October, the Board of Directors also decided to change the name of the Corporate Social Responsibility Committee, which was thereafter called the Sustainable Development Committee. In so doing, the Iberdrola group wished to emphasise its commitment to the SDGs and to the group's sustainable development strategy.

In order to ensure the proper internal consistency of the Corporate Governance System, in which the *By-Laws* are the fundamental set of regulations, it is proposed to amend articles 37 and 41 of the *By-Laws* by updating the references to the Corporate Social Responsibility Committee.

2.4 Other wording improvements

Lastly, it is proposed to insert other wording improvements using inclusive language. The amendments proposed for this purpose affect the preamble and articles 6, 7, 8, 22, 32, 33, 34 and 49, as described in the annex to this report.

3. Layout of Proposed Amendments

To facilitate the proper exercise of voting rights by the shareholders, pursuant to the provisions of section 197 *bis* of the *Companies Act* and article 40.1 of the *Regulations for the General Shareholders' Meeting*, the amendments of the preamble and of articles 4, 6, 7, 8, 22, 32, 33, 34 and 49 of the *By-Laws* is submitted for the approval of the shareholders at the General Shareholders' Meeting grouped into a single item on the agenda (item number five on the agenda), given that all of them share the same ends: to reflect the purpose and values of the Iberdrola group, to formalise its commitment to the SDGs and to improve the text using inclusive language.

Furthermore, the amendments of articles 37 and 41 of the *By-Laws* to update the references to the Corporate Social Responsibility Committee, which since October 2018 has been called the Sustainable Development Committee, are submitted to joint voting (item number six on the agenda) that is separate from those set out in the preceding item.

4. Proposed Resolutions Submitted to the Shareholders at the General Shareholders' Meeting

The proposed resolutions submitted to the shareholders for approval at the General Shareholders' Meeting read as follows:

"ITEM NUMBER FIVE ON THE AGENDA"

Amendment of the preamble and articles 4, 6, 7, 8, 22, 32, 33, 34 and 49 of the By-Laws in order to reflect the purpose and values of the Iberdrola group, formalise its commitment to the Sustainable Development Goals (SDGs) approved by the United Nations and improve the text using inclusive language.

RESOLUTION

To amend the preamble and articles 4, 6, 7, 8, 22, 32, 33, 34 and 49 of the By-Laws in order to reflect the purpose and values of the Iberdrola group, formalise its commitment to the Sustainable Development Goals (SDGs) approved by the



United Nations and improve the text using inclusive language. The preamble and said articles shall hereafter read as follows:

"PREAMBLE

Organised in 1901, Iberdrola represents a business model built on a purpose and certain values, the common denominator and main engine of which is a commitment to the creation of sustainable value in the performance of all of its activities for its professionals, suppliers and shareholders, the people to whom it supplies energy, society and other stakeholders.

These By-Laws constitute the core of its internal system of rules. Pursuant to the corporate autonomy recognised by law, they govern the company contract that all shareholders accept upon acquiring such status and lay the foundations and principles determining the governance of Iberdrola as the controlling entity of a multinational entity group.

The By-Laws go much beyond the content required by law and what is customary for listed companies in that they define in their preliminary title the foundations of Iberdrola as an independent, open holding company of an international industrial group, which is decentralised and committed to a purpose and values, as well as the Sustainable Development Goals (SDGs) approved by the United Nations. The By-Laws also recognise the fact that Iberdrola, due to its size and importance, constitutes an institutional reality, a focal point for many stakeholders and for the economic and social environment in which it does business.

The text of these By-Laws is inspired by the Iberdrola group's purpose, to continue building together each day a healthier, more accessible energy model, based on electricity, as well as by its corporate values: sustainable energy, integrating force and driving force. The purpose and values of the Iberdrola group constitute its corporate philosophy, the ideological and axiological foundation on which its own business enterprise is based, the set of ideas, values and principles that inspire the organisation and conduct of Iberdrola and its group, guide the realisation of its object and specify and give substance to the corporate interest.

The regulatory nature of the purpose and values of the Iberdrola group is expressly recognised in the preliminary title of the By-Laws, at the top of its internal rules, as they are called upon to guide the application and interpretation thereof (always in accordance with applicable law), to govern the day-to-day activities of the Company, to channel its leadership role in its various areas of activity and to guide its sustainable development strategy and the ethical behaviour of all personnel participating in the daily construction of Iberdrola's business enterprise.

In turn, these By-Laws, approved by the shareholders of the Company at a General Shareholders' Meeting, the maximum governance body through which the people holding the legitimate ownership of Iberdrola express their desire, are the basis on which the Company has built its Corporate Governance System, a regulatory structure that ensures the effective articulation of the corporate purpose and values of the Iberdrola group in the form of a true regulatory system. As such, it is subject to continuous review and update in order to immediately conform to regulatory changes and to the most stringent international standards.

The Corporate Governance System makes up a business model that combines a decentralised decision-making structure, inspired by the principle of subsidiarity, with robust coordination mechanisms ensuring the global integration of all of the group's businesses, all on the basis of an effective system of checks and balances that prevents the centralisation of power within a single governance body or a single person.

To the extent applicable thereto, Iberdrola's By-Laws and the other provisions of its Corporate Governance System bind its shareholders, the members of the Board of Directors, senior management and other professionals, as well as any persons validly linked thereto on a general basis. All have the duty to comply with them, as well as the right to demand compliance therewith."

"Article 4. The Iberdrola Group

1. *The Company is configured as a listed holding company and is the controlling entity of a multinational group of companies (the "Group").*
2. *The corporate and governance structure of the Group is defined based on the following:*
 - a) *The Company has duties relating to the establishment, supervision, and implementation of the policies and strategies of the Group, of the basic guidelines for the management thereof, and of decisions on matters of strategic importance at the Group level, as well as the design of the Corporate Governance System.*



- b) *Country subholding companies group together equity stakes in the Group's head of business companies and perform the duty of organisation and coordination in relation to the countries and/or businesses that the Company's Board of Directors decides, disseminating, implementing and ensuring compliance with the policies, strategies and general guidelines of the Group based on the characteristics and unique aspects of their respective countries and/or businesses.*

The listed country subholding companies of the Group enjoy a special framework of strengthened autonomy that contemplates the measures that are appropriate to safeguard the interests of the minority shareholders of said companies.

- c) *Finally, the head of business companies of the Group are in charge of the day-to-day administration and effective management of each of the Group's businesses within one or more countries, and of the day-to-day control thereof.*

3. *All companies of the Group share the same corporate interest as well as an identical purpose, corporate values and ethical principles."*

"Article 6. Corporate Interest

The Company conceives of the corporate interest as the common interest of all persons owning shares of an independent company focused on the sustainable creation of value by engaging in the activities included in its corporate object, taking into account other stakeholders related to its business activity and its institutional reality, in accordance with the Purpose and Values of the Iberdrola group.

Article 7. Social Dividend

1. *The Company conceives of the social dividend as the sustainable creation of value for all stakeholders affected by the activities of the Group, the advancement of business communities which the Company participates in and leads, both from the economic viewpoint and from the perspective of business ethics, the promotion of equality and justice, the encouragement of innovation and protection of the environment, as well as through the generation of quality employment and leadership in the fight against climate change.*
2. *The social dividend measures the direct, indirect and induced impacts of all of the Company's activities in the economic, social and environmental areas, and particularly its contribution to the Sustainable Development Goals (SDGs) approved by the United Nations.*
3. *Through its sustainable development strategy, the Company causes all of its stakeholders to participate in the social dividend generated by its activities, sharing the created value with them.*

Article 8. Applicable Legal Provisions and Corporate Governance System

1. *The Company is governed by the legal provisions relating to listed companies and other applicable laws and regulations, as well as by its Corporate Governance System.*
2. *The Corporate Governance System is the Company's internal system of rules, which is configured in accordance with applicable law in the exercise of corporate autonomy supported thereby and applies to the entire Group. It is intended to ensure through rule-making the best development of the corporate contract that binds its shareholders, and especially the corporate object, the corporate interest and the social dividend, as defined in the preceding articles.*
3. *The Company's Corporate Governance System is made up of these By-Laws, the Purpose and Values of the Iberdrola group, the Code of Ethics, the corporate policies and the other governance and compliance rules.*
4. *The Purpose and Values of the Iberdrola group set out its raison d'être, the ideological and axiological foundation of its business enterprise, which, due to its size and the importance, is a focal point for many stakeholders and for the economic and social environment in which its component entities do business.*
5. *The Purpose and Values of the Iberdrola group also inspires and takes form in the corporate policies and in the other rules of the Corporate Governance System, governing the day-to-day activities of all entities of the Group and guiding their strategy and all of their actions.*
6. *The shareholders acting at a General Shareholders' Meeting and the Board of Directors of the Company, within their respective purview, develop, apply, and interpret the rules making up the Corporate Governance System in*



order to ensure compliance at all times with the purposes thereof and, particularly, the fulfilment of the corporate interest.

7. *Full or summarised versions of the rules making up the Corporate Governance System can be viewed on the Company's corporate website."*

"Article 22. Right to Attend

1. *The holders of at least one voting share may attend the General Shareholders' Meeting and take part in deliberations thereof, with the right to be heard and to vote.*
2. *The General Shareholders' Meeting may be attended by going to the place where the meeting is held or, if so indicated in the call to meeting, to other places provided for such purpose by the Company and that are connected with the principal meeting place by systems that allow recognition and identification of the parties attending, permanent communication among the attendees regardless of their location, and participation and voting, all in real time. Attendees at any of such places shall be considered to be attendees at the same individual meeting, which shall be deemed to have been held at the principal location thereof.*
3. *In order to exercise the right to attend, shareholders must cause the shares to be registered in their name in the corresponding book-entry register at least five days prior to the day on which the General Shareholders' Meeting is to be held.*
4. *The chair of the General Shareholders' Meeting may authorise the attendance of executive personnel, professionals of the companies of the Group and other persons related to the Company. The chair may also grant access to the media, to financial analysts, and to any other person the chair deems appropriate, as well as authorise the simultaneous or delayed broadcast thereof, although the shareholders acting thereat may revoke such authorisation."*

"Article 32. Powers of the Board of Directors

1. *The Board of Directors has the power to adopt resolutions regarding all matters not assigned by law or the Corporate Governance System to the shareholders acting at a General Shareholders' Meeting.*
2. *Although the Board of Directors has the broadest powers and authority to manage and represent the Company, as a general rule of good governance, the Board of Directors shall focus its activities, pursuant to the Corporate Governance System, on the definition and supervision of the general guidelines to be followed by the Company and the Group, attending to the following matters, among others:*
 - a) *Establish, within legal limits, the policies, strategies, and guidelines of the Group, entrusting to the decision-making bodies and the management of the head of business companies of the Group the duties of day-to-day administration and effective management of each of the businesses thereof.*
 - b) *Supervise the general development of the aforementioned policies, strategies, and guidelines by the country subholding companies and by the head of business companies of the Group, establishing appropriate mechanisms of coordination and exchange of information in the interest of the Company and of the companies belonging thereto.*
 - c) *Decide on matters of strategic importance at the Group level.*
3. *The Board of Directors shall generally entrust to its chairman, to the chief executive officers and to senior management the dissemination, coordination and general implementation of the Group's management guidelines, acting in furtherance of the interests of each and every one of the companies belonging thereto.*
4. *The Board of Directors shall design, evaluate and review the Corporate Governance System on an ongoing basis. It shall approve the Purpose and Values of the Iberdrola group and shall pay special attention to the approval and updating of the Corporate Policies, which further develop the principles reflected in these By-Laws and in the other provisions of the Corporate Governance System and codify the guidelines that should govern the activities of the Company, its shareholders, and the Group.*
5. *The Regulations of the Board of Directors shall specify the powers reserved to such body, which may not be entrusted to the representative decision-making bodies or to the senior management of the Company.*



Article 33. Composition of the Board of Directors and Appointment of Directors

1. *The Board of Directors shall be composed of a minimum of nine and a maximum of fourteen directors, who shall be appointed or ratified by the shareholders acting at a General Shareholders' Meeting, subject to the provisions of law and the requirements established by the Corporate Governance System.*
2. *The determination of the number of directors shall be within the purview of the shareholders acting at a General Shareholders' Meeting, for which purpose the shareholders may establish such number either by express resolution or indirectly through the filling or non-filling of vacancies or the appointment of new directors within the aforesaid minimum and maximum numbers.*
3. *The following may not be appointed as directors or as individuals representing a corporate director:*
 - a) *Domestic or foreign companies competing with the Company in the energy industry or other industries, or the directors or members of senior management thereof, or such persons, if any, as are proposed by them in their capacity as shareholders.*
 - b) *Individuals or legal entities serving as directors in more than three companies with shares trading on domestic or foreign stock exchanges.*
 - c) *Persons who, during the two years prior to their appointment, have occupied high-level positions in Spanish government administrations that are incompatible with the simultaneous performance of the duties of a director of a listed company under Spanish national or autonomous community law, or positions of responsibility with entities regulating the energy industry, the securities markets or other industries in which the Group operates.*
 - d) *Individuals or legal entities that are under any other circumstance of disqualification or prohibition governed by provisions of a general nature, including those that have interests in any way opposed to those of the Company or the Group.*
4. *The appointment, ratification, re-election and removal of directors must comply with the provisions of law and the Corporate Governance System. Resolutions proposed to the shareholders at a General Shareholders' Meeting regarding the appointment, ratification and re-election of directors must be accompanied by a report providing the rationale for the proposal.*

Article 34. Types of Directors

1. *Those directors who perform management duties within the Company or its Group, whatever the legal relationship they maintain, shall be deemed executive directors.*
2. *All other directors of the Company, whether proprietary, independent or other external, shall be deemed non-executive directors:*
 - a) *Proprietary directors: those directors who own a shareholding interest that is equal to or greater than that legally regarded as significant at any time, or who have been appointed owing to their status as shareholders, even if their shareholding interest does not reach such amount, as well as those representing the shareholders described above. However, if any of such directors at the same time performs management duties within the Company or the Group, such director shall be deemed an executive director.*
 - b) *Independent directors: those directors who, having been appointed because of their personal and professional qualities, may carry out their duties without being constrained by relationships with the Company or its Group, its significant shareholders, its management personnel or with the other directors. Directors who have been independent directors for a continuous period of more than twelve years cannot be deemed to be independent directors.*
 - c) *Other external directors: those non-executive directors who do not have the characteristics to be deemed proprietary or independent directors.*

The Regulations of the Board of Directors may further elaborate upon and develop these concepts within the framework established by law.

3. *The Board of Directors shall ensure that a majority of its members are independent directors. This instruction, as well as those set forth in these By-Laws and in the Regulations of the Board of Directors regarding the composition of the committees of the Board of Directors, shall be mandatory for such body, which must follow them in the exercise of its powers to propose appointments and re-elections of directors to the shareholders at a General Shareholders' Meeting and to make interim appointments of directors to cover vacancies and in*



appointing members of the committees of the Board of Directors, and merely constitute guidance for the shareholders.

4. *A rationale for the status of each director shall be given by the Board of Directors to the shareholders at the General Shareholders' Meeting at which the appointment thereof must be made or ratified or the re-election thereof approved, and shall be maintained or, if applicable, modified in the Annual Corporate Governance Report, after a report from the Appointments Committee."*

"Article 49. Powers of Information and Inspection

1. *A director shall have the broadest powers to obtain information regarding any aspect of the Company, to examine its books, records, documents and other background information on corporate transactions, to inspect all of its facilities and to communicate with the members of senior management of the Company.*
2. *The exercise of the aforementioned powers shall be channelled through the secretary of the Board of Directors, who shall act on behalf of the chairman thereof pursuant to the provisions of the Corporate Governance System."*

ITEM NUMBER SIX ON THE AGENDA

Amendment of articles 37 and 41 of the By-Laws to reflect the change in the name of the Corporate Social Responsibility Committee, which is now called the Sustainable Development Committee.

RESOLUTION

To amend articles 37 and 41 of the By-Laws to reflect the change in the name of the Corporate Social Responsibility Committee, which is called the Sustainable Development Committee after the reform of the Corporate Governance System approved by the Board of Directors on 23 October 2018. Said articles shall hereafter read as follows:

"Article 37. Committees of the Board of Directors

1. *The Board of Directors must have an Audit and Risk Supervision Committee, an Appointments Committee, and a Remuneration Committee (or a single Appointments and Remuneration Committee), on a permanent basis.*
2. *The Board of Directors may also have an executive committee, called the Executive Committee (Comisión Ejecutiva Delegada), a consultative committee called the Sustainable Development Committee, and may create any other consultative committees with the powers that the Board of Directors determines, all of a voluntary nature.*
3. *The committees shall be governed by the provisions of the Corporate Governance System, including the specific regulations thereof, when available, which must be approved by the Board of Directors and, by way of supplement and to the extent not incompatible with the nature thereof, by the provisions regarding the operation of the Board of Directors."*

"Article 41. Sustainable Development Committee

1. *If created, the Sustainable Development Committee shall be deemed an internal informational and consultative body without executive duties, with information, advisory and proposal-making powers within its scope of action.*
2. *The Sustainable Development Committee shall be composed of a minimum of three and a maximum of five directors appointed by the Board of Directors upon a proposal of the Appointments Committee, from among the non-executive directors, and the majority thereof must be classified as independent.*
3. *The Board of Directors shall appoint a chair of the Sustainable Development Committee from among the independent directors forming part thereof, as well as its secretary, who need not be a director.*
4. *The Sustainable Development Committee shall have the powers set forth in the Regulations of the Board of Directors and in its own regulations."*

In Bilbao, on 19 February 2019.



ANNEX

BY-LAWS

PREAMBLE

Organised in 1901, Iberdrola represents a business model built on a mission, a vision, and certain values, the common denominator and main engine of which is a commitment to the sustainable creation of value in the performance of all of its activities for society, its professionals, its customers, its suppliers, its shareholders, and its other stakeholders.

These *By-Laws*, approved by the shareholders acting at a General Shareholders' Meeting of the Company, the highest governance body through which the legitimate owners of Iberdrola express their will, constitute the core of its internal rules, and pursuant to the corporate autonomy recognised by law, governs the company contract that all shareholders accept upon acquiring their status as such, that binds them in their capacity as such, and that lays the foundations and principles determining the governance of Iberdrola as the controlling entity of a multinational entity group.

The *By-Laws* go much beyond the content required by law and what is customary for listed companies in that they define in their preliminary title the foundations of Iberdrola as an independent, open holding company of an international industrial group, which is decentralised and committed to a mission, a vision, and values, as well as a clear strategy to maximise its social dividend. *The By-Laws* also recognise the fact that Iberdrola, due to its size and importance, constitutes an institutional reality, a focal point for many stakeholders and for the economic and social environment in which it does business.

The text thereof is inspired by the *Mission, Vision, and Values of the Iberdrola group*, which governs the day-to-day activities of the Company, channels its leadership role in its various areas of activity, drives its strategy of maximising the social dividend, and guides the ethical behaviour of all personnel participating in the daily construction of Iberdrola's business enterprise.

The Mission of the Group is based on the sustainable creation of value in carrying out all of its activities, as the

BY-LAWS

PREAMBLE

Organised in 1901, Iberdrola represents a business model built on a ~~mission, a vision,~~purpose and certain values, the common denominator and main engine of which is a commitment to the ~~sustainable~~ creation of sustainable value in the performance of all of its activities for ~~society,~~ its professionals, ~~its customers,~~ ~~its suppliers,~~ ~~its~~ and shareholders, the people to whom it supplies energy, society and ~~its~~ other stakeholders.

These *By-Laws*, ~~approved by the shareholders acting at a General Shareholders' Meeting of the Company, the highest governance body through which the legitimate owners of Iberdrola express their will,~~ constitute the core of its internal system of rules, ~~and pursuant,~~ Pursuant to the corporate autonomy recognised by law, ~~governs~~they govern the company contract that all shareholders accept upon acquiring their~~such~~ status ~~as such, that binds them in their capacity as such, and that lays~~and lay the foundations and principles determining the governance of Iberdrola as the controlling entity of a multinational entity group.

The *By-Laws* go much beyond the content required by law and what is customary for listed companies in that they define in their preliminary title the foundations of Iberdrola as an independent, open holding company of an international industrial group, which is decentralised and committed to a ~~mission, a vision,~~purpose and values, as well as ~~a clear strategy to maximise its social dividend~~the Sustainable Development Goals (SDGs) approved by the United Nations. The *By-Laws* also recognise the fact that Iberdrola, due to its size and importance, constitutes an institutional reality, a focal point for many stakeholders and for the economic and social environment in which it does business.

The text ~~thereof is inspired by the Mission, Vision, and Values of the Iberdrola group, which governs~~of these By-Laws is inspired by the Iberdrola group's purpose, to continue building together each day a healthier, more accessible energy model, based on electricity, as well as by its corporate values: sustainable energy, integrating force and driving force. The purpose and values of the Iberdrola group constitute its corporate philosophy, the ideological and axiological foundation on which its own business enterprise is based, the set of ideas, values and principles that inspire the organisation and conduct of Iberdrola and its group, guide the realisation of its object and specify and give substance to the corporate interest.

The regulatory nature of the purpose and values of the Iberdrola group is expressly recognised in the preliminary title of the By-Laws, at the top of its internal rules, as they are called upon to guide the application and interpretation thereof (always in accordance with applicable law), to govern the day-to-day activities of the Company, channels to channel its leadership role in its various areas of activity, drives and to guide its sustainable development strategy of maximising the social dividend, and guides and the ethical behaviour of all personnel participating in the daily construction of Iberdrola's business enterprise.

~~The Mission of the Group is based on the sustainable creation of value in carrying out all of its activities, as the~~



leading multinational group in the energy sector providing a quality service through the use of environmentally-friendly energy sources, which engages in innovation, leads the process of digital transformation in its area of activity, and is committed to the fight against climate change through all of its business activities, with a social dividend and the generation of employment and wealth, considering its employees to be a strategic asset. Along these lines, Iberdrola fosters their development, training, and measures of reconciliation, favouring a good working environment and equal opportunity. All of the foregoing is within the framework of its strategy of social responsibility and compliance with tax rules.

The Mission is complemented, on the one hand, by a Vision contemplating an ambition to play the lead towards a better future, sustainably creating value with a quality service for the people and for the communities in which the Group does business, and on the other, by certain specific Values, which include the sustainable creation of value, respect for ethical principles, good corporate governance and transparency, development of its human resources, social commitment, encouragement of the stakeholders' sense of belonging, safety and reliability of supply, quality, innovation, respect for the environment, customer focus, and institutional loyalty.

In turn, these *By-Laws* are the basis on which the Company has built its Corporate Governance System, a regulatory structure that ensures the effective articulation of the principles set out in the *Mission, Vision, and Values of the Iberdrola group* in the form of a true regulatory system that is subject to continuous review and update in order to immediately conform to regulatory changes and to the most stringent international standards.

The Corporate Governance System makes up a business model that combines a decentralised decision-making structure, inspired by the principle of subsidiarity, with robust coordination mechanisms ensuring the global integration of all of the Group's businesses, all on the basis of an effective system of checks and balances that prevents the centralisation of power within a single governance body or a single person.

To the extent applicable thereto, Iberdrola's *By-Laws* and the other provisions of its Corporate Governance System bind its shareholders, directors, officers and other professionals, as well as any persons validly linked thereto on a general basis. All have the duty to comply with them, as well as the right to demand compliance therewith.

Article 4. The Iberdrola Group

1. The Company is configured as a listed holding company and is the controlling entity of a multinational group of companies (the "**Group**").
2. The corporate and governance structure of the Company is defined based on the following:
 - a) The Company has duties relating to the establishment, supervision, and implementation of the policies and strategies of the Group, of the basic guidelines for the management thereof, and of decisions on

~~leading multinational group in the energy sector providing a quality service through the use of environmentally-friendly energy sources, which engages in innovation, leads the process of digital transformation in its area of activity, and is committed to the fight against climate change through all of its business activities, with a social dividend and the generation of employment and wealth, considering its employees to be a strategic asset. Along these lines, Iberdrola fosters their development, training, and measures of reconciliation, favouring a good working environment and equal opportunity. All of the foregoing is within the framework of its strategy of social responsibility and compliance with tax rules.~~

~~The Mission is complemented, on the one hand, by a Vision contemplating an ambition to play the lead towards a better future, sustainably creating value with a quality service for the people and for the communities in which the Group does business, and on the other, by certain specific Values, which include the sustainable creation of value, respect for ethical principles, good corporate governance and transparency, development of its human resources, social commitment, encouragement of the stakeholders' sense of belonging, safety and reliability of supply, quality, innovation, respect for the environment, customer focus, and institutional loyalty.~~

In turn, these *By-Laws*, approved by the shareholders of the Company at a General Shareholders' Meeting, the maximum governance body through which the people holding the legitimate ownership of Iberdrola express their desire, are the basis on which the Company has built its Corporate Governance System, a regulatory structure that ensures the effective articulation of the ~~principles set out in the *Mission, Vision, and Values*~~ corporate purpose and values of the Iberdrola group in the form of a true regulatory system As such, it ~~that~~ is subject to continuous review and update in order to immediately conform to regulatory changes and to the most stringent international standards.

The Corporate Governance System makes up a business model that combines a decentralised decision-making structure, inspired by the principle of subsidiarity, with robust coordination mechanisms ensuring the global integration of all of the ~~Group~~ group's businesses, all on the basis of an effective system of checks and balances that prevents the centralisation of power within a single governance body or a single person.

To the extent applicable thereto, Iberdrola's *By-Laws* and the other provisions of its Corporate Governance System bind its shareholders, ~~directors, officers~~ the members of the Board of Directors, senior management and other professionals, as well as any persons validly linked thereto on a general basis. All have the duty to comply with them, as well as the right to demand compliance therewith.

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2. The corporate and governance structure of the ~~Company~~ Group is defined based on the following:
 - a) The Company has duties relating to the establishment, supervision, and implementation of the policies and strategies of the Group, of the basic guidelines for the management thereof, and of decisions on



matters of strategic importance at the Group level, as well as the design of the Corporate Governance System.

- b) The country subholding companies carry out the function of organisation and strategic coordination in those countries and at those businesses decided by the Company's Board of Directors.

These entities group together equity stakes in the energy head of business companies within the various countries in which the Group does business. The Group also has a country subholding company for the non-energy head of business companies, which do business in various countries.

Country subholding companies are responsible for disseminating, implementing, and ensuring compliance with the policies, strategies, and general guidelines of the Group in each of the countries in which it operates, taking into account the characteristics and unique aspects thereof.

The listed country subholding companies of the Group enjoy a special framework of strengthened autonomy that contemplates the measures that are appropriate to safeguard the interests of the minority shareholders of said companies.

- c) Finally, the head of business companies of the Group are in charge of the day-to-day administration and effective management of each of the Group's businesses within one or more countries, and of the day-to-day control thereof.

3. All companies of the Group share the same corporate interest as well as identical corporate values and ethical principles.

Article 6. Corporate Interest

The Company conceives of the corporate interest as the common interest of all shareholders of an independent company focused on the sustainable creation of value by engaging in the activities included in its corporate object, taking into account other stakeholders related to its business activity and its institutional reality, in accordance with the *Mission, Vision, and Values of the Iberdrola group*.

Article 7. Social Dividend

1. The Company conceives of the social dividend as the sustainable creation of value for all stakeholders affected by the activities of the Group in carrying out its businesses, the advancement of business communities which the Company participates in and leads, both from the economic viewpoint and from the perspective of business ethics, the promotion of

matters of strategic importance at the Group level, as well as the design of the Corporate Governance System.

- ~~b) The country subholding companies carry out the function of organisation and strategic coordination in those countries and at those businesses decided by the Company's Board of Directors.~~

~~These entities group together equity stakes in the energy head of business companies within the various countries in which the Group does business operates. The Group also has a country subholding company for the non-energy head of business companies, which do business in various countries.~~

- b) Country subholding companies are responsible for group together the equity stakes in the Group's head of business companies and carry out the function of organisation and coordination in relation to such countries and/or businesses as are decided by the Company's Board of Directors, disseminating, implementing, and ensuring compliance with the policies, strategies, and general guidelines of the Group in each of the countries in which it operates, taking into account based on the characteristics and unique aspects thereof, of their respective countries and/or businesses.

The listed country subholding companies of the Group enjoy a special framework of strengthened autonomy that contemplates the measures that are appropriate to safeguard the interests of the minority shareholders of said companies.

- c) Finally, the head of business companies of the Group are in charge of the day-to-day administration and effective management of each of the Group's businesses within one or more countries, and of the day-to-day control thereof.

3. All companies of the Group share the same corporate interest as well as identical purpose, corporate values and ethical principles.

Article 6. Corporate Interest

The Company conceives of the corporate interest as the common interest of all ~~shareholders~~ persons owning shares of an independent company focused on the sustainable creation of value by engaging in the activities included in its corporate object, taking into account other stakeholders related to its business activity and its institutional reality, in accordance with the ~~Mission, Vision, Purpose~~ Mission, Vision, Purpose and Values of the Iberdrola group.

Article 7. Social Dividend

1. The Company conceives of the social dividend as the sustainable creation of value for all stakeholders affected by the activities of the Group ~~in carrying out its businesses~~, the advancement of business communities which the Company participates in and leads, both from the economic viewpoint and from the perspective of business ethics, the promotion of



equality and justice, the encouragement of innovation and protection of the environment, as well as through the generation of quality employment, its strategy of social responsibility, and its effort in the fight against climate change.

2. The Company is conscious of the importance of the social dividend for all of the communities in which the Group is present. Maximisation of the social dividend and the Company's commitment to the sustainable creation of value, ethical principles, transparency and good corporate governance, the development of its human resources, social commitment, a sense of belonging, safety and reliability, quality, innovation, protection of the environment, customer focus, and institutional loyalty are key values that the Board of Directors takes into account in order to define the strategy of the Group.

Article 8. Applicable Legal Provisions and Corporate Governance System

1. The Company is governed by the legal provisions relating to listed companies and other applicable laws and regulations, as well as by its Corporate Governance System.
2. The Corporate Governance System is the Company's internal system of rules, which is configured in accordance with applicable law in the exercise of corporate autonomy supported thereby and applies to the entire Group. It is intended to ensure through rule-making the best development of the corporate contract that binds its shareholders, and especially the corporate object and the corporate interest, as defined in the preceding articles.
3. The Corporate Governance System is made up of these By-Laws, the *Mission, Vision, and Values of the Iberdrola group*, the *Corporate Policies*, the governance rules of the corporate decision-making bodies and other internal committees, and the codes, regulations, and procedures making up and elaborating upon the Company's regulatory compliance system.
4. The *Mission, Vision, and Values of the Iberdrola group* constitutes the corporate philosophy of the Company, contains the ideological and axiological foundation upon which its business enterprise is based, and expresses a desire to optimise its corporate and institutional reality, in the awareness that, due to its size and the importance of its activities, it is a focal point for many stakeholders and for the economic and social environment in which its companies do business.
5. The *Mission, Vision, and Values of the Iberdrola*

equality and justice, the encouragement of innovation and protection of the environment, as well as through the generation of quality employment, ~~its strategy of social responsibility, and its effort~~ and leadership in the fight against climate change.

2. ~~The Company is conscious of the importance of the social dividend for all of the communities in which the Group is present. Maximisation of the social dividend and the Company's commitment to the sustainable creation of value, ethical principles, transparency and good corporate governance, the development of its human resources, social commitment, a sense of belonging, safety and reliability, quality, innovation, protection of the environment, customer focus, and institutional loyalty are key values that the Board of Directors takes into account in order to define the strategy of the Group.~~ social dividend measures the direct, indirect and induced impacts of all of the Company's activities in the economic, social and environmental areas, and particularly its contribution to the Sustainable Development Goals (SDGs) approved by the United Nations.
3. Through its sustainable development strategy, the Company causes all of its stakeholders to participate in the social dividend generated by its activities, sharing the created value with them.

Article 8. Applicable Legal Provisions and Corporate Governance System

1. The Company is governed by the legal provisions relating to listed companies and other applicable laws and regulations, as well as by its Corporate Governance System.
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3. The Company's Corporate Governance System is made up of these By-Laws, the ~~Mission, Vision, Purpose~~ Mission, Vision, Purpose and ~~Values of the Iberdrola group, the Corporate Policies, the governance rules of Code of Ethics, the corporate decision-making bodies policies and the other internal committees, and the codes, regulations, and procedures making up and elaborating upon the Company's regulatory governance and compliance system rules.~~
4. The ~~Mission, Vision, Purpose~~ Mission, Vision, Purpose and ~~Values of the Iberdrola group constitutes the corporate philosophy of the Company, contains set out its raison d'être, the ideological and axiological foundation upon which of its business enterprise is based, and expresses a desire to optimise its corporate and institutional reality, in the awareness that, which, due to its size and the importance of its activities, it is a focal point for many stakeholders and for the economic and social environment in which its companies component entities do business.~~
5. The ~~Mission, Vision, Purpose~~ Mission, Vision, Purpose and ~~Values of the~~



group inspires and takes form in the Corporate Policies and in the other rules of the Corporate Governance System, governing the day-to-day activities of all companies of the Group and guiding their strategy and all of their actions.

6. The Board of Directors has approved a *Code of Ethics* that further develops the bylaw-mandated commitment of the Company to the *Mission, Vision, and Values of the Iberdrola group* and ethical principles.
7. Full or summarised versions of the rules making up the Corporate Governance System can be viewed on the Company's corporate website.
8. The shareholders acting at a General Shareholders' Meeting and the Board of Directors of the Company, within their respective purview, develop, apply, and interpret the rules making up the Corporate Governance System in order to ensure compliance at all times with the purposes thereof and, particularly, the fulfilment of the corporate interest.

Article 22. Right to Attend

1. The holders of at least one voting share may attend the General Shareholders' Meeting and take part in deliberations thereof, with the right to be heard and to vote.
2. The General Shareholders' Meeting may be attended by going to the place where the meeting is held or, if so indicated in the call to meeting, to other places provided for such purpose by the Company and that are connected with the principal meeting place by systems that allow recognition and identification of the parties attending, permanent communication among the attendees regardless of their location, and participation and voting, all in real time. Attendees at any of such places shall be considered to be attendees at the same individual meeting, which shall be deemed to have been held at the principal location thereof.
3. In order to exercise the right to attend, shareholders must cause the shares to be registered in their name in the corresponding book-entry register at least five days prior to the day on which the General Shareholders' Meeting is to be held.
4. The chair of the General Shareholders' Meeting may authorise the attendance of officers, employees, and other persons related to the Company. The chair may also grant access to the media, to financial analysts, and to any other person the chair deems appropriate, as well as authorise the simultaneous or delayed broadcast thereof, although the shareholders acting thereat may revoke such authorisation.

Article 32. Powers of the Board of Directors

1. The Board of Directors has the power to adopt resolutions regarding all matters not assigned by law

Iberdrola group also inspires and takes form in the ~~Corporate Policies~~ corporate policies and in the other rules of the Corporate Governance System, governing the day-to-day activities of all ~~companies~~ entities of the Group and guiding their strategy and all of their actions.

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3. In order to exercise the right to attend, shareholders must cause the shares to be registered in their name in the corresponding book-entry register at least five days prior to the day on which the General Shareholders' Meeting is to be held.
4. The chair of the General Shareholders' Meeting may authorise the attendance of ~~officers, employees, executive personnel, professionals of the companies of the Group~~ and other persons related to the Company. The chair may also grant access to the media, to financial analysts, and to any other person the chair deems appropriate, as well as authorise the simultaneous or delayed broadcast thereof, although the shareholders acting thereat may revoke such authorisation.

Article 32. Powers of the Board of Directors

1. The Board of Directors has the power to adopt resolutions regarding all matters not assigned by law



- or the Corporate Governance System to the shareholders acting at a General Shareholders' Meeting.
2. Although the Board of Directors has the broadest powers and authority to manage and represent the Company, as a general rule of good governance, the Board of Directors shall focus its activities, pursuant to the Corporate Governance System, on the definition and supervision of the general guidelines to be followed by the Company and the Group, attending to the following matters, among others:
- a) Establish, within legal limits, the policies, strategies, and guidelines of the Group, entrusting to the decision-making bodies and the management of the head of business companies of the Group the duties of day-to-day administration and effective management of each of the businesses thereof.
 - b) Supervise the general development of the aforementioned policies, strategies, and guidelines by the country subholding companies and by the head of business companies of the Group, establishing appropriate mechanisms of coordination and exchange of information in the interest of the Company and of the companies belonging thereto.
 - c) Decide on matters of strategic importance at the Group level.
3. The Board of Directors shall generally entrust to its chairman, to the chief executive officers, and to the senior officers the dissemination, coordination, and general implementation of the Group's management guidelines, acting in furtherance of the interests of each and every one of the companies belonging thereto.
4. The Board of Directors shall design, evaluate, and review the Corporate Governance System on an ongoing basis. It shall approve the *Mission, Vision, and Values of the Iberdrola group* and shall pay special attention to the approval and updating of the *Corporate Policies*, which further develop the principles reflected in these *By-Laws* and in the other provisions of the Corporate Governance System and codify the guidelines that should govern the activities of the Company, its shareholders, and the Group.
5. The *Regulations of the Board of Directors* shall specify the powers reserved to such body, which may not be entrusted to the representative decision-making bodies or to the senior management of the Company.

Article 33. Composition of the Board of Directors and Appointment of Directors

1. The Board of Directors shall be composed of a minimum of nine and a maximum of fourteen directors, who shall be appointed or ratified by the shareholders acting at a General Shareholders' Meeting, subject to the provisions of law and the requirements established by the Corporate

or the Corporate Governance System to the shareholders acting at a General Shareholders' Meeting.

2. Although the Board of Directors has the broadest powers and authority to manage and represent the Company, as a general rule of good governance, the Board of Directors shall focus its activities, pursuant to the Corporate Governance System, on the definition and supervision of the general guidelines to be followed by the Company and the Group, attending to the following matters, among others:
- a) Establish, within legal limits, the policies, strategies, and guidelines of the Group, entrusting to the decision-making bodies and the management of the head of business companies of the Group the duties of day-to-day administration and effective management of each of the businesses thereof.
 - b) Supervise the general development of the aforementioned policies, strategies, and guidelines by the country subholding companies and by the head of business companies of the Group, establishing appropriate mechanisms of coordination and exchange of information in the interest of the Company and of the companies belonging thereto.
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3. The Board of Directors shall generally entrust to its chairman, to the chief executive officers, and to ~~the~~ senior officers management the dissemination, coordination, and general implementation of the Group's management guidelines, acting in furtherance of the interests of each and every one of the companies belonging thereto.
4. The Board of Directors shall design, evaluate, and review the Corporate Governance System on an ongoing basis. It shall approve the ~~Mission, Vision, Purpose~~ Mission, Vision, Purpose and *Values of the Iberdrola group* and shall pay special attention to the approval and updating of the *Corporate Policies*, which further develop the principles reflected in these *By-Laws* and in the other provisions of the Corporate Governance System and codify the guidelines that should govern the activities of the Company, its shareholders, and the Group.
5. The Regulations of the Board of Directors shall specify the powers reserved to such body, which may not be entrusted to the representative decision-making bodies or to the senior management of the Company.

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Governance System.

2. The determination of the number of directors shall be within the purview of the shareholders acting at a General Shareholders' Meeting, for which purpose the shareholders may establish such number either by express resolution or indirectly through the filling or non-filling of vacancies or the appointment of new directors within the aforesaid minimum and maximum numbers.
3. The following may not be appointed as directors or as individuals representing a corporate director:
 - e) Domestic or foreign companies competing with the Company in the energy industry or other industries, or the directors or senior officers thereof, or such persons, if any, as are proposed by them in their capacity as shareholders.
 - f) Individuals or legal entities serving as directors in more than three companies with shares trading on domestic or foreign stock exchanges.
 - g) Persons who, during the two years prior to their appointment, have occupied high-level positions in Spanish government administrations that are incompatible with the simultaneous performance of the duties of a director of a listed company under Spanish national or autonomous community law, or positions of responsibility with entities regulating the energy industry, the securities markets, or other industries in which the Group operates.
 - h) Individuals or legal entities that are under any other circumstance of disqualification or prohibition governed by provisions of a general nature, including those that have interests in any way opposed to those of the Company or the Group.
4. The appointment, ratification, re-election, and removal of directors must comply with the provisions of law and the Corporate Governance System. Resolutions proposed to the shareholders at a General Shareholders' Meeting regarding the appointment, ratification, and re-election of directors must be accompanied by a report providing the rationale for the proposal.

Article 34. Types of Directors

1. Those directors who perform management duties within the Company or its Group, whatever the legal relationship they maintain, shall be deemed executive directors.
2. All other directors of the Company, whether proprietary, independent, or other external, shall be deemed non-executive directors:
 - a) Proprietary directors: those directors who own a shareholding interest that is equal to or greater than that legally regarded as significant at any time, or who have been appointed owing to their status as shareholders, even if their shareholding interest does not reach such

2. The determination of the number of directors shall be within the purview of the shareholders acting at a General Shareholders' Meeting, for which purpose the shareholders may establish such number either by express resolution or indirectly through the filling or non-filling of vacancies or the appointment of new directors within the aforesaid minimum and maximum numbers.
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 - b) Individuals or legal entities serving as directors in more than three companies with shares trading on domestic or foreign stock exchanges.
 - c) Persons who, during the two years prior to their appointment, have occupied high-level positions in Spanish government administrations that are incompatible with the simultaneous performance of the duties of a director of a listed company under Spanish national or autonomous community law, or positions of responsibility with entities regulating the energy industry, the securities markets, or other industries in which the Group operates.
 - d) Individuals or legal entities that are under any other circumstance of disqualification or prohibition governed by provisions of a general nature, including those that have interests in any way opposed to those of the Company or the Group.
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2. All other directors of the Company, whether proprietary, independent, or other external, shall be deemed non-executive directors:
 - a) Proprietary directors: those directors who own a shareholding interest that is equal to or greater than that legally regarded as significant at any time, or who have been appointed owing to their status as shareholders, even if their shareholding interest does not reach such



amount, as well as those representing the shareholders described above. However, if any of such directors at the same time performs management duties within the Company or the Group, such director shall be deemed an executive director.

- b) Independent directors: those directors who, having been appointed because of their personal and professional qualities, may carry out their duties without being constrained by relationships with the Company or its Group, its significant shareholders, its officers, or the other directors. Directors who have been independent directors for a continuous period of more than twelve years cannot be deemed to be independent directors.
- c) Other external directors: those non-executive directors who do not have the characteristics to be deemed proprietary or independent directors.

The *Regulations of the Board of Directors* may further elaborate upon and develop these concepts within the framework established by law.

3. The Board of Directors shall ensure that a majority of its members are independent directors. This instruction, as well as those set forth in these *By-Laws* and in the *Regulations of the Board of Directors* regarding the composition of the committees of the Board of Directors, shall be mandatory for such body, which must follow them in the exercise of its powers to propose appointments and re-elections of directors to the shareholders at a General Shareholders' Meeting and to make interim appointments of directors to cover vacancies and in appointing members of the committees of the Board of Directors, and merely constitute guidance for the shareholders.
4. A rationale for the status of each director shall be given by the Board of Directors to the shareholders at the General Shareholders' Meeting at which the appointment thereof must be made or ratified or the re-election thereof approved, and shall be maintained or, if applicable, modified in the Annual Corporate Governance Report, after a report from the Appointments Committee.

Article 37. Committees of the Board of Directors

1. The Board of Directors must have an Audit and Risk Supervision Committee, an Appointments Committee, and a Remuneration Committee (or a single Appointments and Remuneration Committee), on a permanent basis.
2. The Board of Directors may also have an executive committee, called the Executive Committee (*Comisión Ejecutiva Delegada*), a consultative committee called the Corporate Social Responsibility Committee, and may create any other consultative committees with the powers that the Board of Directors determines, all of a voluntary nature.
3. The committees shall be governed by the provisions of the Corporate Governance System, including the

amount, as well as those representing the shareholders described above. However, if any of such directors at the same time performs management duties within the Company or the Group, such director shall be deemed an executive director.

- b) Independent directors: those directors who, having been appointed because of their personal and professional qualities, may carry out their duties without being constrained by relationships with the Company or its Group, its significant shareholders, its ~~officers, management personnel~~ or with the other directors. Directors who have been independent directors for a continuous period of more than twelve years cannot be deemed to be independent directors.
- c) Other external directors: those non-executive directors who do not have the characteristics to be deemed proprietary or independent directors.

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2. The Board of Directors may also have an executive committee, called the Executive Committee (*Comisión Ejecutiva Delegada*), a consultative committee called the ~~Corporate Social Responsibility~~ Sustainable Development Committee, and may create any other consultative committees with the powers that the Board of Directors determines, all of a voluntary nature.
3. The committees shall be governed by the provisions of the Corporate Governance System, including the



specific regulations thereof, when available, which must be approved by the Board of Directors and, by way of supplement and to the extent not incompatible with the nature thereof, by the provisions regarding the operation of the Board of Directors.

Article 41. Corporate Social Responsibility Committee

1. If created, the Corporate Social Responsibility Committee shall be deemed an internal informational and consultative body without executive duties, with information, advisory, and proposal-making powers within its scope of action.
2. The Corporate Social Responsibility Committee shall be composed of a minimum of three and a maximum of five directors appointed by the Board of Directors upon a proposal of the Appointments Committee, from among the non-executive directors, and the majority thereof must be classified as independent.
3. The Board of Directors shall appoint a chair of the Corporate Social Responsibility Committee from among the independent directors forming part thereof, as well as its secretary, who need not be a director.
4. The Corporate Social Responsibility Committee shall have the powers set forth in the *Regulations of the Board of Directors* and in its own regulations.

Article 49. Powers of Information and Inspection

1. A director shall have the broadest powers to obtain information regarding any aspect of the Company, to examine its books, records, documents, and other background information on corporate transactions, to inspect its facilities, and to communicate with the senior officers of the Company.
2. The exercise of the aforementioned powers shall be channelled through the secretary of the Board of Directors, who shall act on behalf of the chairman thereof pursuant to the provisions of the Corporate Governance System.

specific regulations thereof, when available, which must be approved by the Board of Directors and, by way of supplement and to the extent not incompatible with the nature thereof, by the provisions regarding the operation of the Board of Directors.

Article 41. ~~Corporate Social Responsibility~~Sustainable Development Committee

1. If created, the ~~Corporate Social Responsibility~~Sustainable Development Committee shall be deemed an internal informational and consultative body without executive duties, with information, advisory, and proposal-making powers within its scope of action.
2. The ~~Corporate Social Responsibility~~Sustainable Development Committee shall be composed of a minimum of three and a maximum of five directors appointed by the Board of Directors upon a proposal of the Appointments Committee, from among the non-executive directors, and the majority thereof must be classified as independent.
3. The Board of Directors shall appoint a chair of the ~~Corporate Social Responsibility~~Sustainable Development Committee from among the independent directors forming part thereof, as well as its secretary, who need not be a director.
4. The ~~Corporate Social Responsibility~~Sustainable Development Committee shall have the powers set forth in the *Regulations of the Board of Directors* and in its own regulations.

Article 49. Powers of Information and Inspection

1. A director shall have the broadest powers to obtain information regarding any aspect of the Company, to examine its books, records, documents, and other background information on corporate transactions, to inspect all of its facilities, and to communicate with the members of senior officers management of the Company.
2. The exercise of the aforementioned powers shall be channelled through the secretary of the Board of Directors, who shall act on behalf of the chairman thereof pursuant to the provisions of the Corporate Governance System.