

**SPECIMEN ANNEX I  
ANNUAL CORPORATE GOVERNANCE REPORT  
OF LISTED COMPANIES**

**Data identifying issuer**

<b>Ending date of reference financial year</b>	31/12/2015
<b>Tax Identification Code</b>	A-48010615
<b>Registered name</b>	IBERDROLA, S.A.
<b>Registered address</b>	Plaza Euskadi número 5, Bilbao 48009 Biscay Spain

## A. OWNERSHIP STRUCTURE

A.1. Complete the following table about the share capital of the company:

Date of last change	Share capital (€)	Number of shares	Number of voting rights
20/07/2015	4,752,652,500	6,336,870,000	6,336,870,000

State whether there are different classes of shares with different rights attaching thereto:

Yes  No

Class	Number of shares	Nominal value per share	Number of voting rights per share	Different rights

A.2. Breakdown of direct and indirect holders of significant shareholdings in the company as of the end of the financial year, excluding directors:

Individual or company name of the shareholder	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Direct holder of the interest	Number of voting rights	
QATAR INVESTMENT AUTHORITY	-	QATAR HOLDING LUXEMBOURG II, S.À.R.L.	599,911,474	9.73
QATAR INVESTMENT AUTHORITY	-	DGIC LUXEMBOURG, S.À.R.L.	16,395,153	
KUTXABANK, S.A.	-	KARTERA 1, S.L.	220,034,187	3.47
BLACKROCK, INC.	-	BLACKROCK GROUP	191,563,600	3.02
NORGES BANK	191,233,638	-	-	3.02

State the most significant changes in the shareholding structure that have occurred during the financial year:

Individual or company name of the shareholder	Date of transaction	Description of transaction
ACTIVIDADES DE CONSTRUCCIÓN Y SERVICIOS, S.A.	26/03/2015	Decrease to below 3% of share capital
NORGES BANK	15/12/2015	Increase to above 3% of share capital

NORGES BANK	16/12/2015	Decrease to below 3% of share capital
NORGES BANK	23/12/2015	Increase to above 3% of share capital

**A.3. Complete the following tables about members of the board of directors of the company who have voting rights attaching to shares of the company:**

Individual or company name of the director	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Direct holder of the interest	Number of voting rights	
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	3,958,115	-	-	0.12
	-	MS ISABEL GARCÍA-TABERNEIRO RAMOS	244,385	
	-	MR PABLO SÁNCHEZ-GALÁN GARCÍA-TABERNEIRO	34,942	
	-	ROYAL PARK 2000, S.L.	3,264,000	
MR XABIER DE IRALA ESTÉVEZ	241,350	-	-	0.00
MR IÑIGO VÍCTOR DE ORIOL IBARRA	1,223,862	-	-	0.02
MS INÉS MACHO STADLER	59,146	-	-	0.00
MR BRAULIO MEDEL CÁMARA	26,633	-	-	0.00
MS SAMANTHA BARBER	1,697	-	-	0.00
MS MARÍA HELENA ANTOLÍN RAYBAUD	2,979	-	-	0.00
MR SANTIAGO MARTÍNEZ LAGE	15,566	-	-	0.00
MR JOSÉ LUIS SAN PEDRO GUERENABARRENA	658,144	-	-	0.01
MR ÁNGEL JESÚS ACEBES PANIAGUA	5,850	-	-	0.00
MS GEORGINA KESSEL MARTÍNEZ	2,050	-	-	0.00
MS DENISE MARY HOLT	211	-	-	0.00

MR JOSÉ WALFREDO FERNÁNDEZ	0	-	-	0.00
MR MANUEL MOREU MUNAIZ	21,733	-	-	0.00
	-	MS MARÍA GAMAZO TRUEBA	21,733	

Total percentage of voting rights held by the board of directors	0.15
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Complete the following tables about members of the company's board of directors who hold rights to shares of the company:

Individual or company name of the director	Number of direct rights	Indirect rights		Number of equivalent shares	% of total voting rights
		Number of	voting rights		

A.4. State, if applicable, the family, commercial, contractual, or corporate relationships between significant shareholders, to the extent known to the company, unless they are immaterial or result from the ordinary course of business:

Related individual or company name	Type of relationship	Brief description

A.5. State, if applicable, the commercial, contractual, or corporate relationships between significant shareholders and the company and/or its group, unless they are immaterial or result from the ordinary course of business:

Related individual or company name	Type of relationship	Brief description
KUTXABANK, S.A.	Corporate	<p>1) Iberdrola and Kutxabank, S.A. both hold interests in Fiuna, S.A. (70% and 30%, respectively).</p> <p>2) Iberdrola and Kutxabank, S.A. both hold interests in Operador del Mercado Ibérico de Energía-Polo Español, S.A. (5.5% and 0.76%, respectively).</p> <p>3) Iberdrola and Kutxabank, S.A. both hold interests in Seed Capital de Bizkaia, SGEIC, S.A. (5% and 10%, respectively).</p> <p>4) Iberdrola and Kutxabank, S.A. both hold interests in Torre Iberdrola, A.I.E. (68.1% and 31.9%, respectively).</p> <p>5) Iberdrola and Kutxabank, S.A. both hold interests in Sociedad Bilbao Gas Hub, S.A.</p>

		(5.71% and 21.71%, respectively). 6) Iberdrola and Kutxabank, S.A. both hold indirect interests in Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A. (0.2% and 2.61%, respectively).
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**A.6. State whether any private (paracorporate) shareholders' agreements affecting the company pursuant to the provisions of sections 530 and 531 of the Companies Act (*Ley de Sociedades de Capital*) have been reported to the company. If so, briefly describe them and list the shareholders bound by the agreement:**

Yes  No

Participants in the private shareholders' agreement	% of share capital affected	Brief description of the agreement

**State whether the company is aware of the existence of concerted actions among its shareholders. If so, briefly describe them:**

Yes  No

Participants in concerted action	% of share capital affected	Brief description of the concerted action

**Expressly state whether any of such agreements, arrangements, or concerted actions have been modified or terminated during the financial year:**

Not applicable.

**A.7. State whether there is any individual or legal entity that exercises or may exercise control over the company pursuant to section 5 of the Securities Market Act (*Ley del Mercado de Valores*). If so, identify it:**

Yes  No

Individual or company name

Comments

**A.8. Complete the following tables about the company's treasury shares:**

**As of year-end:**

Number of direct shares	Number of indirect shares (*)	Total % of share capital
67,636,166	0	1.06

(\*) Through:

Individual or company name of direct holder of the interest	Number of direct shares
<b>Total:</b>	

**Explain any significant changes, pursuant to the provisions of Royal Decree 1362/2007, that have occurred during the financial year:**

Explain any significant changes
<p>The Company made two changes in its treasury share position in 2015 as a result of a change in the number of voting rights arising from corporate transactions:</p> <ul style="list-style-type: none"> <li>- notices of direct acquisitions of a total of 33,474,607 shares (0.536%) were provided on 7 May, coinciding with the reduction in capital; and</li> <li>- notices of direct acquisitions of a total of 11,034,252 shares (0.174%) were provided on 15 July, coinciding with the increase in capital resulting from the "Iberdrola Flexible Dividend" programme.</li> </ul> <p>Two additional notices were also provided arising from consecutive direct acquisitions of own shares due to said acquisitions exceeding 1% of voting rights:</p> <ul style="list-style-type: none"> <li>- notices of direct acquisitions of a total of 65,843,749 shares (1.031%) were provided on 11 February 2015; and</li> <li>- notices of direct acquisitions of a total of 56,603,780 shares (0.893%) were provided on 4 January 2016.</li> </ul>

**A.9. Describe the terms and conditions and the duration of the powers currently in force given by the shareholders to the board of directors in order to issue, repurchase, or transfer own shares of the company:**

<p>The shareholders acting at the General Shareholders' Meeting held on 28 March 2014 resolved to expressly authorise the Board of Directors, with the power of substitution, pursuant to the Companies Act (<i>Ley de Sociedades de Capital</i>), to carry out the derivative acquisition of the shares of Iberdrola on the following terms:</p> <ol style="list-style-type: none"> <li>a) Purchases may be made by Iberdrola directly, or indirectly through its subsidiaries. Subsidiaries carrying out regulated activities are excluded pursuant to the provisions of the Electricity Industry Act (<i>Ley del Sector Eléctrico</i>) and the Hydrocarbons Act (<i>Ley de Hidrocarburos</i>).</li> <li>b) Purchases shall be made by means of a purchase and sale agreement, a swap arrangement, or any other transaction permitted by law.</li> <li>c) Purchases may be made up to the maximum sum permitted by law (i.e. 10% of the share capital).</li> <li>d) Purchases may not be made at a higher price than that quoted on the Stock Exchange or at a price lower than the share's nominal value.</li> <li>e) The authorisation was granted for a period not to exceed five years as from the approval of the resolution.</li> <li>f) The acquiring company shall establish a restricted reserve in shareholders' equity equal to the amount of the shares of the controlling company recorded under assets. Such reserve shall be maintained for so long as the shares are not transferred or retired, in compliance with the provisions of the Companies Act.</li> </ol> <p>The shares, if any, purchased as a result of the aforementioned authorisation could be used for either transfer or retirement or could be applied to the remuneration systems provided for in the Companies Act;</p>
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added to the foregoing alternatives was the possible development of programmes fostering the acquisition of interests in the Company such as, for example, dividend reinvestment plans, loyalty bonds, or similar instruments.

**A.9.bis Estimated free-float:**

	%
<b>Estimated free-float:</b>	79.54

**A.10. State whether there are any restrictions on the transfer of securities and/or any restrictions on voting rights. In particular, disclose the existence of any restrictions that might hinder a takeover of the company through the acquisition of its shares in the market.**

Yes  No

Description of restrictions
<p>Those having an interest equal to or greater than 3% of the capital or voting rights of two or more companies that have the status of Principal Operator in certain markets or sectors (including the generation and supply of electricity) may not exercise rights in excess of such percentage in more than one entity.</p> <p>Article 29.2 of the By-Laws provides that no shareholder may cast a number of votes greater than those corresponding to shares representing 10% of the share capital.</p> <p>According to article 28, a shareholder may not exercise their right to vote at the General Shareholders' Meeting if it deals with a resolution intended to: (a) relieve the shareholder of an obligation or grant the shareholder a right; (b) provide the shareholder with any kind of financial assistance, including the provision of guarantees in favour thereof; (c) release the shareholder, if a director, from obligations arising from the duty of loyalty established in accordance with the provisions of law.</p> <p>Articel 50 of the By-Laws provides that the by-law restrictions against the exercise of voting rights by shareholders affected by conflicts established in article 28 above and the limitation on the maximum number of votes that may be cast by a single shareholder contained in sections 2 and 4 of article 29 above shall be deprived of effect upon the occurrence of certain circumstances in the case of a takeover bid:</p> <p>Furthermore, section 527 of the restated text of the Companies Act provides that at listed companies (<i>sociedades anónimas cotizadas</i>), the by-law provisions that directly or indirectly set, as a general rule, the maximum number of votes that may be cast by the same shareholder, by the companies belonging to the same group, or by those acting in concert with the foregoing shall be of no effect when, following a takeover bid, the bidder has reached a percentage that is equal to or greater than 70% of the voting share capital, unless such bidder is not subject to equivalent breakthrough measures or has not adopted them.</p> <p>Pursuant to U.S. law, due to the business carried out by Avangrid, Inc. (a company belonging to the Iberdrola Group) in that country, the acquisition of an interest giving rise to the holding of 10% or more of the share capital of Iberdrola will be subject to the prior approval of certain U.S. regulatory authorities.</p>

**A.11. State whether the shareholders acting at a general shareholders' meeting have approved the adoption of breakthrough measures in the event of a takeover bid pursuant to the provisions of Law 6/2007:**

Yes  No

If applicable, explain the approved measures and the terms on which the restrictions will become ineffective.

**A.12. State whether the company has issued securities that are not traded on a regulated market within the European Community.**

Yes  No

If applicable, specify the different classes of shares, if any, and the rights and obligations attaching to each class of shares.



**B. GENERAL SHAREHOLDERS' MEETING**

**B.1. State and, if applicable, describe whether there are differences with the minimum requirements set out in the Companies Act in connection with the quorum needed to hold a valid general shareholders' meeting.**

Yes  No

	Quorum % different from that established in section 193 of the Companies Act generally	Quorum % different from that established in section 194 of the Companies Act for the special circumstances described in section 194.
Required quorum upon 1st call	-	66.67
Required quorum upon 2nd call	-	60.00

Description of differences
As the only exception to the rules provided for in the Companies Act, article 21.2 of the By-Laws increases the quorum required to hold a valid meeting "in order to adopt resolutions regarding a change in the object of the Company, transformation, total split-off, dissolution of the Company, and the amendment of this section 2", in which case "shareholders representing two-thirds (2/3) of subscribed share capital with voting rights must be in attendance at the first call to the General Shareholders' Meeting, and shareholders representing sixty (60%) per cent of such share capital must be in attendance at the second call".

**B.2. State and, if applicable, describe any differences from the rules set out in the Companies Act for the adoption of corporate resolutions:**

Yes  No

**Describe how they differ from the rules provided by the Companies Act.**

	Qualified majority other than that established in section 201.2 of the Companies Act for the cases set forth in section 194.1 of the Companies Act	Other instances in which a qualified majority is required
% established by the entity for the adoption of resolutions	75.00%	75.00%

Describe the differences
Article 52 of the By-Laws provides that all resolutions intended to eliminate or amend the provisions contained in title IV (breakthrough of restrictions in the event of takeover bids), in article 28 (conflicts of interest), and in sections 2 to 4 of article 29 (limitation upon the maximum number of votes that a shareholder may cast), shall require the affirmative vote of three-fourths (3/4) of the share capital present in person or by proxy at a General Shareholders' Meeting.

**B.3. State the rules applicable to the amendment of the by-laws of the company. In particular, disclose the majorities provided for amending the by-laws, and any rules provided for the protection of the rights of the shareholders in the amendment of the by-laws.**

In addition to the provisions of section 285 *et seq.* of the Companies Act, the *By-Laws* of Iberdrola contain articles 21.2 (qualified quorum) and 52 (qualified majority) mentioned in sections B.1 and B.2 above.

**B.4 State the data on attendance at the general shareholders' meetings held during the financial year referred to in this report and those of the prior financial year:**

Attendance data					
Date of general shareholders Meeting	% of shareholders present in person	% of shareholders represented by proxy	% absentee voting		Total
			Electronic voting	Other	
28/03/2014	5.99	76.14	0.06	0.05	82.24
27/03/2015	21.45	57.04	0.11	0.05	78.65

**B.5. State whether there are any by-law restrictions requiring a minimum number of shares to attend the general shareholders' meeting.**

Yes  No

Number of shares required to attend the general shareholders' meeting	1
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**B.6. Section deleted.**

**B.7. State the address and method for accessing the company's website to access information regarding corporate governance and other information regarding general shareholders' meetings that must be made available to the shareholders through the company's website.**

[www.iberdrola.com](http://www.iberdrola.com) > Information for Shareholders and Investors > Corporate Governance.  
 Information regarding past general shareholders' meetings of the Company can be accessed at the same address: [www.iberdrola.com](http://www.iberdrola.com) > Information for Shareholders and Investors > Corporate Governance > General Shareholders' Meeting.

## C. STRUCTURE OF THE COMPANY'S MANAGEMENT

### C.1 Board of directors

#### C.1.1. Maximum and minimum number of directors set forth in the by-laws:

Maximum number of directors	14
Minimum number of directors	9

#### C.1.2. Complete the following table identifying the members of the board:

Individual or company name of the director	Representative	Type of director	Position on the board	Date of first appointment	Date of last appointment	Election procedure
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	-	EXECUTIVE	CHAIRMAN/CEO	21/05/2001	27/03/2015	GENERAL SHAREHOLDERS' MEETING
MR XABIER DE IRALA ESTÉVEZ	-	PROPRIETARY	DIRECTOR	20/04/2005	22/06/2012	GENERAL SHAREHOLDERS' MEETING
MR IÑIGO VÍCTOR DE ORIOL IBARRA	-	OTHER EXTERNAL	DIRECTOR	26/04/2006	22/06/2012	GENERAL SHAREHOLDERS' MEETING
MS INÉS MACHO STADLER	-	INDEPENDENT	DIRECTOR	07/06/2006	22/06/2012	GENERAL SHAREHOLDERS' MEETING
MR BRAULIO MEDEL CÁMARA	-	INDEPENDENT	DIRECTOR	07/06/2006	22/06/2012	GENERAL SHAREHOLDERS' MEETING
MS SAMANTHA BARBER	-	INDEPENDENT	DIRECTOR	31/07/2008	22/06/2012	GENERAL SHAREHOLDERS' MEETING
MS MARÍA HELENA ANTOLÍN RAYBAUD	-	INDEPENDENT	DIRECTOR	26/03/2010	27/03/2015	GENERAL SHAREHOLDERS' MEETING
MR SANTIAGO MARTÍNEZ LAGE	-	INDEPENDENT	DIRECTOR	26/03/2010	27/03/2015	GENERAL SHAREHOLDERS' MEETING
MR JOSÉ LUIS SAN PEDRO GUERENABARRENA	-	OTHER EXTERNAL	DIRECTOR	24/04/2012	27/03/2015	GENERAL SHAREHOLDERS' MEETING
MR ÁNGEL JESÚS ACEBES PANIAGUA	-	INDEPENDENT	DIRECTOR	24/04/2012	27/03/2015	GENERAL SHAREHOLDERS' MEETING
MS GEORGINA KESSEL MARTÍNEZ	-	INDEPENDENT	DIRECTOR	23/04/2013	28/03/2014	GENERAL SHAREHOLDERS' MEETING
MS DENISE MARY HOLT	-	INDEPENDENT	DIRECTOR	24/06/2014	27/03/2015	GENERAL SHAREHOLDERS' MEETING
MR JOSÉ WALFREDO FERNÁNDEZ	-	INDEPENDENT	DIRECTOR	17/02/2015	27/03/2015	GENERAL SHAREHOLDERS' MEETING
MR MANUEL	-	OTHER	DIRECTOR	17/02/2015	27/03/2015	GENERAL

MOREU MUNAIZ		EXTERNAL				SHAREHOLDERS' MEETING
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<b>Total number of directors</b>	14
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**State the vacancies on the board of directors during the reporting period:**

<b>Individual or company name of director</b>	<b>Class of director at time of vacancy</b>	<b>Date of vacancy</b>
MR JULIO DE MIGUEL AYNAT	Independent director	17/02/2015
MR SEBASTIÁN BATTANER ARIAS	Independent director	17/02/2015

**C.1.3. Complete the following tables about the members of the board and each member's status:**

**EXECUTIVE DIRECTORS**

<b>Individual or company name of director</b>	<b>Position within the company's structure</b>
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	Chairman & CEO

<b>Total number of executive directors</b>	1
<b>Total % of the board</b>	7.14

**EXTERNAL PROPRIETARY DIRECTORS**

<b>Individual or company name of director</b>	<b>Individual or company name of the significant shareholder represented by the director or that has proposed the director's appointment</b>
MR XABIER DE IRALA ESTÉVEZ	Kutxabank, S.A.

<b>Total number of proprietary directors</b>	1
<b>Total % of the board</b>	7.14

**EXTERNAL INDEPENDENT DIRECTORS**

<b>Individual or company name of director</b>	<b>Profile</b>
MS INÉS MACHO STADLER	Bilbao, 1959 Background and professional experience Other activities: professor of Economics in the Economics and Economic History Department of Universidad Autónoma de Barcelona, professor of the Barcelona Graduate School of Economics, member of the Council of the

	<p>French Economic Observatory (<i>Observatoire Français des Conjonctures Économiques</i>) (OFCE), and honorary member of the European Economic Association and of the Spanish Economic Association (<i>Asociación Española de Economía</i>).</p> <p>Dates of appointment and re-election as director of Iberdrola, S.A.: 7 June 2006, 29 March 2007, and 22 June 2012.</p> <p>Academic training</p> <p>Degree in Economics from Universidad del País Vasco, Master in Economics from l'École des Hautes Études en Sciences Sociales, and Doctor in Economics (Ph.D.) from the same academic institution and from l'École Nationale de la Statistique et de l'Administration Économique (ENSAE) (Paris, France).</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>She has been a member of the International Scientific Advisory Committee of the Basque Centre for Climate Change (bc3) and has served as chair of the Scientific Committee of the 2011 Conference of the Spanish Association for Energy Economics (<i>Asociación Española para la Economía Energética</i>).</p> <p>Noteworthy experience in other industries</p> <p>She has been president of the Spanish Economic Association, coordinator of the National Agency for Quality Evaluation and Accreditation (<i>Agencia Nacional de Evaluación y Prospectiva</i>), and representative at the European Science Foundation, as well as a member-elect of the Council of the European Economic Association and a member of the Executive Committee of the European Association for Research in Industrial Economics. She has been a member of the Advisory Board of the Research Service of Caja de Ahorros y Pensiones de Barcelona, "la Caixa".</p> <p>She has taught at universities in Germany, Belgium, Brazil, Denmark, France, Portugal, and Spain.</p>
<p>MR BRAULIO MEDEL CÁMARA</p>	<p>Marchena, Seville, 1947</p> <p>Background and professional experience</p> <p>Other activities: executive chair of Unicaja Banco, S.A. and chair of Fundación Bancaria Unicaja, Hidralia, S.A., Alteria Corporación Unicaja, and Federación de Cajas de Ahorros de Andalucía, vice-chair of Confederación Española de Cajas de Ahorros (CECA), and a member of the board of directors of the listed company Acerinox, S.A. and of Caja de Seguros Reunidos, Compañía de Seguros y Reaseguros, S.A. and Professor of Public Finance at Universidad de Málaga.</p> <p>Dates of appointment and re-election as director of Iberdrola, S.A.: 7 June 2006, 29 March 2007, and 22 June 2012.</p> <p>Academic training</p> <p>Degree in Economics and Business Administration from Universidad Complutense de Madrid and Doctorate in Economics and Business Administration from Universidad de Málaga.</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>He has been a member of the board of Compañía Sevillana de Electricidad, S.A., Retevisión and of Abertis Infraestructuras, S.A.</p> <p>Noteworthy experience in other industries</p> <p>He has been chair of Ahorro Corporación, S.A. and a member of the board of Centros Comerciales Carrefour, S.A., and has been a member of the governance bodies of the World Savings and Retail Banking Institute and of the European Savings and Retail Banking Group, of which he was vice-chair.</p> <p>He has also served as Deputy Minister for Economy and Finance of the Autonomous Government of Andalusia and as chair of Consejo Andaluz de Colegios de Economistas. He has also been a member of the board of trustees of the following foundations: Tres Culturas del Mediterráneo, El</p>

	<p>Legado Andalusi, Doñana 21 and CIEDES (Centro de Investigaciones Estratégicas y Desarrollo Económico y Social).</p>
<p>MS SAMANTHA BARBER</p>	<p>Dunfermline, Fife, Scotland, 1969</p> <p>Background and professional experience</p> <p>Other activities: chair of Scottish Ensemble, vice-chair of Scotland's 2020 Climate Group, member of the Advisory Board for Breakthrough Breast Cancer, of the GlobalScot network, and of the Advisory Board for the Imperial College London MBA, and performs advisory and business coaching work.</p> <p>Dates of appointment and re-election as director of Iberdrola, S.A.: 31 July 2008, 20 March 2009, and 22 June 2012.</p> <p>Academic training</p> <p>Bachelor of Arts in Applied Foreign Languages and European Politics from the University of Northumbria, Newcastle (England, United Kingdom) and Post-Graduate degree in EU Law from the University of Nancy (France).</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>She has been a member of the Advisory Council of Scottish Power following the integration of the Scottish company into the Iberdrola Group.</p> <p>Noteworthy experience in other industries</p> <p>She has been a consultant within the European Parliament, where she provided support to the Economic and Monetary Affairs Committee, a board member of Business for Scotland, and the chief executive of Scottish Business in the Community.</p> <p>She has also been a member of the Board of Directors of Right Track Scotland, an organisation dedicated to advancing educational, training, and employment opportunities for youths at risk of social exclusion.</p> <p>She was chosen as one of the "Top 100 Women to Watch" according to the FTSE list and Cranfield University, and was a finalist and earned second place in the annual Director of the Year Awards 2012 of IoD Scotland NED.</p>
<p>MS MARÍA HELENA ANTOLÍN RAYBAUD</p>	<p>Toulon, France, 1966</p> <p>Background and professional experience</p> <p>Other activities: vice-chair of the Board of Directors and member of the Management Committee of Grupo Antolin Irausa, S.A., vice president of Excellence in Management Club (<i>Club de Excelencia en la Gestión</i>), member of the Governing Board of the Spanish Association of Automotive Equipment and Component Manufacturers (<i>Asociación Española de Fabricantes de Equipos y Componentes para Automoción</i>) (Sernauto), and a board member of France Foreign Trade (<i>Comercio Exterior de Francia</i>), Spain section.</p> <p>Dates of appointment and re-election as director of Iberdrola, S.A.: 26 March 2010 and 27 March 2015.</p> <p>Academic training</p> <p>Degree in International Business and Business Administration from Eckerd College, St. Petersburg, Florida (United States of America), and Master in Business Administration from Anglia University, Cambridge (United Kingdom) and from Escuela Politécnica de Valencia (Spain).</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>She has served as an external independent director of Iberdrola Renovables, S.A. and a member of its Related-Party Transactions Committee.</p> <p>She has been in charge of the corporate Industrial and Strategy Divisions of Grupo Antolin Irausa, S.A., where she has also been a director of Human Resources and the head of Total Quality for the Group.</p>
<p>MR SANTIAGO MARTÍNEZ LAGE</p>	<p>Betanzos, A Coruña, 1946</p>

	<p>Background and professional experience</p> <p>Other activities: chair of the law firm Martínez Lage, Allendesalazar &amp; Brokelmann, secretary of the board of directors of SKF Española, S.A., vice-chair of the Spanish Association for the Study of European Law (<i>Asociación Española para el Estudio del Derecho Europeo</i>) and the European Law Section of the Royal Academy of Jurisprudence and Legislation (<i>Real Academia de Jurisprudencia y Legislación</i>), a trustee of Fundación España México, and a member of the Arbitrator Appointment Committee of the Spanish Court of Arbitration.</p> <p>Dates of appointment and re-election as director of Iberdrola, S.A.: 26 March 2010 and 27 March 2015.</p> <p>Academic training</p> <p>Degree in Law from Universidad Complutense de Madrid. He continued his studies at the Escuela de Funcionarios Internacionales de Madrid, the Escuela Diplomática, The Hague Academy of International Law, the “Europa Instituut” in Amsterdam (The Netherlands), and the INSEAD in Fontainebleau (France). Career diplomat on leave.</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>He has served as an external independent director of Iberdrola Renovables, S.A. and chair of its Appointments and Remuneration Committee, and secretary of the boards of directors of Fujitsu Services, S.A. and Telettra España, S.A.</p> <p>He has also been a member of the Appointments and Remuneration Committee and of the Audit and Risk Supervision Committee of Iberdrola, S.A.</p> <p>Noteworthy experience in other industries</p> <p>He has been secretary of the Board of Directors of Empresa Nacional Elcano de la Marina Mercante, S.A. and founder and director of the Gaceta Jurídica de la Unión Europea y de la Competencia.</p> <p>He has also been general secretary of the International Federation for European Law (<i>Fédération Internationale pour le Droit Européen</i>) (FIDE) and member of the managing committee of Círculo de Empresarios.</p> <p>As a diplomat, he was posted to Algiers (Algeria), Libreville (Gabon), Sofia (Bulgaria), and Paris (France), and has also served at the Office of the Secretary of State for Relations with the European Community.</p>
<p>MR ÁNGEL JESÚS ACEBES PANIAGUA</p>	<p>Ávila, 1958</p> <p>Background and professional experience</p> <p>Other activities: chairman and founding partner of Grupo MA Abogados Estudio Jurídico, S.L., sole director and professional partner of Doble A Estudios y Análisis, S.L.P., member of the Advisory Board of Wolters Kluwer España, and a trustee of Fundación para el Análisis y Estudios Sociales (FAES) and of Fundación Universitaria de Ávila, UCAV. He gives courses, workshops, and lectures on various matters relating to law, politics, and social matters.</p> <p>Dates of appointment and re-election as director of Iberdrola, S.A.: 24 April 2012 and 27 March 2015.</p> <p>Academic training</p> <p>Degree in Law from Universidad de Salamanca.</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>As a lawyer, he has advised companies in the energy and technological/industrial sectors, among others. He also has significant knowledge of the regulatory area due to his work as a member of the Council of Ministers of the Government of Spain, a senator, and a national deputy.</p> <p>Noteworthy experience in other industries</p>

	<p>He has served on the board of Caja Madrid Cibeles, S.A., which manages the investments of Grupo Caja Madrid in other companies with activities in the financial and insurance sectors (like Mapfre Internacional, S.A.) as well as the retail banking sector outside of Spain. After the public listing of Bankia, S.A., he was a member of the board of Banco Financiero y de Ahorros, S.A. ("BFA"), chairing its Audit and Compliance Committee.</p> <p>In the institutional arena, he has been Minister for Public Administrations, Minister of Justice, and Minister of the Interior of the Spanish Government.</p>
<p>MS GEORGINA KESSEL MARTÍNEZ</p>	<p>Mexico, 1950</p> <p>Background and professional experience</p> <p>Other activities: independent director and chair of the Audit Committee of Grupo Financiero Scotiabank Inverlat, and a partner of Spectron E&amp;I.</p> <p>Dates of appointment and re-election as director of Iberdrola, S.A.: 23 April 2013 and 28 March 2014.</p> <p>Academic training</p> <p>Holder of a degree in Economics from Instituto Autónomo de México and of a Master's and Doctor's degree in Economics from Columbia University (New York).</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>She has been chair of the Energy Regulatory Commission (<i>Comisión Reguladora de Energía</i>) and Energy Secretary of the Government of Mexico.</p> <p>She has also been chair of the Board of Directors of Pemex (Petróleos Mexicanos) and of the Board of Directors of the Federal Electricity Commission (<i>Comisión Federal de Electricidad</i>) (CFE).</p> <p>She has participated in the Energy Council of the World Economic Forum and in the United Nations Organization Secretary General's advisory group (Sustainable Energy for All).</p> <p>Noteworthy experience in other industries</p> <p>She has been an adviser to the chair of the Federal Competition Commission (<i>Comisión Federal de Competencia</i>), head of the Quasi-Autonomous Non-Governmental Organisations Investment and Divestment Unit (<i>Unidad de Inversiones y Desincorporación de Entidades Paraestatales</i>) of the Office of the Secretary of Finance and Public Credit of Mexico, general manager of the National Mint of Mexico (<i>Casa de Moneda de México</i>), member of the boards of Nacional Financiera (Nafinsa) and of Banco Nacional de Comercio Exterior (Bancomext), and general manager of Banco Nacional de Obras y Servicios Públicos.</p> <p>In the academic field, she has been a professor in the Economics Department of Instituto Tecnológico Autónomo de México, deputy chair of the course towards a Degree in Economics, and chair of the Alumni Association. She was also holder of the Quintana Chair for Research in International Trade and is the author of many papers and specialised articles.</p>
<p>MS DENISE MARY HOLT</p>	<p>Vienna, Austria, 1949</p> <p>Background and professional experience</p> <p>Other activities: independent director and member of the Risk Committee of HSBC Bank plc., chair and independent director of M&amp;S Financial Services Ltd., and independent director and member of the Quality and Safety and Compensation Committees of the Board of Directors of Nuffield Health, member of the governing board of the University of Bristol, and chair of the Appointments Committee of the British Alzheimer's Society.</p> <p>Dates of appointment and re-election as director of Iberdrola, S.A.: 24 June 2014 and 27 March 2015.</p> <p>Academic training</p> <p>Degrees in Spanish Philology, French Philology, and Political Sciences from</p>



	<p>the University of Bristol and Doctor of Laws from the same university (England, United Kingdom).</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>She has been a director of Scottish Power Renewable Energy Ltd. and of Scottish Power Energy Networks Holdings Ltd.</p> <p>Noteworthy experience in other industries</p> <p>In her diplomatic career, she has been first secretary of the Embassy of the United Kingdom in Brazil, director of Human Resources, of Migration and of the Overseas Territories at the UK Foreign and Commonwealth Office, and ambassador of the United Kingdom to Mexico, Spain, and Andorra. For her contribution to the British diplomatic service, she was elevated to Dame Commander of the Order of St Michael and St George (DCMG).</p> <p>She has also served as chair of the Anglo-Spanish Society and of the Institute of Latin American Studies at the University of London.</p>
MR JOSÉ WALFREDO FERNÁNDEZ	<p>Cienfuegos, Cuba, 1955</p> <p>Background and professional experience</p> <p>Other activities: partner of Gibson, Dunn &amp; Crutcher, member of the board of directors of the Council of the Americas and the Center for American Progress.</p> <p>Dates of appointment and re-election as director of Iberdrola, S.A.: 17 February 2015 and 27 March 2015.</p> <p>Academic training</p> <p>Degree in History from Dartmouth College (New Hampshire, United States of America), and Juris Doctor from Columbia University (New York, United States of America).</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>He has been Assistant Secretary of State for Economic, Energy and Business Affairs for the United States of America.</p> <p>He has also been an independent director of Iberdrola USA, Inc.</p> <p>Noteworthy experience in other industries</p> <p>He has served on the boards of Dartmouth College, NPR Station WBGO-FM, the Middle East Institute, and Ballet Hispanico of New York and of non-governmental institutions such as Acción Internacional. He has also been the State Department's representative on the Committee on Foreign Investment in the United States.</p> <p>In addition, he was named one of the "World's Leading Lawyers" by Chambers Global for his M&amp;A work, an "Expert" by the International Financial Law Review, one of the "World's Leading Privatization Lawyers" by Euromoney, and "Embajador de la Marca España" (Ambassador of the Spain Brand).</p>

Total number of independent directors	9
Total % of the board	64.29

**State whether any director classified as independent receives from the company or its group any amount or benefit for items other than director remuneration, or maintains or has maintained during the last financial year a business relationship with the company or with any company of its group, whether in the director's own name or as a significant shareholder, director, or senior officer of an entity that maintains or has maintained such relationship. If applicable, include a reasoned statement of the director regarding the reasons for which it is believed that such director can carry out the duties thereof as an independent director.**

Not applicable.

### **OTHER EXTERNAL DIRECTORS**

Identify the other external directors and describe the reasons why they cannot be considered proprietary or independent directors as well as their ties, whether with the company, its management, or its shareholders:

Individual or company name of director	Reasons	Company, officer, or shareholder with which the director has ties
MR IÑIGO VÍCTOR DE ORIOL IBARRA	A company tied to the director was awarded a contract with a company of the Iberdrola Group in 2014.	IBERDROLA
MR JOSÉ LUIS SAN PEDRO GUERENABARRENA	Mr San Pedro Guerenabarrena held the position of chief operating officer ( <i>consejero-director general</i> ) until 24 June 2014, the date on which he voluntarily ceased executive duties, but continues to serve as a member of the Board of Directors and of the Executive Committee.	IBERDROLA
MR MANUEL MOREU MUNAIZ	Companies tied to the director maintained commercial relations with the Iberdrola Group during 2015, as reflected in section D.3 of this Report.	IBERDROLA

Total number of other external directors	3
Total % of the board	21.43

State the changes, if any, in the class of each director during the period:

Individual or company name of director	Date of change	Former class	Current class
MR IÑIGO VÍCTOR DE ORIOL IBARRA	22/06/2015	Independent director	Other external director

C.1.4. Complete the following table with information regarding the number of female directors for the last 4 financial years, as well as the status of such directors:

	Number of female directors				% of total directors of each class			
	Year t	Year t-1	Year t-2	Year t-3	Year t	Year t-1	Year t-2	Year t-3
Executive	-	-	-	-	-	-	-	-
Proprietary	-	-	-	-	-	-	-	-
Independent	5	5	4	3	55.55	55.55	40	33.33

<b>Other external</b>	-	-	-	-	-	-	-	-
<b>Total</b>	5	5	4	3	35.71	35.71	28.57	21.42

**C.1.5. Explain any measures adopted to include on the board of directors a number of women that allows for a balanced presence of men and women.**

<b>Explanation of measures</b>
<p>The Company's Corporate Governance System, and particularly the <i>Director Candidate Selection Policy</i>, entrusts the Appointments Committee with the duty to ensure that when new vacancies are filled or new directors are appointed, the selection procedures are free from any implied bias entailing any kind of discrimination and, in particular, that such procedures do not hinder the selection of female directors. The goals thereof include ensuring that female directors continue to account for at least 30% of the Board of Directors by 2020.</p> <p>Iberdrola has consistently increased the number of female directors on its Board of Directors since 2006.</p> <p>Five of the fourteen members of the Board of Directors are currently women.</p> <p>On 7 June 2006, the Board of Directors appointed Ms Inés Macho Stadler as independent director on an interim basis to fill a vacancy; such appointment was ratified by the shareholders at the General Shareholders' Meeting held on 29 March 2007, where the shareholders also approved her re-election for a five-year period. It should also be noted that on 22 September 2009, Ms Inés Macho Stadler was appointed as lead independent director (<i>consejera coordinadora</i>), a position governed by the provisions of article 45 of the By-Laws and article 21 of the Regulations of the Board of Directors.</p> <p>Thereafter, at its meeting of 31 July 2008, the Board of Directors resolved to appoint Ms Samantha Barber as an independent director on an interim basis to fill a vacancy; such appointment was ratified by the shareholders at the General Shareholders' Meeting held on 20 March 2009. Ms Barber has also chaired the Corporate Social Responsibility Committee since 24 April 2012, replacing Mr. Braulio Medel Cámara.</p> <p>The shareholders at the General Shareholders' Meeting held on 26 March 2010 approved the proposed appointment of Ms María Helena Antolín Raybaud, with the classification of external independent director.</p> <p>On 23 April 2013, Iberdrola's Board of Directors approved the interim appointment of Ms Georgina Kessel Martínez as an external independent director, which was subsequently ratified by the shareholders at the General Shareholders' Meeting held on 28 March 2014. Furthermore, Ms Kessel Martínez was appointed chair of the Audit and Risk Supervision Committee on 17 February 2015, replacing Mr Julio de Miguel Aynat.</p> <p>On 24 June 2014, the Board of Directors approved the interim appointment of Ms Denise Mary Holt as an external independent director. This appointment was ratified by the shareholders at the General Shareholders' Meeting held on 27 March 2015.</p> <p>Finally, the Appointments and Remuneration Committee was split into two separate committees on 27 March 2015. The appointment of Ms María Helena Antolín Raybaud and of Ms Inés Macho Stadler as chairs of the Appointments Committee and the Remuneration Committee, respectively, was approved for these purposes.</p> <p>As a result of the foregoing, all consultative committees of the Board of Directors are chaired by women.</p>

**C.1.6. Explain any measures approved by the appointments committee in order for selection procedures to be free of any implied bias that hinders the selection of female directors, and in order for the company to deliberately search for women who meet the professional profile that is sought and include them among potential candidates:**

<b>Explanation of measures</b>
<p>Iberdrola approved a new Director Candidate Selection Policy on 25 March 2015 (updated on 15 December 2015) to ensure that the proposed appointments of directors are based on a prior analysis of the needs of the Board of Directors. In particular, the candidates must be respectable and qualified</p>

persons, widely recognised for their expertise, competence, experience, qualifications, training, availability, and commitment to their duties. They must be true professionals, whose professional conduct and background are aligned with the principles set forth in the Directors' Code of Ethics and with the mission, vision, and values of the Group. Efforts should also be made to ensure that there is an appropriate balance on the Board of Directors that enriches decision-making and the contribution of plural viewpoints to the discussion of matters within its purview.

In turn, the Board has entrusted to the Appointments Committee the responsibility of ensuring that when new vacancies are filled or new directors are appointed, the selection procedures are free from any implied bias entailing any kind of discrimination and, in particular, from any bias that may hinder the selection of female directors. This is expressly provided by articles 27.6.c) of the Regulations of the Board of Directors and 3.e) of the Regulations of the Appointments Committee.

**If there are few or no female directors despite any measures adopted, describe the reasons for such result:**

Explanation of reasons
Not applicable.

**C.1.6.bis Explain the conclusions of the appointments committee regarding verification of compliance with the director selection policy. Particularly explain how said policy is promoting the goal that the number of female directors represents at least 30% of all members of the board of directors by 2020.**

The Policy conforms to the most stringent domestic and international corporate governance practices regarding appointments, seeking diversity of knowledge, experience, origin, nationality, and gender within the Board of Directors. The Policy specifies the commitment to avoid implicit bias that hinders the selection of female directors, who currently represent more than thirty per cent of the members of the Board of Directors. Along these lines, the Policy includes a commitment that the number of female directors will continue to account for at least said thirty per cent of the total number of members of the Board of Directors by the year 2020. Finally, the Policy promotes the inclusion within the Board of candidates with experience on boards of directors of subsidiaries of the Group, with the contribution of value contributed by their knowledge of the Company's business through such subsidiaries.

**C.1.7. Explain the form of representation on the board of shareholders with significant holdings.**

Mr Xabier de Irala Estévez has been a director since 24 April 2005 at the proposal of the significant shareholder Bilbao Bizkaia Kutxa, Aurrezki Kutxa eta Bahitetxea - BBK (now Kutxabank, S.A.) and was last re-elected by the shareholders at the General Shareholders' Meeting held on 22 June 2012.

**C.1.8. Explain, if applicable, the reasons why proprietary directors have been appointed at the proposal of shareholders whose shareholding interest is less than 3% of share capital.**

Individual or company name of the shareholder	Reason

State whether there has been no answer to formal petitions for presence on the board received from shareholders whose shareholding interest is equal to or greater than that of others at whose proposal proprietary directors have been appointed. If so, describe the reasons why such petitions have not been answered:

Yes  No

Individual or company name of the shareholder	Explanation

**C.1.9. State whether any director has withdrawn from the position as such before the expiration of the director's term of office, whether the director has given reasons to the board and by what means, and in the event that the director gave reasons in writing, describe at least the reasons given thereby:**

Name of director	Reason for withdrawal
MR JULIO DE MIGUEL AYNAT	Personal reasons.
MR SEBATIÁN BATTANER ARIAS	Personal reasons.

**C.1.10. State any powers delegated to the CEO(s):**

Individual or company name of director	Brief description
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	The chairman & chief executive officer, as an individual decision-making body, has all the powers that may be delegated under the law and the <i>By-Laws</i> .

**C.1.11. Identify any members of the board who are directors or officers of companies within the listed company's group:**

Individual or company name of director	Name of entity within the group	Position	Do he/she have executive duties?
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	SCOTTISH POWER, LTD.	Chairman	NO
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	AVANGRID, INC.	Chairman	NO
MR JOSÉ LUIS SAN PEDRO GUERENABARRENA	IBERDROLA ESPAÑA, S.A.	Chairman	NO

**C.1.12. Identify the directors of your company, if any, who are members of the board of directors of other companies listed on official stock exchanges other than those of your group, which have been reported to your company:**

Individual or company name of the director	Name of listed company	Position
MR BRAULIO MEDEL CÁMARA	ACERINOX, S.A.	Director
MS GEORGINA KESSEL MARTÍNEZ	GRUPO FINANCIERO SCOTIABANK INVERLAT, S.A. DE C.V.	Director
MS DENISE MARY HOLT	HSBC BANK PLC.	Director
MR MANUEL MOREU MUNAIZ	TUBACEX, S.A.	Director

**C.1.13. State and, if applicable, explain whether the regulations of the board have established rules regarding the maximum number of boards of which its directors may be members:**

Yes  No

Explanation of rules
Pursuant to the provisions of article 13.b) of the Regulations of the Board of Directors, individuals or legal entities serving as directors in more than five companies, of which no more than three may have shares trading on domestic or foreign stock exchanges, may not be appointed as directors. Positions within holding companies are excluded from the calculation. Furthermore, companies belonging to the same group shall be deemed to be a single company.

**C.1.14. Section deleted.**

**C.1.15. State the overall remuneration of the board of directors:**

Remuneration of the board of directors (thousands of euros)	14,730
Amount of pension rights accumulated by the directors (thousands of euros)	0
Amount of pension rights accumulated by former directors (thousands of euros)	0

**C.1.16. Identify the members of the company's senior management who are not executive directors and state the total remuneration accruing to them during the financial year:**

Individual or company name	Position(s)
MR FRANCISCO MARTÍNEZ CÓRCOLES	Business CEO of the Group
MR JOSÉ SAINZ ARMADA	CFO
MR JULIÁN MARTÍNEZ-SIMANCAS SÁNCHEZ	General secretary and secretary of the Board of Directors
MR LUIS JAVIER ARANAZ ZUZA	Director of Internal Audit
MR PEDRO AZAGRA BLÁZQUEZ	Director of Corporate Development

MR JUAN CARLOS REBOLLO LICEAGA	Director of administration and control
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<b>Total senior management remuneration (in thousands of euros)</b>	11,874
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**C.1.17. State the identity of the members of the board, if any, who are also members of the board of directors of significant shareholders and/or in entities of their group:**

Individual or company name of director	Company name of the significant shareholder	Position
MR XABIER DE IRALA ESTÉVEZ	CAJASUR BANCO, S.A.	Director

**Describe any significant relationships, other than the ones contemplated in the prior item, of the members of the board of directors linking them to significant shareholders and/or companies within their group:**

Individual or company name of related director	Individual or company name of related significant shareholder	Description of relationship

**C.1.18. State whether the regulations of the board have been amended during the financial year:**

Yes  No

Description of amendments
<p>On 25 March, the Board of Directors of the Company approved an amendment of the Regulations of the Board of Directors, the new provisions of which were as follows:</p> <ul style="list-style-type: none"> <li>- After the Appointments and Remuneration Committee was split into two separate committees, the duties of each were defined.</li> <li>- There was an update of the disqualification relating to a director not being able to hold the position of director in more than five companies, of which no more than three may have shares trading on domestic or foreign stock exchanges.</li> <li>- In the case of a director who ceases to hold office due to resignation or other reasons prior to the end of the period for which the director was appointed, the director shall explain the reasons for their withdrawal in a letter.</li> <li>- The lead independent director shall chair the meetings of the Board of Directors in the absence of the chairman and of the vice-chairs.</li> <li>- As regards the duties of the secretary of the Board of Directors, the secretary must expressly state for the record his opposition to resolutions that are contrary to law, to the Corporate Governance System, or to the corporate interest.</li> <li>- As regards the conduct of meetings of the Board of Directors, if directors or the secretary state their concern regarding a proposal or, in the case of directors, regarding the status of the Company, and such concerns are not resolved at the meeting of the Board of Directors, a description thereof shall be reflected in the minutes at the request of those stating their concerns. In particular, if significant or repeated decisions are made on matters with respect to which a director has made serious reservations and such director tenders their resignation, the director must explain the reasons for their resignation by letter.</li> <li>- It is provided that the Board of Directors shall meet with the auditors at least once per year in order to</li> </ul>

receive information regarding the work performed and regarding the accounting status and risks of the Company.

According to the amendment approved on 21 July, the structure of the corporate website is determined by the provisions of the General Corporate Governance Policy and the other internal rules of the Company.

On 20 October 2015, the Board of Directors approved the following changes:

- The powers of the Board of Directors were updated, adding the duty to define the mission, vision, and values of the Group.
- New references to the corporate structure of the Group were introduced as regards the country subholding companies and head of business companies of the Group.
- Modifications were also made to the powers of the Corporate Social Responsibility Committee.

Finally, the *Regulations of the Board of Directors* were amended on 15 December 2015 to make the following changes:

- Amendments were made arising from the admission to trading of the shares of Avangrid, Inc. on the New York Stock Exchange. In particular, specific statements were inserted regarding the strengthened autonomy of the listed country subholding companies in the articles relating to the powers of the Board of Directors and of the Remuneration Committee.

**C.1.19. State the procedures for the selection, appointment, re-election, evaluation, and removal of directors. Describe the competent bodies, the procedures to be followed, and the criteria applied in each of such procedures.**

**1. APPOINTMENT AND RE-ELECTION OF DIRECTORS**

The appointment, re-election, and removal of directors is within the purview of the shareholders at the General Shareholders' Meeting.

Vacancies that occur may be filled by the Board of Directors on an interim basis until the next General Shareholders' Meeting.

The Appointments Committee must advise the Board of Directors regarding the most appropriate configuration thereof and of its committees as regards size and equilibrium among the various classes of directors existing at any time. This is in any event based on the conditions that candidates for director must meet pursuant to the Director Candidate Selection Policy.

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 senior officers 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 five companies, of which no more than three may have shares trading on domestic or foreign stock exchanges.
- c) For purposes of the provisions of the preceding paragraph, positions within holding companies are excluded from the calculation. Furthermore, companies belonging to the same group shall be deemed to be a single company.
- d) 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.

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.

The Board of Directors and the Appointments Committee, within the scope of their powers, shall endeavour to ensure that the candidates proposed are respectable and qualified persons, widely recognised for their expertise, competence, experience, qualifications, training, availability, and commitment to their duties.

It falls upon the Appointments Committee to propose the independent directors, as well as to report upon



the proposals relating to the other classes of directors.

If the Board of Directors deviates from the proposals and reports of the Appointments Committee, it shall give reasons for so acting and shall record such reasons in the minutes.

## 2. EVALUATION OF DIRECTORS

The Board of Directors shall annually evaluate: (i) its operation and the quality of its work; (ii) the performance of their duties by the chairman of the Board of Directors and by the chief executive officer, based on the report submitted thereto by the Appointments Committee; and (iii) the operation of its committees, in view of the report submitted thereto by such committees. For such purpose, the chairman of the Board of Directors shall organise and coordinate the aforementioned evaluation process with the chair of each committee. The following section reports on the evaluation process during financial year 2015.

## 3. REMOVAL OF DIRECTORS

Directors "shall serve in their position for a term of four (4) years, so long as the shareholders acting at the General Shareholders' Meeting do not resolve to remove them and they do not resign from their position".

The Appointments Committee shall inform the Board of Directors regarding proposed removals due to breach of the duties inherent to the position of director or due to a director becoming affected by supervening circumstances of mandatory resignation or withdrawal. In addition, the Committee may propose the removal of directors in the event of disqualification, structural conflict of interest, or any other reason for resignation or withdrawal, pursuant to law or the Company's Corporate Governance System.

The Board of Directors may propose the removal of an independent director before the passage of the period provided for in the By-Laws only upon sufficient grounds, evaluated by the Board of Directors after a report from the Appointments Committee, or as a consequence of takeover bids, mergers, or other similar corporate transactions resulting in a significant change in the structure of the Company's share capital, as recommended by the Good Governance Code of Listed Companies.

### **C.1.20 Explain the extent to which the self-evaluation of the board has given rise to significant changes in its internal organisation and regarding the procedures applicable to its activities:**

Description of amendments
<p>The annual evaluation of 2014 was derived from a 2015 Action Plan that identified various areas for improvement. There was continued development of the Corporate Governance System during the most recent financial year, significantly advancing on the majority of them. Specifically, this includes:</p> <ol style="list-style-type: none"><li>1. Separation of duties and checks and balances:<ul style="list-style-type: none"><li>- Consideration of Iberdrola, S.A. as a supervisory holding company in the <i>By-Laws</i>.</li><li>- Split-up of the Appointments and Remuneration Committee.</li><li>- Expansion of the powers of the lead independent director.</li></ul></li><li>2. Suitable composition of the Board of Directors and effective operation:<ul style="list-style-type: none"><li>- Continuous renewal of the Board of Directors with the inclusion of directors with knowledge and experience in key international markets and businesses for the group.</li><li>- Inclusion of a sole transitional provision in the <i>Regulations of the Board of Directors</i> anticipating the progressive renewal of the Board in coming years.</li><li>- Publication of guidelines for the Succession Plan.</li><li>- Improvements in the monitoring of the <i>Tax Risk Control and Management Policy</i>.</li><li>- Publication of reports supporting the re-election and appointment of directors.</li></ul></li><li>3. Shareholder engagement:<ul style="list-style-type: none"><li>- Holding of the first Shareholder Day, in addition to the customary Investor Day.</li><li>- Approval of the <i>Shareholder Engagement Policy</i>.</li></ul></li><li>4. Social return:</li></ol>

- Approval of the mission and modification of the vision and values of the Iberdrola group.
- Approval of the *Stakeholder Relations Policy*.

**C.1.20 bis Describe the process of self-evaluation and the areas evaluated by the board of directors, as it may be assisted by an external consultant, regarding diversity in its composition and powers, the operation and composition of its committees, the performance of the chairman of the board and chief executive officer, and the performance and contribution of each director.**

The Board of Directors of Iberdrola, S.A. evaluates its performance on an annual basis. On 20 October 2015 the Board of Directors approved the commencement of the process of evaluation, including that of the Board of Directors itself, the Executive Committee, its consultative committees, the directors individually, and the chairman & CEO. This last evaluation was led by the lead independent director. The process concluded at the 23 February 2016 meeting of the Board.

In order to align the Company with best international practices, it was decided to hire PricewaterhouseCoopers Asesores de Negocios, S.L. ("PwC") as an external adviser.

The evaluation process covered approximately 500 objectively quantifiable and measurable indicators, which are updated each year with the latest trends and regulatory changes. The areas analysed in each of the reports were: (i) composition; (ii) operation; (iii) exercise of powers and performance of duties; and (iv) relations with other bodies.

The conclusions of the evaluation process reflected a high level of compliance with almost all of the critical indicators relating to mandatory legal rules and regulations and the recommendations of the new *Good Governance Code of Listed Companies*, and an alignment of more than 85% with the latest international trends and with advancement on the areas for improvement identified during prior years.

Pursuant to the 2016 Action Plan, Iberdrola will continue to develop good governance best practices this year in the following areas:

1. Board and strategy: ensure that the Board of Directors and the directors continue to dedicate sufficient time to planning and supervision of the strategy.
2. Transparency: continue progress on the key processes of the governance model.
3. Corporate social responsibility: increase interaction with socially responsible investors and have the governance bodies monitor the corporate social responsibility strategy of the group.
4. Remuneration: continuously compare to best market practices.
5. Shareholder engagement: improve the information disclosed by the consultative committees to the market and expand the universe of shareholder contacts.

**C.1.20 ter List any business relationships of the consultant or any company of its group with the company or any company of its group.**

The business relationships of the consultant and the companies of its group with the Company and the group in 2015 came to the aggregate amount of 4.2 million euros, and were mainly focused on the following:

- Advice to the management of Business Development.
- Advice and support to the Office of the Secretary of the Board of Directors.
- Work in the area of Human Resources.
- Advice on Regulation and on tax matters.

**C.1.21. State the circumstances under which the resignation of directors is mandatory.**

Directors must submit their resignation from the position and formally resign from their position upon the occurrence of any of the instances of disqualification from or prohibition against performing the duties of

director provided by law or by Iberdrola's Corporate Governance System.

In this connection, article 16.3 of the Regulations of the Board of Directors provides that the directors must submit their resignation to the Board of Directors in the following cases:

- a) When, due to supervening circumstances, they are involved in any circumstance of disqualification or prohibition provided by law or the Corporate Governance System.
- b) When, as a result of any acts or conduct attributable to the director, serious damage is caused to the value or reputation of the Company or there is a risk of criminal liability for the Company or any of the companies of the Group.
- c) When they cease to deserve the respectability or to have the capability, expertise, competence, availability, or commitment to their duties required to be a director of the Company.

In particular, when the activities carried out by the director, or the companies directly or indirectly controlled by the director, or the individuals or legal entities that are shareholders of or related to any of them, or the individual representing a corporate director, may compromise the competence of the director.

- d) When they are seriously reprimanded by the Board of Directors because they have breached any of their duties as directors, by resolution adopted by a two-thirds majority of the directors.
- e) When their continuance in office on the Board of Directors may for any reason, either directly, indirectly, or through persons related thereto, jeopardise the faithful and diligent performance of their duties in furtherance of the corporate interest.
- f) When the reasons why the director was appointed cease to exist and, in particular, in the case of proprietary directors, when the shareholder or shareholders who proposed, requested, or decided the appointment thereof totally or partially sell or transfer their equity interest, with the result that such equity interest ceases to be significant or sufficient to justify the appointment.
- g) When an independent director unexpectedly falls under supervening circumstances that prevent the director from being considered as such pursuant to the provisions of law.

The resignation provisions set forth under f) and g) above shall not apply when, after a report from the Appointments Committee, the Board of Directors believes that there are reasons that justify the director's continuance in office, without prejudice to the effect that the new supervening circumstances may have on the classification of the director.

**C.1.22. Section deleted.**

**C.1.23. Are qualified majorities, different from the statutory majorities, required to adopt any type of decision?**

Yes  No

**If so, describe the differences.**

Description of differences
The Regulations of the Board of Directors (article 5.1 of the Regulations of the Board of Directors) require a majority of at least two-thirds of the directors present at the meeting in person or by proxy to approve the amendment thereof.
The serious reprimand of a director for having breached any of the duties entrusted thereto as director (article 16.3.d) of the Regulations of the Board of Directors) requires a majority of two-thirds of the directors.

**C.1.24. Explain whether there are specific requirements, other than the requirements relating to directors, to be appointed chairman of the board of directors.**

Yes  No

Description of requirements

**C.1.25. State whether the chair has a tie-breaking vote:**

Yes  No

Matters on which a tie-breaking vote may be cast
In the event of a tie, the chairman has a tie-breaking vote on any matter unless he becomes subject to a conflict of interest, in which case he must abstain from participating in the deliberation and voting stages of the respective resolution.

**C.1.26. State whether the by-laws or the regulations of the board set forth any age limit for directors:**

Yes  No

Age limit for the chair	-
Age limit for the CEO	-
Age limit for directors	-

**C.1.27. State whether the by-laws or the regulations of the Board establish any limit on the term of office for independent directors that is different than the term provided by regulatory provisions:**

Yes  No

Maximum number of terms	
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**C.1.28. State whether there are formal rules for proxy-voting at meetings of the board of directors, the manner of doing so, and especially the maximum number of proxies that a director may hold, as well as whether any restriction has been established regarding the categories of directors to whom proxies may be granted beyond the restrictions imposed by law. If so, briefly describe such rules.**

<p>Pursuant to article 36.2 of the By-Laws, all of the directors may cast their vote and give their proxy in favour of another director, provided, however, that non-executive directors may only do so in favour of another non-executive director. Articles 32.2 and 36.2.b) of the Regulations of the Board of Directors require that directors attend the meetings of the Board of Directors. When directors are unable to attend in person for well-founded reasons, they shall endeavour to give a proxy to another director, to whom they shall give any appropriate instructions, but may not grant a proxy in connection with matters in respect of which they are involved in a conflict of interest.</p> <p>The proxy granted shall be a special proxy for the Board meeting in question and may be communicated by any means allowing for the receipt thereof.</p> <p>There is no maximum number of proxies provided per director.</p>
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**C.1.29. State the number of meetings that the board of directors has held during the financial year. In addition, specify the number of times the board has met, if any, at which the chair was not in attendance. Proxies granted with specific instructions shall be counted as attendance.**

Number of meetings of the board	8
Number of meetings of the board at which the chair was not in attendance	0

If the chair is an executive director, state the number of meetings held without the presence in person or by proxy of any executive director and chaired by the lead independent director.

Number of meetings	0
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State the number of meetings held by the different committees of the board of directors during the financial year:

Number of meetings of the Executive Committee	14
Number of meetings of the Audit and Risk Supervision Committee	15
Number of meetings of the Appointments Committee	14
Number of meetings of the Remuneration Committee	10
Number of meetings of the Corporate Social Responsibility Committee	7

**C.1.30. State the number of meetings that the board of directors has held during the financial year with the attendance of all of its members. Proxies granted with specific instructions shall be counted as attendance:**

Number of meetings with the attendance of the directors	8
% in attendance of total votes during the financial year	100%

**C.1.31. State whether the annual individual accounts and the annual consolidated accounts that are submitted to the board for approval are previously certified:**

Yes  No

Identify, if applicable, the person/persons that has/have certified the annual individual and consolidated accounts of the company for preparation by the board:

Name	Position
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	Chairman & CEO
MR JUAN CARLOS REBOLLO LICEAGA	Director of Administration and Control

**C.1.32. Explain the mechanisms, if any, adopted by the board of directors to avoid any qualifications in the audit report on the annual individual and consolidated accounts prepared by the board of directors and submitted to the shareholders at the general shareholders' meeting.**

Articles 3 and 6 of the *Regulations of the Audit and Risk Supervision Committee* provide that it has the following duties, among others:

- Supervise the process of preparing and presenting regulated financial information relating to the Company, both individual and consolidated with its subsidiaries, reviewing compliance with legal requirements, the proper delimitation of the scope of consolidation, and the correct application of accounting standards.
- Establish appropriate relationships with the auditor to receive information regarding matters that might risk the independence thereof, for examination by the Committee, and any other information related to the development of the audit procedure as well as such other communications as are provided for in the laws on auditing of accounts and in other legal provisions on auditing. The Committee must receive written confirmation from the auditor on an annual basis of their independence vis-à-vis the Company or entities directly or indirectly related thereto, as well as information on additional services of any kind provided to such entities by such auditor or by persons or entities related thereto, pursuant to the laws on auditing of accounts.
- On an annual basis, prior to the audit report, issue a report containing an opinion on the independence of the auditor. This report must in any case pass upon the provision of the additional services referred to in the preceding point.
- Report in advance to the Board of Directors regarding the financial information that the Company must disclose on a regular basis because of its status as a listed company; the Committee shall make sure that the interim accounts are prepared in accordance with the same accounting standards as the annual accounts and, for such purpose, it shall consider the appropriateness of a limited review by the auditor.
- Review the contents of the audit reports on the accounts and of the reports on the limited review of interim accounts, if any, as well as other mandatory reports to be prepared by the auditor, prior to the issuance thereof, in order to avoid qualified reports.
- Act as a channel of communication between the Board of Directors and the auditors, causing them to hold an annual meeting with the Board of Directors to report thereto on the work performed and the accounting status and risks of the Company.

Article 51 of the *Regulations of the Board of Directors* provides, among other things, that:

- The Board of Directors shall meet with the auditors at least once per year in order to receive information regarding the work performed and regarding the accounting status and risks of the Company.
- The Board of Directors shall use its best efforts to definitively prepare the accounts such that there is no room for qualifications by the auditors. However, when the Board of Directors believes that its opinion must prevail, it shall provide a public explanation of the content and scope of the discrepancy.

Pursuant to the above-cited articles, the Audit and Risk Supervision Committee reports on the financial information of the Company throughout the financial year and prior to the approval thereof by the Board of Directors and its submission to the National Securities Market Commission (*Comisión Nacional del Mercado de Valores*). The reports of the Committee, which the chair thereof presents to the full Board of Directors, are mainly intended to disclose such aspects, if any, as may give rise to qualifications in the audit report of Iberdrola and its consolidated group, making the appropriate recommendations to avoid any such qualifications.

Accordingly, the Committee submitted to the Board of Directors the following reports regarding the annual and half-yearly financial reports and the interim management statements of the Company for financial year 2015:

- Report dated 27 April 2015 on the interim management statement for the first quarter of 2015.
- Report dated 20 July 2015 on the economic/financial report for the first half of 2015.
- Report dated 19 October 2015 on the interim management statement for the third quarter of 2015.
- Report dated 22 February 2016 on the annual accounts of Iberdrola and its consolidated group for financial year 2015.

As disclosed in the information about Iberdrola posted on the website of the National Securities Market Commission ([www.cnmv.es](http://www.cnmv.es)), the audit reports on the individual and consolidated annual accounts prepared by the Board of Directors have historically been issued without qualifications.

**C.1.33. Is the secretary of the board a director?**

Yes  No

**If the secretary is not a director, complete the following table.**

Individual or company name of the secretary	Representative
MR JULIÁN MARTÍNEZ-SIMANCAS SÁNCHEZ	-

**C.1.34. Section deleted.**

**C.1.35. State the mechanisms, if any, used by the company to preserve the independence of auditors, financial analysts, investment banks, and rating agencies.**

**1. MECHANISMS TO PRESERVE THE INDEPENDENCE OF THE AUDITOR**

The Company's Corporate Governance System, and the *Auditor Hiring Policy* as part thereof, provide that:

- The Audit and Risk Supervision Committee shall receive information from the auditor regarding matters that might risk the independence thereof.
- The Committee shall receive from the auditor, on an annual basis, written confirmation of its independence as well as information on additional services provided to the Company or entities related thereto.
- The auditor shall provide to the Committee annual information regarding the profiles and the track record of the persons making up the audit teams, stating the changes in the composition of such teams compared to the preceding financial year and persons added to the Iberdrola Group.
- The Committee shall issue, on an annual basis and prior to the issuance of the audit report, a report setting forth an opinion on the independence of the auditor. This report shall in any case pass upon the provision of the additional services referred to above and shall attach a reasoned assessment thereof.
- The Committee shall monitor the quality assurance and independence safeguarding internal procedures implemented by the auditor.
- The Committee shall not submit a proposal to the Board of Directors, and the Board of Directors shall not submit a proposal to the shareholders at a General Shareholders' Meeting, for appointment of firms as auditor when it has evidence that they are affected by grounds for disqualification or do not satisfy the independence requirements established by the Company's Corporate Governance System.

As regards 2015:

- Iberdrola's auditor appeared on eight occasions before the Audit and Risk Supervision Committee and on one occasion before the Board of Directors to report on various matters relating to the audit process. During these appearances, the auditor did not report issues that might put its independence at risk.
- On 10 February 2015 the auditor sent written confirmation of its independence with regard to the audit of financial information for financial year 2014.
- On 14 July 2015 the auditor sent written confirmation of its independence with regard to the limited review of financial information through 30 June 2015.
- On 13 November 2015 the auditor sent confirmation of its independence with regard to the proposed re-election of the auditor to audit the individual and consolidated annual accounts for financial year 2016 to be submitted at the General Shareholders' Meeting.
- The auditor represented in the aforementioned letters that it had implemented the internal procedures necessary to ensure its independence.
- The hiring of the auditor for services other than auditing is authorised in advance by the Committee.

The hiring is supported by the respective letters of the partner responsible for the audit confirming the non-existence of restrictions on independence to perform this work.

- In its written confirmation of 10 February 2015, the auditor reported that there were no hirings of professionals from the auditor at the Company or its group, except in the case of Iberdrola México, where one person was hired. The Audit and Risk Supervision Committee believes that this hiring does not affect the independence of the auditor, as it involves a professional with only three years of experience at the audit firm.
- On 16 February 2015 the Committee issued its report to the Board of Directors regarding the independence of the Company's auditor. The Committee concluded that the auditor performed its audit work with independence from the Company or entities related thereto.
- On 16 February 2015 the Committee proposed to the Company's Board of Directors, for submission to the shareholders at the General Shareholders' Meeting, the re-election of Ernst & Young as the Company's auditor for financial year 2015.
- On 14 February 2015 the Committee proposed to the Company's Board of Directors, for submission to the shareholders at the General Shareholders' Meeting, the appointment of KPMG Auditores, S.L. as auditor of the annual accounts of the Company and its consolidated group for financial years 2017 to 2019. This proposal was adopted after the holding of a tender among well-known audit firms, in compliance with the provisions on rotation of auditors established in the new Audit Law 22/2015 of 20 July 2015.

**2. MECHANISMS TO PRESERVE THE INDEPENDENCE OF FINANCIAL ANALYSTS, INVESTMENT BANKS, AND RATING AGENCIES**

The principles which form the basis of the relations of the Company with financial analysts, investment banks, and rating agencies are transparency, non-discrimination, truthfulness, and trustworthiness of the information supplied. The Finance and Resource Division, through the Investor Relations Division, manages their requests for information and requests submitted by institutional or retail investors (in the case of retail investors, through the Office of the Shareholder). The Finance and Resource Division gives mandates to investment banks. The Development Division gives the appropriate advisory mandates to investment banks within the scope of its activities, in coordination with the Finance and Resource Division.

The independence of financial analysts is protected by the Investor Relations Division, which ensures the objective, fair, and non-discriminatory treatment thereof.

To actualise the principles of transparency and non-discrimination, always in strict compliance with regulations regarding the Securities Market, the Company has a number of communication channels:

- Personalised assistance for analysts, investors, and rating agencies.
- Publication of the information relating to quarterly results and other specific events, such as those relating to the submission of the Business Prospects or to corporate transactions.
- E-mail through the corporate website ([accionistas@iberdrola.com](mailto:accionistas@iberdrola.com)) and a toll-free line for shareholders (+34 900 100 019).
- In-person and broadcasted presentations.
- Release of announcements and news.
- Visits to Company facilities.

**C.1.36. State whether the Company has changed the external auditor during the financial year. If so, identify the incoming and the outgoing auditor:**

Yes  No

Outgoing auditor	Incoming auditor

**If there has been any disagreement with the outgoing auditor, provide an explanation thereof:**

Yes  No



Description of the disagreement

**C.1.37. State whether the audit firm performs other non-audit work for the company and/or its group. If so, state the amount of the fees paid for such work and the percentage they represent of the aggregate fees charged to the company and/or its group:**

Yes  No

	Company	Group	Total
Amount of other non-audit work (thousands of euros)	0	75	75
Amount of non-audit work / Aggregate amount billed by the audit firm (%)	0	0.3	0.3

**C.1.38. State whether the audit report on the annual accounts for the prior financial year has observations or qualifications. If so, state the reasons given by the chair of the audit committee to explain the content and scope of such observations or qualifications.**

Y  No   
e   
s

Explanation of reasons

**C.1.39. State the consecutive number of years for which the current audit firm has been auditing the annual accounts of the company and/or its group. In addition, state the percentage represented by such number of financial years audited by the current audit firm with respect to the total number of financial years in which the annual accounts have been audited:**

	Company	Group
Number of continuous financial years	10	10

	Company	Group
Number of years audited by the current audit firm / Number of years in which the company has been audited (%)	43	43

**C.1.40. State whether there is any procedure for directors to hire external advisory services, and if so, describe it:**

Yes  No

**Describe the procedure**

Pursuant to the provisions of article 35 of the Regulations of the Board of Directors, in order to be assisted in the performance of the duties entrusted thereto, any director may request the hiring of legal, accounting, technical, financial, commercial, or other expert advisers, whose services shall be paid for by the Company.

The assignment must deal with specific issues of certain significance and complexity arising during the performance of the director's duties.

The request for an expert to be hired shall be channelled through the secretary of the Board of Directors, who may subject it to the prior approval of the Board of Directors; such approval may be denied in well-founded instances, including the following circumstances:

- a) That it is not necessary for the proper performance of the duties entrusted to the directors.
- b) That the cost thereof is not reasonable in light of the significance of the issues and the assets and income of the Company.
- c) That the technical assistance sought may be adequately provided by the Company's own experts and technical personnel.
- d) That it may entail a risk to the confidentiality of the information that must be made available to the expert.

Furthermore, article 25.2 of the Regulations of the Audit and Risk Supervision Committee, article 18.2 of the Regulations of the Appointments Committee, article 14.2 of the Regulations of the Remuneration Committee, and article 17.3 of the Regulations of the Corporate Social Responsibility Committee provide that such committees may seek advice from outside professionals, who shall submit their reports directly to the chair of the relevant committee.

**C.1.41. State whether there is any procedure for directors to obtain sufficiently in advance the information required to prepare for meetings of management-level decision-making bodies and, if so, describe it:**

Yes  No

**Describe the procedure**

Section 16 of the General Corporate Governance Policy provides that "the Company has a programme to provide directors with information and updates in response to the need for professionalisation, diversification, and qualification of the Board of Directors.

In order to improve their knowledge of the Group, presentations are made to the directors regarding the businesses of the Group. In addition, a portion of each meeting of the Board of Directors tends to be dedicated to a presentation on economic, legal, or political/social issues of importance to the Group.

The directors have access to a specific application, the directors' website, that facilitates performance of their duties and the exercise of their right to receive information. This website includes information deemed appropriate for preparation of the meetings of the Board of Directors and the committees thereof in accordance with the agenda, as well as materials relating to director training programmes and the presentations made to the Board of Directors.

In addition, the minutes of the meetings of the Board of Directors and the committees thereof, or an extract or summary thereof, are also included on the directors' website, after they have been approved".

Pursuant to article 34.4 of the Regulations of the Board of Directors, there shall be an inclusion of such information as is deemed appropriate for preparation of the meetings of the Board of Directors and the committees thereof, in accordance with the agenda included in the calls to meeting, as well as materials relating to director training programmes.

In addition, article 36.3.a) of the Regulations of the Board of Directors provides that a director is specifically required to "properly prepare the meetings of the Board of Directors and, if applicable, the meetings of the Executive Committee or of the committees of which the director is a member, for which purposes the director must diligently become apprised of the running of the Company and the matters to be discussed at such meetings".

In order to facilitate the directors' discharge of their duties, the following initiatives have been implemented:

- The approval by the Board of Directors of the Directors' Code of Ethics of Iberdrola, which provides the directors with an overall view of the rights and duties inherent in their position and is continuously updated.
- The directors' website, on which the call to and the documents for preparation of each meeting of the Board of Directors are published.
- The development of the update training programme for directors of Iberdrola pursuant to article 12.5 of the Regulations of the Board of Directors, which seeks to achieve the ongoing update of directors and consists of presentations, informational notes, and posts that are included in the directors' website regarding matters of interest to the directors of the Company, issues of general interest, and specific information on corporate governance and corporate social responsibility.
- The holding of informational meetings led by officers and employees of the Group, at which information is provided regarding activities related to the various business and corporate areas of the Company, as well as training presentations delivered by well-known professionals from outside the Company, at which the directors receive information on matters of topical interest.

**C.1.42. State whether the company has established any rules requiring directors to inform the company —and, if applicable, resign from their position— in cases in which the credit and reputation of the company may be damaged, and if so provide a detailed description:**

Yes  No

**Explain the rules**

Section 17 of the General Corporate Governance Policy sets out the obligations and duties of the directors, including, as a statement of the duty of loyalty, the duty to submit their resignation to the Board of Directors in the event of supervening disqualification, lack of competence, prohibition against holding office as a director, and other instances provided for in the Company's Corporate Governance System.

As provided by subsections c) and d) of article 44.2 of the Regulations of the Board of Directors, a director must inform the Company of any judicial, administrative, or other proceedings instituted against the director which, because of their significance or characteristics, may seriously reflect upon the reputation of the Company. In particular, if a director becomes subject to criminal charges or to an order for further criminal prosecution upon indictment (*resultar procesado*), or if an order for the commencement of an oral trial is issued against the director for the commission of any of the crimes contemplated in section 213 of the Companies Act, such director shall give notice thereof to the Company, in the person of its president. In such instance, the Board of Directors shall review the case as soon as practicable and shall adopt the decisions it deems fit taking into account the interests of the Company.

In addition, the director must inform the Company of any fact or event that may be relevant to the holding of office as a director.

Directors must also submit their resignation to the Board of Directors and formally resign from their position in the events set forth in article 16.3 of the Regulations of the Board of Directors, particularly:

- a) When, due to supervening circumstances, they are involved in any circumstance of disqualification or prohibition provided by law or the Corporate Governance System.
- b) When, as a result of any acts or conduct attributable to the director, serious damage is caused to the value or reputation of the Company or there is a risk of criminal liability for the Company or any of the companies of the Group.
- c) When they cease to deserve the respectability or to have the capability, expertise, competence, availability, or commitment to their duties required to be a director of the Company.

In particular, when the activities carried out by the director, or the companies directly or indirectly controlled by the director, or the individuals or legal entities that are shareholders of or related to any of them, or the individual representing a corporate director, may compromise the competence of the director.

- d) When they are seriously reprimanded by the Board of Directors because they have breached any of their duties as directors, by resolution adopted by a two-thirds majority of the directors.
- e) When their continuance in office on the Board of Directors may for any reason, either directly, indirectly, or through persons related thereto, jeopardise the faithful and diligent performance of their

duties in furtherance of the corporate interest.

- f) When the reasons why the director was appointed cease to exist and, in particular, in the case of proprietary directors, when the shareholder or shareholders who proposed, requested, or decided the appointment thereof totally or partially sell or transfer their equity interest, with the result that such equity interest ceases to be significant or sufficient to justify the appointment.
- g) When an independent director unexpectedly falls under supervening circumstances that prevent the director from being considered as such pursuant to the provisions of law.

In any of the instances set forth in section 3 of article 16 of the Regulations of the Board of Directors, the Board of Directors shall request the director to resign from such position and, if applicable, shall propose the director's removal from office to the shareholders at the General Shareholders' Meeting.

By way of exception, the resignation provisions set forth in letters f) and g) of article 16.3 of the Regulations of the Board of Directors cited above shall not apply when, after a report from the Appointments Committee, the Board of Directors believes that there are reasons that justify the director's continuance in office, without prejudice to the effect that the new supervening circumstances may have on the classification of the director.

**C.1.43. State whether any member of the board of directors has informed the company that such member has become subject to an order for further criminal prosecution upon indictment or that an order for the commencement of an oral trial has been issued against such member for the commission of any of the crimes contemplated in section 213 of the Companies Act:**

Yes  No

Name of director	Criminal case	Comments

**State whether the board of directors has analysed the case. If so, provide a duly substantiated explanation of the decision adopted regarding whether or not the director should remain in office or, if applicable, describe the actions taken by the board of directors through the date of this report or that it plans to take.**

Yes  No

Decision made / action taken	Duly substantiated explanation

**C.1.44. Describe the significant agreements entered into by the company that go into effect, are amended, or terminate in the event of a change in control at the company as a result of a takeover bid, and effects thereof.**

Not applicable.

**C.1.45. Identify on an aggregate basis and provide a detailed description of the agreements between the company and its management level and decision-making positions or employees that provide for indemnities, guarantee or “golden parachute” clauses upon resignation or termination without cause, or if the contractual relationship is terminated as a result of a takeover bid or other type of transaction.**

<b>Number of beneficiaries</b>	52
<b>Type of beneficiary</b>	Executive directors, senior officers, and employees

<b>Description of agreement</b>
<p><b>1. EXECUTIVE DIRECTORS</b></p> <p>Pursuant to the provisions of his contract, the chairman &amp; chief executive officer has the right to receive a severance payment in the event of termination of his relationship with the Company, provided that such termination is not the consequence of a breach attributable thereto or exclusively due to his own decision to withdraw. The amount of the severance payment is three times annual salary.</p> <p>Furthermore, in consideration for his two-year non-compete commitment, the chairman &amp; chief executive officer is entitled to severance equal to the remuneration for that period.</p> <p>Since 2011, the Director Remuneration Policy provides that the limit on the amount of such severance under new contracts with executive directors shall be two times their annual salary.</p>
<p><b>2. SENIOR OFFICERS</b></p> <p>Contracts with senior officers of Iberdrola include specific severance clauses. The purpose of such clauses is to obtain an effective and sufficient level of loyalty from senior officers who are necessary for the management of the Company and thus avoid a loss of experience and knowledge that might jeopardise the achievement of strategic objectives. The amount of the severance is determined based on length of service and the reasons for the senior officer’s withdrawal from office, up to a maximum of five times annual salary.</p> <p>Notwithstanding the foregoing, the Senior Officer Remuneration Policy provides since 2011 that the limit on the amount of the severance under new contracts with senior officers shall be two times their annual salary.</p>
<p><b>3. EMPLOYEES</b></p> <p>The contracts of employees linked to Iberdrola by an ordinary employment relationship do not generally include specific severance clauses and, accordingly, the general provisions of labour law shall apply in the event of termination of the employment relationship.</p>

**State whether such agreements must be reported to and/or approved by the decision-making bodies of the company or its group:**

	<b>Board of directors</b>	<b>General Shareholders’ Meeting</b>
<b>Decision-making body approving the provisions</b>	<b>X</b>	

	<b>Yes</b>	<b>No</b>
<b>Is information about these provisions provided to the shareholders at the general shareholders’ meeting?</b>	<b>x</b>	

**C.2. Committees of the board of directors**

**C.2.1. Describe all of the committees of the board of directors, the members thereof, and the proportion of executive, proprietary, independent, and other external directors of which they are comprised:**

**EXECUTIVE COMMITTEE**

<b>Name</b>	<b>Position</b>	<b>Class</b>
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	CHAIRMAN	Executive director
MR XABIER DE IRALA ESTÉVEZ	MEMBER	Proprietary director
MS INÉS MACHO STADLER	MEMBER	Independent director
MR JOSÉ LUIS SAN PEDRO GUERENABARRENA	MEMBER	Other external director
MR ÁNGEL JESÚS ACEBES PANIAGUA	MEMBER	Independent director

<b>% executive directors</b>	20.00
<b>% proprietary directors</b>	20.00
<b>% independent directors</b>	40.00
<b>% other external</b>	20.00

**Explain the duties assigned to this committee, describe the procedures and rules of organisation and operation thereof, and summarise the most significant activities thereof during the year.**

The Executive Committee is assigned all the powers of the Board of Directors, except for those powers that may not be delegated pursuant to legal or by-law restrictions. The chairman of the Board of Directors, and the chief executive officer, if any, are members in any case. The secretary of the Board of Directors acts as secretary of the Committee.

The Executive Committee shall meet as many times as deemed necessary by the chair thereof. It shall also meet when so requested by a minimum of two of the directors forming part thereof.

Resolutions of the Committee shall be adopted by absolute majority of its members who are present at the meeting in person or by proxy.

The duties of this Committee consist of making proposals to the Board regarding strategic decisions, investments, and divestitures that are significant for the Company or the Group, assessing their conformity to the budget and the strategic plans and analysing and monitoring business risks.

The duties of the Committee are provided in article 38 of the By-Laws and are further developed in article 25 of the Regulations of the Board of Directors.

**State whether the composition of the executive committee reflects the participation of the different directors within the board based on their class:**

Yes  No

**If no, explain the composition of your executive committee**

The Executive Committee of Iberdrola is made up of five directors, one being an executive director, one being a proprietary director, two being independent directors, and finally one classified as other external director.

Iberdrola believes it is essential for both the executive directors and the proprietary director to be part of the Executive Committee. The presence of two independent directors, including the lead independent director (*consejera coordinadora*), provides an appropriate balance in the composition thereof, with representation of the various classes of directors of the Company, and also ensures that the duties of the Executive Committee may not be performed along lines different from those reflected by the composition of the Board of Directors.

#### AUDIT AND RISK SUPERVISION COMMITTEE

Name	Position	Class
MS GEORGINA KESSEL MARTÍNEZ	CHAIR	Independent director
MS DENISE MARY HOLT	MEMBER	Independent director
MR JOSÉ WALFREDO FERNÁNDEZ	MEMBER	Independent director

% executive directors	0
% proprietary directors	0
% independent directors	100.00
% other external	0

**Explain the duties assigned to this committee, describe the procedures and rules of organisation and operation thereof, and summarise the most significant activities thereof during the year.**

The Audit and Risk Supervision Committee is an internal informational and consultative body.

A majority of its members shall be independent, and at least one of them shall be appointed taking into account the knowledge and experience thereof in the areas of accounting, audit, and risk management.

The Board of Directors shall appoint a chair of the Committee from among the independent directors forming part thereof, as well as its secretary, who need not be a director.

The members of the Audit and Risk Supervision Committee shall be appointed for a maximum term of four years and may be re-elected on one or more occasions for terms of the same maximum length. The chair shall hold office for a maximum period of four years, after which period the director who has held office as such may not be re-elected until the passage of at least one year from ceasing to act as such.

A valid quorum shall be established with the attendance at the meeting, in person or by proxy, of a majority of its members, and resolutions shall be adopted by an absolute majority of votes of the members present at the meeting in person or by proxy.

The duties of the Committee are provided in article 39 of the By-Laws and are further developed in article 26 of the Regulations of the Board of Directors, as well as in the Regulations of the Audit and Risk Supervision Committee.

**Identify the director who is a member of the audit committee and who has been appointed taking into account the director's knowledge and experience in the**

areas of accounting, audit, or both, and report the number of years that the chair of this committee has held office.

Name of director with experience	MS GEORGINA KESSEL MARTÍNEZ
Number of years during which chair has held the position	1

#### APPOINTMENTS COMMITTEE

Name	Position	Class
MS MARÍA HELENA ANTOLÍN RAYBAUD	CHAIR	Independent director
MR IÑIGO VÍCTOR DE ORIOL IBARRA	MEMBER	Other external director
MR ÁNGEL JESÚS ACEBES PANIAGUA	MEMBER	Independent director

% executive directors	0
% proprietary directors	0
% independent directors	66.67
% other external	33.33

**Explain the duties assigned to this committee, describe the procedures and rules of organisation and operation thereof, and summarise the most significant activities thereof during the year.**

The Appointments Committee is an internal informational and consultative body.

A majority of the members of the Appointments Committee must be classified as independent. The Board also appoints the chair thereof from among the independent directors forming part thereof, as well as its secretary, who need not be a director.

The members of the Appointments Committee shall be appointed for a maximum term of four years and may be re-elected on one or more occasions for terms of the same maximum length.

A valid quorum shall be established with the attendance at the meeting, in person or by proxy, of a majority of its members, and resolutions shall be adopted by an absolute majority of votes of the members present at the meeting in person or by proxy.

The duties of the Committee are set out in article 27 of the *Regulations of the Board of Directors*, as well as in the *Regulations of the Appointments Committee*.

#### REMUNERATION COMMITTEE

Name	Position	Class
MS INÉS MACHO STADLER	CHAIR	Independent director
MR IÑIGO VÍCTOR DE ORIOL IBARRA	MEMBER	Other external director



MR SANTIAGO MARTÍNEZ LAGE	MEMBER	Independent director
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<b>% executive directors</b>	0
<b>% proprietary directors</b>	0
<b>% independent directors</b>	66.67
<b>% other external</b>	33.33

**Explain the duties assigned to this committee, describe the procedures and rules of organisation and operation thereof, and summarise the most significant activities thereof during the year.**

<p>The Remuneration Committee is an internal informational and consultative body.</p> <p>A majority of the members of the Remuneration Committee must be classified as independent. The Board also appoints the chair thereof from among the independent directors forming part thereof, as well as its secretary, who need not be a director.</p> <p>The members of the Remuneration Committee shall be appointed for a maximum term of four years and may be re-elected on one or more occasions for terms of the same maximum length.</p> <p>A valid quorum shall be established with the attendance at the meeting, in person or by proxy, of a majority of its members, and resolutions shall be adopted by an absolute majority of votes of the members present at the meeting in person or by proxy.</p> <p>The duties of the Committee are set out in article 28 of the Regulations of the Board of Directors, as well as in the Regulations of the Remuneration Committee.</p>
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#### **CORPORATE SOCIAL RESPONSIBILITY COMMITTEE**

<b>Name</b>	<b>Position</b>	<b>Class</b>
MS SAMANTHA BARBER	CHAIR	Independent director
MR BRAULIO MEDEL CÁMARA	MEMBER	Independent director
MR MANUEL MOREU MUNAIZ	MEMBER	Other external director

<b>% executive directors</b>	0
<b>% proprietary directors</b>	0
<b>% independent directors</b>	66.67
<b>% other external</b>	33.33

**Explain the duties assigned to this committee, describe the procedures and rules of organisation and operation thereof, and summarise the most significant activities thereof during the year.**

<p>The Corporate Social Responsibility Committee is an internal informational and consultative body.</p> <p>A majority of the members of the Corporate Social Responsibility Committee must be classified as</p>
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independent. The Board of Directors shall appoint a chair of the Committee from among the members forming part thereof, as well as its secretary, who need not be a director.

The members of the Corporate Social Responsibility Committee shall be appointed for a maximum term of four years and may be re-elected on one or more occasions for terms of the same maximum length.

A valid quorum shall be established with the attendance at the meeting, in person or by proxy, of a majority of its members, and resolutions shall be adopted by an absolute majority of votes of the members present at the meeting in person or by proxy.

The duties of the Committee are provided in article 41 of the By-Laws and are further developed in article 29 of the Regulations of the Board of Directors, as well as in the Regulations of the Corporate Social Responsibility Committee.

**C.2.2. Complete the following table with information regarding the number of female directors comprising the committees of the board of directors for the last four financial years:**

	Number of female directors							
	Financial Year 2015		Financial Year 2014		Financial Year 2013		Financial Year 2012	
	Number	%	Number	%	Number	%	Number	%
<b>Executive Committee</b>	1	20.00	1	20.00	1	20.00	1	16.66
<b>Audit and Risk Supervision Committee</b>	2	66.66	2	50.00	1	33.33	0	0.00
<b>Appointments Committee</b>	1	33.33	1	33.33	1	33.33	1	33.33
<b>Remuneration Committee</b>	1	33.33	1	33.33	1	33.33	1	33.33
<b>Corporate Social Responsibility Committee</b>	1	33.33	2	66.66	2	66.66	2	66.66

**C.2.3. Section deleted.**

**C.2.4. Section deleted.**

**C.2.5. State, if applicable, the existence of regulations of the board committees, where such regulations may be consulted, and the amendments made during the financial year. Also state if any annual report of the activities performed by each committee has been voluntarily prepared.**

**1. AUDIT AND RISK SUPERVISION COMMITTEE**

The Audit and Risk Supervision Committee has its own Regulations, which may be viewed by interested parties on the Company's website ([www.iberdrola.com](http://www.iberdrola.com)).

Article 20.2 of the Regulations of the Audit and Risk Supervision Committee provides that within three months following the end of each financial year of the Company, the Audit and Risk Supervision Committee shall submit to the Board of Directors for approval a Report describing its work during the financial year covered thereby, which shall be made available to the shareholders on occasion of the call to the Annual General Shareholders' Meeting.

The Report for financial year 2015 was prepared by the Audit and Risk Supervision Committee at its

meeting of 13 January 2016.

## 2. APPOINTMENTS COMMITTEE

The Appointments Committee has its own Regulations, which may be viewed by interested parties on the Company's corporate website ([www.iberdrola.com](http://www.iberdrola.com)).

Article 20.2 of the Regulations of the Appointments Committee provides that within three months following the end of the Company's financial year, the Committee shall submit to the Board of Directors for approval a report detailing its work for the financial year covered by the report.

The Report for financial year 2015 was prepared by the Appointments Committee at its meeting of 12 January 2016.

## 3. REMUNERATION COMMITTEE

The Remuneration Committee has its own Regulations, which may be viewed by interested parties on the Company's corporate website ([www.iberdrola.com](http://www.iberdrola.com)).

Article 16.2 of the Regulations of the Remuneration Committee provides that within three months following the end of the Company's financial year, the Committee shall submit to the Board of Directors for approval a report detailing its work for the financial year covered by the report.

The Report for financial year 2015 was prepared by the Remuneration Committee at its meeting of 1 February 2016.

## 4. CORPORATE SOCIAL RESPONSIBILITY COMMITTEE

The Corporate Social Responsibility Committee has its own Regulations, which may be viewed by interested parties on the Company's corporate website ([www.iberdrola.com](http://www.iberdrola.com)).

Article 19.2 of the Regulations of the Corporate Social Responsibility Committee provides that within three months following the end of each financial year of the Company, the Committee shall submit to the Board of Directors for approval a report on its activities during the financial year covered by the report.

The Report for financial year 2015 was prepared by the Corporate Social Responsibility Committee at its meeting of 12 January 2016.

An Activities Report of the Consultative Committees is published for purposes of the call to the General Shareholders' Meeting.

### **C.2.6. Section deleted.**

## D. RELATED-PARTY TRANSACTIONS AND INTRAGROUP TRANSACTIONS

### D.1. Explain any procedures for approving related-party and intragroup transactions.

<b>Procedure for the approval of related-party transactions</b>
<p>Article 43 of the Regulations of the Board of Directors provides that:</p> <ol style="list-style-type: none"> <li>Any transaction by the Company or the companies forming part of its Group with directors, with shareholders that own a shareholding interest that is equal to or greater than that legally regarded as significant at any time or that have proposed the appointment of any of the directors of the Company, or with the respective related persons, shall be subject to the approval of the Board of Directors, or in urgent cases, of the Executive Committee, following a report from the Appointments Committee. <p>In the event that authorisation has been granted by the Executive Committee due to the urgency of the matter, the Executive Committee shall give notice thereof at the next meeting of the Board of Directors in order for it to be ratified.</p> </li> <li>The Board of Directors, through the Appointments Committee, shall ensure that transactions between the Company or the companies forming part of its Group and the directors, the shareholders mentioned in the preceding section, or the respective related persons are carried out under arm's length conditions and with due observance of the principle of equal treatment of shareholders in the same situation.</li> <li>In the case of customary and recurring transactions in the ordinary course of business, it shall be sufficient for the Board of Directors to give prior generic approval of the kind of transaction and of the conditions for performance thereof, following a report from the Appointments Committee.</li> <li>The authorisation shall not be required in connection with transactions that simultaneously satisfy the following three conditions: that they are conducted under contracts whose terms and conditions are standardised and apply on an across-the-board basis to a large number of customers; that they are conducted at prices or rates established generally by the party acting as supplier of the goods or services in question, and that the amount thereof does not exceed one per cent of the consolidated annual income of the Group.</li> <li>The authorisation must be approved by the shareholders at the General Shareholders' Meeting in the instances provided by law, and particularly if it affects a transaction having a value of more than ten per cent of the corporate assets.</li> <li>The Company shall report the transaction referred to in this article in the Half-Yearly Financial Report and in the Annual Corporate Governance Report, in the cases and to the extent provided by law. Likewise, the Company shall include in the notes accompanying the annual accounts information regarding the transactions by the Company or by the companies of the Group with the directors and those persons who act for the account of the latter when such transactions are conducted other than in the ordinary course of the Company's business or other than under normal arm's length conditions.</li> </ol> <p>Similar terms are provided in article 12 of the Procedure for Conflicts of Interest and Related-Party Transactions with Directors, Significant Shareholders, and Senior Officers. Articles 15 and 16 of this Procedure govern transactions with related persons other than directors and significant shareholders. In such cases, authorisation of the related-party transaction is within the purview of the Corporate Resources Division.</p>

### D.2. Describe those transactions that are significant due to the amount or subject-matter thereof between the company or entities of its group and the company's significant shareholders:

<b>Individual or company name of the significant shareholder</b>	<b>Individual or company name of the company or entity within its group</b>	<b>Nature of the relationship</b>	<b>Type of transaction</b>	<b>Amount (thousands of euros)</b>
KUTXABANK, S.A.	IBERDROLA, S.A.	Corporate	Dividends and other distributed benefits	32,835
KUTXABANK, S.A.	IBERDROLA, S.A.	Contractual	Interest charged	15

Individual or company name of the significant shareholder	Individual or company name of the company or entity within its group	Nature of the relationship	Type of transaction	Amount (thousands of euros)
KUTXABANK, S.A.	IBERDROLA, S.A.	Contractual	Interest paid	28
KUTXABANK, S.A.	IBERDROLA GROUP	Contractual	Interest charged	223
KUTXABANK, S.A.	IBERDROLA GROUP	Contractual	Receipt of services	24
KUTXABANK, S.A.	IBERDROLA GROUP	Contractual	Financing agreements: loans	6,962
KUTXABANK, S.A.	IBERDROLA GROUP	Contractual	Security and bonds	2,246
QATAR INVESTMENT AUTHORITY	IBERDROLA, S.A.	Corporate	Dividends and other distributed benefits	21,571

**D.3. Describe those transactions that are significant due to the amount or subject-matter thereof between the company or entities of its group and the company's directors or officers:**

Individual or company name of directors or officers	Individual or company name of related party	Relation	Nature of the relationship	Amount (thousands of euros)
MR MANUEL MOREU MUNAIZ	SEAPLACE, S.L.	Chairman	Provision of services	312

**D.4. Report the significant transactions made by the company with other entities belonging to the same group, provided they are not eliminated in the preparation of the consolidated accounts and they are not part of the ordinary course of business of the company as to their purpose and conditions.**

Name of the entity within the group	Brief description of the transaction	Amount (thousands of euros)
GRUPO GAMESA	Receipt of services	61,852
GRUPO GAMESA	Purchase of goods (finished or in progress)	275,436
GRUPO GAMESA	Leases	4
GRUPO GAMESA	Provision of services	715
GRUPO GAMESA	Sale of goods (finished or in progress)	34,553

**In any case, report any intragroup transaction with entities established in countries or territories considered to be tax havens:**

Name of the	Brief description of the	Amount
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entity within the group	transaction	(thousands of euros)

**D.5. State the amount of transactions with other related parties.**

Amount (thousands of euros)

**D.6. Describe the mechanisms used to detect, determine, and resolve potential conflicts of interest between the company and/or its group, and its directors, officers, or significant shareholders.**

**1. CONFLICTS OF INTEREST GENERALLY**

As part of its Corporate Governance System, Iberdrola has adopted a Procedure for Conflicts of Interest and Related-Party Transactions with Directors, Significant Shareholders, and Senior Officers (in this section, the "Procedure").

The Procedure further develops the provisions of the Regulations of the Board of Directors and the Internal Regulations for Conduct in the Securities Markets, in order to specify the rules to be observed in conflict of interest situations. It applies to directors, significant shareholders, senior officers, other persons designated by the Compliance Unit, and their related persons, upon the terms expressly defined in the Procedure itself.

**2. CONFLICTS OF INTEREST BETWEEN THE COMPANY AND THE DIRECTORS**

Article 39 of the Regulations of the Board of Directors defines a conflict of interest as those cases in which there is a conflict, whether direct or indirect, between the interests of the Company or of the companies of the Group and (i) the personal interest of the director, (ii) the interest of a person related thereto, and (iii) in the case of a proprietary director, the interest of the shareholder or shareholders that proposed or made the director's appointment or persons directly or indirectly related thereto.

Such article contains a list of persons deemed to be related for such purposes, distinguishing between an individual and a corporate director.

Conflicts of interest shall be governed by the following rules:

- a) Communication: the director must give notice to the Board of Directors, in the person of the chairman or the secretary thereof, of any conflict of interest in which the director is involved.
- b) Abstention: the director shall leave the meeting during the deliberation and voting on those matters in which the director is affected by a conflict of interest, and shall not be counted in the number of members attending for purposes of the calculation of a quorum and majorities.
- c) Transparency: whenever required by law, the Company shall report any cases of conflict of interest in which the directors have been involved during the financial year in question and of which the Company is aware by reason of notice given thereto by the director affected by such conflict or by any other means.

However, if the conflict of interest situation is, or may reasonably be expected to be, of a structural and permanent nature, it shall be deemed that there is a loss of the competence required to hold office. In this regard, article 16 of the Regulations of the Board of Directors provides that a loss of competence is an event of resignation, removal, and withdrawal of the director.

**3. CONFLICTS OF INTEREST BETWEEN THE COMPANY AND THE SENIOR OFFICERS AND OTHER PERSONS SUBJECT TO CONFLICT OF INTEREST RULES**

The Procedure also governs conflicts of interest with respect to senior officers, and subjects them to the same rules of reporting, abstention, and transparency applicable to directors.

**4. CONFLICTS OF INTEREST BETWEEN THE COMPANY AND SIGNIFICANT SHAREHOLDERS**

Transactions between companies forming part of the Group with significant shareholders or shareholders that have proposed the appointment of any of the directors and their respective related persons are dealt with in article 43 of the Regulations of the Board of Directors mentioned in section D.1. They must be carried out on arm's-length conditions and be previously approved by the Board of Directors. Approval by the shareholders at a General Shareholders' Meeting shall be required if the value of the transaction exceeds 10% of the corporate assets. All transactions shall be reported in the *Annual Corporate Governance Report* and in the *Annual Financial Report*.

**5. CONFLICTS OF INTEREST WITH OTHER EMPLOYEES**

The Code of Ethics, which dedicates a specific section to conflicts of interest, applies to all professionals within the Group, regardless of rank.

**D.7. Is more than one company of the group listed in Spain?**

Yes  No

**Identify the subsidiaries listed in Spain:**

Listed subsidiaries

**State whether they have publicly and accurately defined their respective areas of activity and any possible business relationships among them, as well as those between the listed dependent company and the other companies within the group:**

Yes  No

Describe the possible business relationships between the parent company and the listed subsidiary, and between the subsidiary and the other companies within the group

**Identify the mechanisms established to resolve possible conflicts of interest between the listed subsidiary and the other companies within the group:**

Mechanisms for the resolution of possible conflicts of interest

## E. RISK CONTROL AND MANAGEMENT SYSTEMS

### E.1. Explain the scope of the company's Risk Management System, including the system for managing tax risks.

The *General Risk Control and Management Policy* and the *Risk Policies* that further develop it apply to all companies over which the Company has effective control, within the limits established by the laws applicable to the regulated activities carried out by the Group in the various countries in which it operates.

The *General Risk Control and Management Policy* and the basic principles underpinning it are implemented by means of a Comprehensive Risk Control and Management System, supported by a Risk Committee of the Group and based upon a proper definition and allocation of duties and responsibilities at the operating level and upon supporting procedures, methodologies, and tools, covering the following stages:

- a) The ongoing identification of significant risks and threats based on their possible impact on key management objectives and the accounts (including contingent liabilities and other off-balance sheet risks).
- b) The analysis of such risks, both at each corporate business or function and taking into account their combined effect on the Group as a whole.
- c) The establishment of a structure of policies, guidelines, and limits, as well as of the corresponding mechanisms for the approval and implementation thereof, which effectively contribute to risk management being performed in accordance with the Company's risk appetite.
- d) The measurement and monitoring of risks, by following consistent procedures and standards that are common to the Group as a whole
- e) The analysis of risks associated with new investments, as an essential element of decision-making based upon profitability/risk.
- f) The maintenance of an internal system for monitoring compliance with policies, guidelines, and limits, by means of appropriate procedures and systems, including the contingency plans needed to mitigate the impact of the materialisation of risks.
- g) The periodic monitoring and control of profit-and-loss account risks in order to control the volatility of the annual income of the Group.
- h) The ongoing evaluation of the suitability and efficiency of applying the system and the best practices and recommendations in the area of risks for eventual inclusion thereof in the model.
- i) The audit of the system by the Internal Audit Division.

Developed in accordance with the following basic action principles:

- a) Integrate the risk/opportunity vision into the Company's management, through a definition of the strategy and the risk appetite and the incorporation of this variable into strategic and operating decisions.
- b) Segregate functions, at the operating level, between risk-taking areas and areas responsible for the analysis, control, and monitoring of such risks, ensuring an appropriate level of independence.
- c) Guarantee the proper use of risk-hedging instruments and the maintenance of records thereof as required by applicable law.
- d) Inform regulatory agencies and the principal external players, in a transparent fashion, regarding the risks facing the Group and the operation of the systems developed to monitor such risks, maintaining suitable channels that favour communication.
- e) Ensure appropriate compliance with the corporate governance rules established by the Company through its Corporate Governance System and the update and continuous improvement of such system within the framework of the best international practices as to transparency and good governance, and implement the monitoring and measurement thereof.
- f) Act at all times in compliance with the law and the Company's Corporate Governance System and, specifically, with due observance of the values and standards of conduct reflected in the *Code of Ethics* and the principles and good practices reflected in the *Corporate Tax Policy*, under the principle of zero tolerance towards the commission of unlawful acts and situations of fraud set forth in the *Crime Prevention and Anti-Fraud Policy*.

Excluded from the scope of this policy are listed country subholding companies and the subsidiaries thereof which, pursuant to their own special framework of strengthened autonomy, have their own risk



policies approved by their competent bodies. In any event, said risk policies must be in accord with the principles set forth in this *General Risk Control and Management Policy* and in the other *Risk Policies* of the Company.

At those companies in which the Company has an interest but which do not belong to the Group, the Company shall promote principles, guidelines, and risk limits consistent with those established in the *General Risk Control and Management Policy* and in its supplemental *Risk Policies* and shall maintain appropriate channels of information to ensure a proper understanding of risks.

## **E.2. Identify the decision-making bodies of the company responsible for preparing and implementing the Risk Management System, including the system for managing tax risks.**

The Board of Directors of the Company undertakes to develop all of its capabilities in order for the significant risks to all the activities and businesses of the Group to be adequately identified, measured, managed, and controlled, and establishes through the *General Risk Control and Management Policy* the mechanisms and basic principles for appropriate management of the risk/opportunity ratio, at a risk level that makes it possible to:

- a) attain the strategic objectives formulated by the Group with controlled volatility;
- b) provide the maximum level of assurance to the shareholders;
- c) protect the results and reputation of the Group;
- d) defend the interests of customers, shareholders, other groups interested in the progress of the Company, and society in general; and
- e) ensure corporate stability and financial strength in a sustained fashion over time.

### **1. BOARD OF DIRECTORS**

Within its area of authority, and with the support of the Audit and Risk Supervision Committee, it promotes the implementation of the mechanisms required to ensure the adequate identification, measurement, management, and control of all significant risks, defines the strategy and profile of the Company's risks, including tax risks, and approves the Group's *Risk Policies*.

### **2. EXECUTIVE COMMITTEE**

In order to align the risk impact with the established risk appetite, the Executive Committee of the Board of Directors, acting at the proposal of the business or corporate divisions involved and upon a prior report from the Group's Risk Committee, annually reviews and approves specific guidelines regarding the risk limits from the *Corporate Policies* of the Group.

Pursuant to established guidelines, competent management decision-making bodies of the country subholding companies and each of the principal companies of the Group, within their area of responsibility, annually review and approve the specific risk policies and limits applicable to each of them and implement the control systems required to ensure compliance with the *General Risk Control and Management Policy* and with the limits thereunder.

### **3. AUDIT AND RISK SUPERVISION COMMITTEE**

As a consultative body of the Board of Directors, it is charged with the following duties:

- Directly supervise the unit vested with the power to actively participate in the preparation of the Company's risk strategy and in significant decisions affecting the management thereof.
- Continuously review the internal control and risk management systems, such that the principal risks are properly identified, managed, and reported.
- Ensure that the Group's risk control and management system identifies at least:
  - The different types of risk (operational, technological, financial, legal, reputational, etc.) the Company is exposed to, including contingent liabilities and other off-balance sheet risks among financial or economic risks.
  - The establishment and review of the risk map and levels that the Company deems acceptable.
  - The measures planned in order to mitigate the impact of identified risks in the event that they materialise.
  - The information and internal control systems that will be used to monitor and manage the

aforementioned risks, including contingent liabilities and other off-balance sheet risks.

- (Specifically in the tax area) Receive from the Company's tax director information on the tax guidelines used by the Company during the financial year and, in particular, on the level of compliance with the *Corporate Tax Policy*, and report to the Board of Directors on the tax policies applied and, in the case of transactions or matters that must be submitted to the Board of Directors for approval, regarding the tax consequences thereof when such consequences represent a significant issue.
- Maintain appropriate relationships with the Risk Division and with the audit and compliance committees of the other companies of the Group.
- Report in advance on the risks of the Group to be included in the Company's *Annual Corporate Governance Report* and give notice thereof to the Board of Directors, through the Corporate Social Responsibility Committee, for an assessment of its conclusions.

#### 4. BOARDS OF DIRECTORS OF COUNTRY SUBHOLDING COMPANIES OF THE PRINCIPAL COUNTRIES IN WHICH THE GROUP OPERATES

They are assigned the power to approve the *Risk Policies* for the various businesses of the Group in the country in question as well as to establish the limits and specific risk indicators applicable to such businesses, based on the nature and unique aspects of each country.

#### 5. RISK COMMITTEE OF THE GROUP

The Risk Committee of the Iberdrola Group is a technical body chaired by the chief financial officer, which performs executive duties in connection with customary risk management and gives advice to the Group's governance bodies.

The Committee meets, at a minimum, one time per month, with the participation of the Group's director of Risk Management, those responsible for risks at the corporate businesses and areas that have a Risk Management function, the Internal Audit Division, and the Administration and Control Division.

The Group's Risk Committee is complemented with the Credit Risk and Market Risk Committees of the Group, which report to said Risk Committee and which meet on a fortnightly and monthly basis, respectively, to discuss and decide on credit and market (financial and commodities) risk issues.

### E.3. Point out the principal risks, including tax risks, that could affect the achievement of business goals.

The Group is subject to various risks inherent in the different countries, industries, and markets in which it does business and in the activities it carries out, which may prevent it from achieving its objectives and successfully implementing its strategies.

The section entitled "Main risk factors associated with the activities of the Iberdrola Group" of the Management Report within the Annual Report for financial year 2015 provides a detailed description of the principal risks associated with the activities carried out by the main businesses of the Group, as well as the risks of the corporation.

Owing to its universal and dynamic nature, the comprehensive risk system allows for the consideration of new risks that may affect the Group following changes in its operating environment or revisions of objectives and strategies, as well as adjustments resulting from ongoing monitoring, verification, review, and supervision activities.

Pursuant to the definitions established by the *General Risk Control and Management Policy*, at the Group level, risks are classified as follows:

- a) Corporate Governance Risks: the Company assumes the need to safeguard the interests of the Company and the strategy of sustained maximisation of the economic value of the Company and its long-term success, in accordance with the Group's corporate interest, culture, and corporate vision, taking into account the legitimate public and private interests that converge in the conduct of all business activities, particularly those of the various stakeholders and communities and regions in which the Company and its employees act. A fundamental requirement for the foregoing is compliance with the Company's Corporate Governance System, made up of the *By-Laws*, the *Corporate Policies*, the internal corporate governance rules, and the other internal codes and procedures approved by the competent decision-making bodies of the Company and inspired by the good governance recommendations generally recognised in international markets.
- b) Market Risks: defined as the exposure of the Group's results and assets to changes in market prices

and variables, such as exchange rates, interest rates, commodity prices (electricity, gas, CO2 emission allowances, other fuel, etc.), prices of financial assets, and others.

- c) Credit Risks: defined as the possibility that a counterparty fails to perform its contractual obligations, thus causing an economic or financial loss to the Group. Counterparties can be end customers, counterparties in financial or energy markets, partners, suppliers, or contractors.
- d) Business Risks: defined as the uncertainty regarding the performance of key variables inherent in the business, such as the characteristics of demand, weather conditions, the strategies of different players, and others.
- e) Regulatory and Political Risks: defined as those arising from regulatory changes made by the various regulators, such as changes in compensation of regulated activities or in the required conditions of supply, or in environmental or tax regulations, including risks relating to political changes that might affect legal security and the legal framework applicable to the businesses of the Group in each jurisdiction, nationalisation or expropriation of assets, the cancellation of operating licences, and the early termination of government contracts.
- f) Operational, Technological, Environmental, Social, and Legal Risks: defined as those related to direct or indirect economic losses resulting from inadequate internal procedures, technical failures, human error, or as a consequence of certain external events, including the economic, social, environmental, and reputational impact thereof, as well as legal and fraud risks. Said risks include those associated with information technology and cybersecurity, as well as the risk of technological obsolescence, among others.
- g) Reputational Risks: potential negative impact on the value of the Company resulting from conduct on the part of the Company that is below the expectations created among various stakeholders, as defined in the *Stakeholder Relations Policy*.

#### **E.4. Identify whether the entity has a risk tolerance level, including one for tax risk.**

The Company's Board of Directors annually reviews and approves the acceptable risk tolerance level for the Group.

The *General Risk Control and Management Policy*, together with the specific *Risk Policies* and limits that develop it, qualitatively and quantitatively establish, in sufficiently detailed form, the risk appetite that is annually accepted at the Group level and at the level of each of its main businesses.

By way of complement, once such limits and guidelines are considered in order to verify the risk assumed globally in the annual profit and loss account, there is a comprehensive probability analysis of the remaining global risk for the year at the time of approving the annual budget.

In addition, all new multi-year plans are accompanied by their associated risk analysis.

Corporate risk policies and limits reviewed and approved annually:

- 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

Risk policies of the various businesses of the Group reviewed and approved annually:

- Risk Policy for the Liberalised 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 Policy for the Engineering and Construction Business
- Risk Policy for the Real Estate Business

In general terms, the *Corporate Policies*, applicable to all of the Group's businesses, establish the framework and the proper practices for the control, management, and mitigation of the various types of risks and establish overall risk limits to be distributed among the various businesses, measured in the form of physical, notional, and/or probability figures (VaR, CVaR, etc.), through measures such as:

- Limits on maximum global credit risk exposure by type of counterparty
- Limits on market risk proportional to the volume of activity of each business
- Strict global limit on discretionary energy trading
- Limits on operational risk through preventive maintenance programmes and insurance programmes
- Strict limits on activities not associated with the main energy business
- Other

The *Risk Policies* of each of the main businesses of the Group establish the framework and the authorised activities for each of them, together with the qualitative and quantitative risk guidelines, limits, and indicators that should be applicable thereto, adjusted to the specific nature of each of them.

The *Corporate Tax Policy* establishes the limits on tax risk by setting the tax strategy, principles of conduct, and good tax practices assumed by the Company.

The *General Risk Control and Management Policy*, as well as a summary of the *Corporate Risk Policies* and another summary of the Specific Risk Policies for the Various Businesses of the Group, are available on the corporate website ([www.iberdrola.com](http://www.iberdrola.com)).

#### **E.5. State what risks, including tax risks, have materialised during the financial year.**

During 2015, the activities of the Iberdrola Group were subject to various risk factors in the countries and markets in which it does business and which, from a global standpoint, did not have a significant impact on the income for the financial year, thanks to the diversification of activities, markets, and geographical areas of the Group, which made it possible for the negative effects of some businesses to be offset by a favourable performance in others.

Before listing the risks that materialised during the year, note should be taken of the following positive events that have eliminated risks or threats:

- Improvement in the economic situation in Spain, translating into: (i) an increase in the demand for electricity, with 1.8% growth in 2015 (1.6% adjusted for seasonality and temperature), and (ii) an improvement in the credit risk environment and the Spanish banking system in particular.
- The approval of Order IET/2660/2015 of 11 December 2015, authorising the unit values for remuneration of Spanish electricity distribution companies and establishing the first period of regulation, in effect through 31 December 2019.
- Approval of the new remuneration framework for electricity distributors in the United Kingdom, RIIO-ED1, which will govern revenues from April 2015 to March 2023.
- Approval in the United States of Production Tax Credits, a new tax incentive regime to develop renewable energy, in effect through 2020.
- Approval by the Brazilian regulator ANEEL of the four-year tariff review of our subsidiary Elektro, on terms satisfactory to the company, in force through August 2019.
- Satisfactory closing of the agreement reached with the Bolivian government, after the litigation commenced due to the expropriation of our subsidiaries in 2012, with the collection of 31 million euros.
- The 26 May 2015 decision of the Supreme Court in favour of Iberdrola Distribución Eléctrica regarding the application of Biscay tax regulations for the tax periods 2010 onwards.

Risks that have materialised include:

- A sanction proceeding brought against Iberdrola Generación by the CNMC for “fraudulent manipulation tending to alter the price of electrical energy” ending with a sanction of 25 million euros due to a serious infringement.

Iberdrola Generación has appealed this sanction to the National High Court (*Audiencia Nacional*) because it believes that the requirements to impose a sanction for fraudulent pricing have not been met, as it has at all times engaged in rational and prudent management of the plants under investigation.

- The low international prices for petroleum and other commodities, with a particular impact on:
  - Our business of selling electricity to private partners in Mexico, offset at the overall business level in Mexico due to the favourable movement in the USD/EUR exchange rate.
  - Our business of producing electricity in the United Kingdom, where a decision has been made to move forward the closing of our Longannet coal plant, with an after-tax writedown of 230 million euros.
- A progressive increase in Renewables USA’s exposure to market prices, and thus to volatility, as a result of the expiration of long-term fixed-price power purchase agreements.

Finally, it should be noted that in the opinion of the Company, activities in 2016 will be subject to the following risk factors:

- Possible new international financial turbulence with an impact on exchange and interest rates as a result of economic changes in the People’s Republic of China or a change in monetary policy by the U.S. Federal Reserve.
- The low international prices for energy commodities, with a possible impact on the final sales price of electricity.
- Low spreads between winter and summer prices for gas in the United States, with an impact on our gas storage and transportation business in that country.
- Uncertainty associated with possible measures approved as a result of the analysis of the retail electricity and gas market by the Competition Market Authority in the United Kingdom, although the preliminary conclusions published in 2015 reduce the risks and threats to retail activities.
- Implementation of a new retail system at Scottish Power has led to customer billing and service incidents that are being resolved. These actions are being analysed by the British regulator Ofgem.
- Uncertainty associated with the current tariff review process for the NYSEG and RG&E electricity and gas distribution companies, applicable beginning in April 2016.
- Possible impact associated with the Mexican energy reforms.
- The political and macroeconomic situation in Brazil, characterised by stagnant GDP, rising inflation, and unemployment, increasing the risk of higher depreciation of the Brazilian real.
- The final results of the tax inspection commenced in 2014 by the National Tax Administration Agency (*Agencia Estatal de Administración Tributaria*) regarding the 2008-2011 Corporate Income Tax of the Iberdrola tax Group, 2010-2011 VAT for this tax Group, and other taxes, to be completed during the first half of 2016. No liabilities additional to those already booked at 31 December 2015 are expected to arise.
- The conclusion of the OECD’s work with respect to the Base Erosion and Profit Shifting Action Plan, pushed by the G20. No significant impacts are expected on the Group, although the principles inspiring these works and documents are being considered by the Group as regards reporting, transparency, and corporate reputation.

**E.6. Explain the plans for responding to and supervising the entity’s main risks, including tax risks.**

The Comprehensive Risk System, together with the Company’s control and management policies and systems that develop it, including the Group’s Risk Committee and Operating Committee, have allowed for the identification of new risks and threats sufficiently in advance, and to establish appropriate mitigation plans.

The Group’s Operating Committee meets on close to a weekly basis.

The Group’s Risk Committee meets on a monthly basis, reviews the various risks, and on a quarterly

basis approves a Quarterly Risk Report of the Group, which includes the main risk positions, a report on compliance with policies and limits, and an update of the key risk maps.

The Audit and Risk Supervision Committee of the Board of Directors periodically monitors the evolution of the Company's risks at least on a quarterly basis:

- It reviews the Quarterly Risk Reports of the Group, which include monitoring compliance with risk limits and indicators and updated key risk maps, submitted by the Group's director of Corporate Risks.
- It coordinates and reviews Risk Reports sent periodically (at least half-yearly) by the audit and compliance committees of the country subholding companies and head of business companies of the Group.
- It prepares a Risk Report for the Board of Directors at least half-yearly.

## **F. INTERNAL RISK CONTROL AND MANAGEMENT SYSTEMS IN CONNECTION WITH THE PROCESS OF ISSUING FINANCIAL INFORMATION (ICFRS)**

**Describe the mechanisms making up the risk control and management systems with respect to the process of issuing the entity's financial information (ICFRS)**

### **F.1 Control environment at the entity**

**Indicate at least the following, specifying the main features thereof:**

**F.1.1. What bodies and/or functions are responsible for: (i) the existence and maintenance of an adequate and effective internal control over financial reporting system (ICFRS); (ii) the implementation thereof; and (iii) oversight thereof.**

The Board of Directors has the ultimate responsibility for the existence of an adequate and effective internal control over financial reporting system (ICFRS) lies with the Board of Directors of Iberdrola. The Boards of Directors of the country subholding companies and the head of business companies also have this responsibility within their various purviews.

The persons in charge of the country subholding companies and the head of business companies, together with the respective control officers, as well as the directors of the global corporate areas, are responsible for the design and implementation of the ICFRS. Such responsibility is expressly set forth in the certifications signed by such persons on a half-yearly basis in connection with the financial information for their respective areas of responsibility.

Pursuant to article 26.7.d of the Regulations of the Board of Directors, the Audit and Risk Supervision Committee has the power to monitor the effectiveness of the internal control of the Company and its Group. The Committee draws on the support of the Internal Audit Division to discharge such responsibility. Any Audit and Compliance committees at the country subholding and head of business companies have this power within their respective purviews.

**F.1.2. Whether any of the following are in place, particularly as regards the financial information preparation process:**

- **Departments and/or mechanisms in charge of: (i) the design and revision of the organisational structure; (ii) clearly defining the lines of responsibility and authority, with an appropriate distribution of work and duties; and (iii) ensuring that there are sufficient procedures for the proper dissemination thereof at the entity.**

The Board of Directors of Iberdrola defines the top-level organisational structure. The heads of such top-level organisations, together with the Human Resources Division, are responsible for deployment within their respective areas.

Each top-level division prepares a proposed organisation structure, including a description of the mission, duties, and responsibilities of the various organisations deployed, which must then be validated by the Human Resources Division and the Finance and Resources Division.

Primary responsibility for the preparation of financial information lies with the corporate Administration and Control Division. This division proposes the structure of those responsible for Control at the country subholding companies and head of business companies and is in charge of coordinating and supervising their activities.

- **Code of conduct, body that approves it, degree of dissemination and instruction, principles and values included (indicating whether the**

**recording of transactions and the preparation of financial information are specifically mentioned), body in charge of reviewing breaches and of proposing corrective actions and penalties.**

The Iberdrola Group has a Code of Ethics, approved by the Board of Directors.

According to article 2.1 thereof, “the principles and guidelines for conduct contained in the Code of Ethics apply to all of the Group’s professionals, regardless of seniority, geographic or functional location, or the company of the Group for which they provide their services”. The Code of Ethics is communicated to and disseminated among the professionals of the Iberdrola Group in accordance with the plan approved for such purpose by the Compliance Unit.

Article 32.5 of the Code of Ethics expressly provides as follows:

“The Group shall provide true, proper, useful, and consistent information regarding its programmes and actions. Transparency of information is a basic principle that must govern the actions of Group professionals.

The economic/financial information of the Group (especially the annual accounts) shall faithfully reflect its economic and financial position and its net worth, in accordance with generally accepted accounting principles and applicable international financial reporting standards. For such purposes, no professional shall conceal or distort the information set forth in the accounting records and reports of the Group, which shall be complete, accurate, and truthful.

A lack of honesty in the communication of information, whether internally within the Group (to employees, subsidiaries, departments, internal bodies, management decision-making bodies, etc.) or outside the Group (to auditors, shareholders and investors, regulatory entities, the media, etc.), is a breach of this Code of Ethics. This includes delivering incorrect information, organising it in an incorrect manner, or seeking to confuse those who receive it”.

Control of the application of the Code of Ethics is a duty of the Compliance Unit, a body linked to the Corporate Social Responsibility Committee of the Company’s Board of Directors, with duties in the area of regulatory compliance and the Company’s Corporate Governance System. This Unit evaluates and prepares an annual report on the level of compliance with the Code of Ethics. The report is transmitted to the Human Resources Division, to the Company’s Internal Audit Area Division, and to the Corporate Social Responsibility Committee. In turn, the latter transmits it to the competent governance bodies, to the Company’s chairman & chief executive officer, and to the Audit and Risk Supervision Committee.

The Compliance Unit also has the duty to determine whether a Group professional has conducted activities in violation of the law or of the Code of Ethics and, if applicable, to direct the Human Resources Division, or the Division responsible for the human resources function at the relevant Group company, to apply disciplinary measures in accordance with the rules on breach of duties and penalties contained in the collective bargaining agreement to which the professional belongs or in applicable labour law provisions.

Pursuant to article 41.1 of the Code of Ethics, the professionals of the Group expressly accept the vision, values, and rules of conduct established therein.

In addition, pursuant to article 41.2, professionals who join or become part of the Group in the future shall expressly accept the vision, values, and rules of action set forth in the Code of Ethics, which document shall be attached to their respective employment contracts.

- **Reporting channel that makes it possible to report any irregularities of a financial or accounting nature to the audit committee, as well as any possible breach of the code of conduct and irregular activities at the organisation, specifying, if appropriate, whether it is confidential.**

Iberdrola has a procedure in place that must be followed by all employees of the Group who wish to report potentially significant irregularities of a financial and accounting nature and that allows them to report such irregularities, by e-mail or regular mail, to the chair of the Audit and Risk Supervision Committee.

As established in the procedure itself, the Company’s Board of Directors guarantees that the name of the reporting person and the irregularity reported shall be treated in the strictest confidence, both in the reporting process and in any process for the assessment and clarification of the facts conducted by the Audit and Risk Supervision Committee and the organisations of the Company or third parties participating



at the request of such Committee.

In accordance with the above-mentioned procedure, the chair of the Audit and Risk Supervision Committee receives and admits the report for further processing. Such admission is made on the basis of the requirements established in the procedure (name of the sender, sufficiently detailed information on the situation reported, need for the report to fall within the scope of the channel, confidentiality guarantee, personal data protection, etc.).

No reports were received during financial year 2015.

- **Regular training and update programmes for personnel involved in the preparation and review of financial information, as well as in the evaluation of the internal control over financial reporting system, covering at least accounting standards, auditing, internal control, and risk management.**

Personnel involved in the preparation and review of financial information, as well as in the evaluation of the internal control over financial reporting system, receives regular training on accounting standards, auditing, internal control, and risk management, according to its specific responsibilities.

In accordance with the organisational structure of the Iberdrola Group, the divisions that have a direct relationship with these types of duties are the Internal Audit Division, the Administration and Control Division, and the Finance and Resources Division.

During 2015, the personnel involved in these duties in Spain received 13,116 hours of training, of which 4,335 hours were dedicated to technical training directly related to the responsibilities discharged by such personnel, which accounts for 33% of the training they receive, with 447 professionals participating in these courses. In the case of Elektro, there were 2,450 hours, of which 1,034 were dedicated to training directly related to the duties they perform, which accounts for 42% of the training they receive, with 92 employees attending these courses.

Mexico gave 1,677 hours of technical training for the personnel belonging to these areas. At ScottishPower, there were 1,537 hours of training, of which 708 were directly related to the duties performed, accounting for 46%. And in there United States there were 245 hours of specific training for this group.

There are more than 200 technical courses taken by the employees of these organisations, most of them taught by external entities (business schools, universities, or specialist consulting firms). There were 115 training activities in Spain, 59 at Elektro, 11 in the USA, 7 at ScottishPower, and 11 in Mexico.

Especially noteworthy is the receipt of various professional certificates by Iberdrola professionals in these functional areas:

- Certified Internal Auditor (CIA), by one professional in Spain.
- CIMA Professional Qualification, ACT Certificate in Risk Management, CIMA Strategic Level and CIA Qualification, by 5 professionals in the United Kingdom.

The technical training activities in which these professionals engaged include the following in Spain:

- Tax updates for companies
- Consolidation of financial statements
- Energy and treasury counterparties
- Financial information internal control
- Internal control and risk management
- Data analysis techniques for fraud examiner
- Financial criminal law
- Enterprise risk management workshop
- Energy project financing
- Taxation of restructurings
- How to detect and prevent financial statement fraud

- Corporate tax
- Reform of the corporate income tax
- New tax issues of interest
- Reform of the Companies Act
- Internal regulations for conduct in securities markets
- Venture capital: investing and fundraising

In Brazil:

- Credit risk financial analysis
- Financial analysis of feasibility projects
- Regulatory assets and liabilities
- Accounts payable
- Accounting training
- Financial planning
- Accounting for income taxes
- Update on rate structure
- Investor relations training
- Financial budget management
- Tax update for the company
- Training on project financial analysis
- Financial mathematics
- Training on negotiation
- Update on treasury and financing products
- IFRIC training
- Federal taxes

In Mexico

- Update on financial information standards
- Update on international financial information standards
- Tax Updates
- Licensing in Accounting and Finance
- Foreign trade forum

In the United States:

- EEI/AGA Utility Internal Auditors Training
- EEI/AGA Advanced Utility Accounting Course
- Association of Certified Fraud Examiners
- Anti-Market Manipulation Training

In the United Kingdom

- Accounting development course
- Credit Risk Analysis
- Risk based internal audit

Generally, these professionals have also taken courses to improve their qualifications in the use of the office automation tools required to perform their duties, mainly Excel.

It should be noted that several international meetings were organised during 2015 among the professionals in these areas, like the IX Global Internal Audit Days and the annual meetings of the risk

management and treasury teams.

## F.2 Risk assessment of financial information

Indicate at least the following:

### F.2.1. What are the main features of the risk identification process, including the process of identifying the risks of error or fraud, with respect to:

- **Whether the process exists and is documented.**

The process for the identification of risks of error in financial information is one of the most important steps in the method for the development of internal control of the financial information of Iberdrola, and the goals, implementation, and results thereof are documented.

The method starts with a review of the consolidated financial information of the Iberdrola Group and of the various country subholding companies in order to select the most significant accounts and notes to the accounts, in accordance with both quantitative (materiality) and qualitative (business risk and visibility to third parties) standards. The selected accounts and notes are grouped into management cycles or large processes in which the selected information is generated. The cycles are analysed and a description of each is prepared, as a way of identifying possible risks of error in the financial information, in connection with attributes such as completeness, presentation, assessment, cut-off, recording, and validity. The identified risks are submitted to a process of prioritisation, such that the most significant ones are selected by applying professional judgement on a number of indicators (existence of documented processes and controls, existence of systems that automate the processes, whether there have been any incidents in the past, whether the process is known and mature, or whether judgements need to be made to make estimates). The risks of fraud are not explicitly identified, although they are taken into account to the extent that they might generate material errors in financial information.

Once the most significant risks have been selected, the controls needed to mitigate or manage them are selected and designed; such controls are monitored, documented, and systematically reviewed by internal audit.

The risks selected are reviewed at least on an annual basis, within the framework of the assessment of the effectiveness of internal control carried out by the persons or divisions responsible therefor. The purpose of such review is to adjust the risks to the changing circumstances in which the Company operates, particularly in the event of changes in the organisation, information technology systems, regulations, products, or the situation of the markets.

- **Whether the process covers all the objectives of financial information (existence and occurrence; completeness; assessment; presentation, breakdown and comparability, and rights and obligations), whether it is updated, and how often.**

As mentioned above, the cycles or large processes in which financial information is generated are reviewed at least on an annual basis in order to identify possible risks of error, in connection with attributes such as validity (existence and authorisation), completeness, assessment, presentation, cut-off, and recording.

- **The existence of a process for the identification of the scope of consolidation, taking into account, among other matters, the possible existence of complex corporate structures, holding entities, or special purpose entities.**

The scope of consolidation is identified on a monthly basis, and the result thereof is the updated corporate map, which expressly identifies the changes that occurred in each period.

This review covers all companies in which Iberdrola or any of its subsidiaries has an interest, no matter how small.

In accordance with the provisions of section 529 of the Companies Act, the Regulations of the Board of Directors provide that the Board of Directors has the power to, among other things, approve the creation or acquisition of equity interests in special purpose entities or entities registered in countries or territories that are considered to be tax havens, as well as any other transactions or operations of a similar nature that, due to their complexity, might diminish the transparency of the Group.

In accordance with the same law, the Regulations of the Audit and Risk Supervision Committee of Iberdrola provide that the Audit Committee must report to the Board of Directors prior to such decisions being adopted.

Accordingly, whenever the Company intends to create a special purpose entity or an entity registered in a tax haven, or to acquire an interest in one, the transaction must first be submitted to the Audit and Risk Supervision Committee for it to issue a report and then to the Board of Directors for approval.

There are specific procedures for such purpose, tailored to the current corporate governance model, according to which such initiative is to be taken by the Division of the Group or country subholding company, head of business company, or company in which an interest is held through them, that intends to create or acquire a special purpose company or a company registered in a tax haven. In the case of companies that have a board of directors and an audit committee, their corporate governance bodies must first review the proposed transaction.

- **Whether the process takes into account the effects of other types of risks (operational, technological, financial, legal, tax, reputational, environmental, etc.) to the extent that they affect the financial statements.**

The process for the identification of risks of error in financial information takes into account the effects of other types of risks (operational, technological, legal, tax, reputational, environmental, etc.) to the extent that they affect the accounts; such risks are assessed and managed by different corporate units such as the Risk Division or Legal Services, among others. However, no express identification of such other types of risks is carried out to identify financial information risks.

- **What governance body of the entity supervises the process.**

The governance body that supervises the process is the Audit and Risk Supervision Committee, which draws on the support of the Internal Audit Division to discharge this responsibility.

### **F.3 Control activities**

**Indicate whether at least the following are in place and describe their main features:**

- F.3.1. Procedures for review and authorisation of financial information, and description of the internal control over financial reporting system to be published in the securities market, indicating the persons or divisions responsible therefor, as well as documentation describing the flows of activities and controls (including those relating to risk of fraud) of the various types of transactions that could materially affect the financial statements, including the closing process and the specific review of significant judgements, estimates, assessments, and projections.**

The process or structure of certification of financial information, conducted formally on a half-yearly basis, on the dates of the year-end and interim closing processes, reflects the manner in which financial information is generated in the Group.

In such structure, the persons in charge of the country subholding companies and those responsible for

the head of business companies, together with the respective directors of control, and the heads of the global corporate areas, certify both the reliability of the financial information in the areas under their responsibility (which is the information they provide for purposes of consolidation at the Group level) and the effectiveness of the internal control system established to reasonably ensure such reliability. Finally, the chairman & chief executive officer, as the highest executive authority, and the director of Administration and Control, as the person responsible for the preparation of financial information, certify the reliability of the consolidated accounts to the Board of Directors.

The Audit and Risk Supervision Committee, with the support of the Internal Audit Division, supervises the entire certification process, and submits the conclusions of such review to the Board of Directors at the meetings at which the accounts are formally approved.

As regards the description of the internal control over financial reporting system (ICFRS) to be published in the securities markets, the review and authorisation procedure is the same as that used for all contents of an economic and financial nature of the Annual Corporate Governance Report.

The documentation of the internal control over financial reporting system includes high-level descriptions of the cycles of generation of selected significant financial information, as well as detailed descriptions of the prioritised risks of error and of the controls designed to mitigate or manage them. The description of the controls includes the evidence to be obtained in the implementation thereof, which is necessary for its review.

Each of the closing processes performed at the business units is regarded as a cycle, and the same is true of all the closing activities performed at the corporate level, of the global consolidation process, and of the process for preparation of the notes to the accounts. As a result, all such activities are subject to the methodological process described in the section relating to risks.

The specific review of critical accounting judgements and significant estimates, assessments, and projections is subject to specific controls within the model, since this type of matter entails the identification of risks of error in the different cycles in which they are made. In many cases, the evidence of such specific controls is the media supporting such reviews.

Independently of the certification process followed in the countries, businesses, and corporate areas, the Audit and Risk Supervision Committee, again with the support of the Internal Audit Division, performs an overall review of financial information on a quarterly basis, ensuring that the half-yearly financial reports and the quarterly management statements are prepared using the same accounting standards as the annual financial reports, verifying the proper delimitation of the scope of consolidation as well as the proper application of generally accepted accounting principles and international financial reporting standards.

**F.3.2. Policies and procedures of internal control over reporting systems (including, among others, security of access, control of changes, operation thereof, operational continuity, and segregation of duties) that provide support for the significant processes of the entity in connection with the preparation and publication of financial information.**

The controls used to mitigate or manage the risks of error in financial information include controls relating to the most significant computer applications, such as controls of user access permissions or of the integrity of the transfer of information between applications.

In addition, the Iberdrola Group has guidelines or regulations as well as procedures for internal control over reporting systems in connection with software acquisition and development, the acquisition of system infrastructure, software installation and testing, change management, service level management, management of the services provided by third parties, system security and access thereto, management of incidents, operation management, continuity of operations, and segregation of duties.

Such guidelines and procedures (which, in some cases, differ according to geographical area or type of solution and are in the process of progressive standardisation) are applied across all information systems supporting significant financial information generation processes, and on the infrastructure required for the operation thereof.

The Systems director of Iberdrola certifies the effectiveness of the internal controls established on information systems on an annual basis.

**F.3.3. Internal control policies and procedures designed to supervise the management of activities outsourced to third parties, as well as those**

**aspects of assessment, calculation, or valuation entrusted to independent experts, which may materially affect the accounts.**

Generally speaking, the Iberdrola Group has no significant duties outsourced to third parties that have a direct impact on financial information. The assessments, calculations, or valuations entrusted to third parties that may materially affect the accounts are regarded as significant financial information generating activities that lead, if appropriate, to the identification of high-priority risks of error, which, in turn, entails the design of associated internal controls. Such controls cover the review and internal approval of the basic assumptions to be used, as well as the review of the assessments, calculations, or valuations made by outside parties, by verifying them against calculations made internally.

#### **F.4 Information and communication**

**Indicate whether at least the following are in place and describe their main features:**

**F.4.1. A specific function charged with defining and updating accounting policies (accounting policy area or department) and with resolving questions or conflicts arising from the interpretation thereof, maintaining fluid communications with those responsible for operations at the organisation, as well as an updated accounting policy manual that has been communicated to the units through which the entity operates.**

The Accounting Regulations Division, reporting directly to the director of Administration and Control, is responsible for defining and updating accounting policies, as well as for resolving questions or conflicts stemming from the interpretation thereof. It maintains fluid communications with those responsible for the operation of the organisation and, especially, with those responsible for accounting functions. It publishes a quarterly newsletter, widely disseminated within the Group, on new accounting developments in connection with IFRS, which includes regulation updates (laws and regulations that come into force, drafts issued, laws and regulations enacted, laws approved and pending approval by the European Union, and expected future laws and regulations) as well as accounting questions asked internally, together with the conclusions in respect thereof.

The Accounting Regulations Division is also responsible for continuously updating the Group's accounting practices manual and for the appropriate dissemination thereof.

The accounting manual is updated continuously. For this purpose, the Accounting Regulations Division analyses whether new developments or changes in accounting matters have an effect on the Group's accounting policies, as well as the effective date of each of such laws or regulations. When a new law or regulation, or interpretation thereof, is identified as having an effect on the Group's accounting policies, it is included in the manual and is also communicated to those responsible for preparing the Group's financial information by means of the quarterly newsletters mentioned above, and there is an update of the application in which the manual is maintained.

The updated version of the manual is available in an application on the Group's internal network. This application is also accessible by VPN over the internet and can be linked to e-mail. Any change or the inclusion of a document within the manual generates a notice by e-mail to all users.

**F.4.2. Mechanisms to capture and prepare financial information with standardised formats, to be applied and used by all units of the entity or the group, supporting the principal accounts and the notes thereto, as well as the information provided on the internal control over financial reporting system.**

The mechanism to capture and prepare the information supporting the principal accounts of the Iberdrola Group is based primarily on the use of a unified management consolidation tool (known as BPC) accessible from all geographical areas, currently deployed across the entire Group.

A large portion of the information supporting the breakdowns in and notes to the financial information is included in the consolidation tool, and the rest is captured on standardised spreadsheets known as reporting packages, which are prepared for the half-year and year-end closing processes.

## F.5 Supervision of the operation of the system

Indicate and describe the main features of at least the following:

**F.5.1. The activities of supervision of the internal control over financial reporting system (ICFRS) performed by the audit committee, as well as whether the entity has an internal audit function whose duties include providing support to the committee in its work of supervising the internal control system, including the internal control over financial reporting system. Information is also to be provided concerning the scope of the assessment of the internal control over financial reporting system performed during the financial year and on the procedure whereby the person or division charged with performing the assessment reports the results thereof, whether the entity has an action plan in place describing possible corrective measures, and whether the impact thereof on financial information has been considered.**

The activities of supervision of the internal control over financial reporting system carried out by the Audit and Risk Supervision Committee include basically: (i) monitoring compliance with the certification process by the various persons or divisions responsible for financial information, (ii) reviewing the design and operation of the internal control system, with the support of the Internal Audit Division, to assess the effectiveness thereof, and (iii) periodic meetings with external auditors, internal auditors, and senior management to review, analyse, and discuss financial information, the group companies covered, and the accounting standards applied, as well as, where appropriate, the significant internal control weaknesses detected.

It should be noted that on an annual basis, those responsible for the preparation of the financial information of each country subholding company, each head of business company, and each corporate area carry out a review of the design and operation of the internal control system within their area of responsibility in order to assess the effectiveness thereof, in a process coordinated by the Internal Control Division.

To that end, an analysis is made of whether, as a result of the changing circumstances in which the Group operates (changes in organisation, systems, processes, products, regulation, etc.), changes in identified risks need to be included and prioritised. A review is also made of whether the design of the controls to mitigate or manage the risks that may have changed is appropriate, as well as whether the controls have functioned properly, in accordance with their design.

The conclusions of this annual review, both as regards the deficiencies detected (which are classified as serious, medium, or slight, according precisely to their possible impact on financial information) and with respect to the action plans to correct them, are submitted at an annual seminar session chaired by the director of Administration and Control, at which the Internal Audit Division is also in attendance. At such meeting, conclusions are reached concerning the effectiveness of the internal control system at each of the different areas for which they are responsible and, overall, at the Group as a whole.

The most significant conclusions of the review performed are subsequently submitted to the Audit and Risk Supervision Committee within the framework of the periodic meetings with the director of Administration and Control.

Independently of the foregoing, the Internal Audit Area (which reports to the chairman & chief executive officer and is functionally controlled by the Audit and Risk Supervision Committee, and which, as provided in the Basic Internal Audit Regulations of Iberdrola, S.A. and the Companies of its Group, has the primary roles of working with the Audit and Risk Supervision Committee to further develop the powers thereof and to proactively ensure the proper operation of the information technology, internal control, and risk management systems of the Company), conducts an independent review of the design and operation of the internal control system in support of said Committee, identifies deficiencies, and draws up recommendations for improvement.

As a result thereof, the Internal Audit Division continuously monitors the various action plans agreed with the different organisations to correct the deficiencies detected and to implement the suggestions for improvement agreed with the organisations.

The period that the Internal Audit Division plans for an in-depth review of the entire internal control system is three years.

Specifically, during financial year 2015, more than 40 cycles of the companies Iberdrola Ingeniería y Construcción S.A., Iberdrola España S.A., Scottish Power, Ltd., Iberdrola USA, Inc., Iberdrola Energía, S.A., and Iberdrola México S.A. de C.V. were reviewed, as were the corporate areas of Administration and Control and Finance and Resources.

In addition, the Internal Audit Division performs a review of the operation of the internal controls regarded as most critical on a half-yearly basis, on the dates of the half-year and year-end closing.

The combination of the three-year reviews and the half-yearly reviews of the most critical controls enables the Internal Audit Division to perform an assessment of the internal control system, as regards the design and operation thereof, and to issue an opinion on the effectiveness of the internal controls established to ensure the reliability of financial information, which it submits to the Audit and Risk Supervision Committee within the framework of their periodic meetings.

**F.5.2. Whether it has a discussion procedure whereby the auditor (as provided in the Technical Auditing Standards), the internal audit function, and other experts can inform senior management and the audit committee or the directors of the entity of the significant internal control weaknesses detected during the review of the annual accounts or such other reviews as may have been entrusted to them. Information shall also be provided on whether it has an action plan to seek to correct or mitigate the weaknesses found.**

Generally speaking, the procedure for discussion of significant internal control weaknesses detected is based on periodic meetings of the various agents.

Thus, the Audit and Risk Supervision Committee holds meetings, both at the half-year and at the year-end closing, with the external auditors, the internal auditors, and the division responsible for preparing financial information, in order to discuss any significant aspect of the preparation process and of the resulting financial information.

Specifically, pursuant to the provisions of its Regulations (scope of authority), the Audit and Risk Supervision Committee of Iberdrola has, among other duties, the duty of reviewing, together with the auditors, the significant weaknesses of the internal control system detected in the course of the audit. To such end, the auditor appears before such Committee on an annual basis to submit recommendations in connection with the internal control weaknesses identified during the review of the accounts. Any weaknesses described by the auditor are monitored on an ongoing basis by the Committee, with the support of the Internal Audit Division. The auditors did not highlight any significant internal control weaknesses during financial year 2015.

Furthermore, the division responsible for preparing the consolidated accounts also holds meetings with the external auditors and with the internal auditors, both at the half-year and at the year-end closing, to discuss significant issues relating to financial information.

**F.6 Other significant information.**

Iberdrola has an internal model or system for control over financial reporting, the purpose of which is to reasonably ensure the reliability of the financial information. It is important to note that the development of this model, which commenced in 2006, was not the product of a legal requirement, but rather derived from the firm belief of both the Board of Directors and the senior management of the Company that in a context of growth and internationalisation as the one that could already be envisaged for the Group, an explicit and auditable internal control system would contribute to maintaining and improving its control environment and the quality of financial information; it would also boost investors' trust because of its effects on the transparency, reputation, and good governance of Iberdrola and of the subsidiaries making up the Iberdrola Group.



The Internal Control over Financial Reporting Model or System (ICFRS) of the Iberdrola Group rests on two main pillars: certification and internal control proper.

Certification is a half-yearly process in which those responsible for financial information in the different areas of the Company certify that: (i) the financial information they deliver to Iberdrola for purposes of consolidation does not contain any material errors or omissions and provides a fair view of the results and the financial condition within their area of responsibility, and (ii) they are responsible for establishing the ICFRS within their area of responsibility and have found, upon evaluation, that the system is effective. The text of these certifications is inspired by the form of certification established in section 302 of the U.S. Sarbanes-Oxley Act.

The culmination of the half-yearly process is a joint certification that the chairman & chief executive officer and the director of Administration and Control submit to the Board of Directors.

The other pillar supporting this model, i.e. internal control proper, is patterned on the reference framework described in the report entitled "Internal Control Integrated Framework" of the Committee of Sponsoring Organisations of the Treadway Commission (COSO), and is primarily aimed at providing a reasonable level of security in achieving the aim of reliability of the financial information.

The methodology used by Iberdrola for the development and continuous update of internal control consists of the following stages or steps: (i) analysis and selection of significant financial information, (ii) grouping such information into cycles or large processes in which it is generated, (iii) identification, assessment, and prioritisation of risks of error in financial information within selected cycles, (iv) design and operation of controls in order to mitigate or manage selected risks, and (v) monitoring and update of the previous steps in order to continuously adapt the model to the circumstances of corporate activities.

One of the salient features of the design of this model is that it seeks to guarantee the quality of financial information during all months of the year, such that it is not limited only to the periods of year-end or half-year closings.

This feature is strengthened through the use of a specific software application developed in-house by the Group that allows for monitoring of the status of controls at all times.

Another important feature of the model is that it extends the culture of internal control to all of the organisations, both corporate and business, that significantly contribute to generating financial information, by assigning personal responsibility for the implementation and documentation of controls.

All relevant documents in connection with Iberdrola's ICFRS, both regarding the certification process and internal control proper, are contained in the aforementioned computer application.

Those responsible for implementing the controls enter into the computer application evidence of such controls having been performed, and then evaluate the results obtained, which they rate as satisfactory or non-satisfactory. This allows for the internal control situation to be monitored in real time, and also makes it possible to act promptly on any deficiencies detected.

In addition, those responsible for control at the country subholding and business subholding companies, as well as those responsible for the corporate areas, carry out an annual review of the design and operation of the SCILF, as a systematic process for updating such model in order to adapt it to the changing circumstances of corporate activities.

The annual review is coordinated by the Internal Control Division, which is also responsible for managing the computer application and coordinating the development of the ICFRS in the various business units and corporate areas of the Group.

Moreover, the Internal Audit Division, which is responsible for supervising internal control as part of its duty of support of the Audit and Risk Supervision Committee, performs an independent review of the design and operation of the ICFRS, identifying deficiencies and formulating recommendations for improvement. Such review is carried out in accordance with an established policy of rotation among the different cycles within the model over a period of three years.

The Internal Audit Division also performs a half-yearly independent review of the effectiveness of the internal controls established to guarantee the reliability of financial information. It also reviews the process for certification of financial information on a half-yearly basis. The conclusions of such reviews are submitted to the Audit and Risk Supervision Committee, which, if appropriate, adopts such conclusions and submits them in turn to the Board of Directors.

The current scope of the ICFRS is such that, based on materiality standards, it covers the entire Iberdrola Group. At present, more than 1,000 persons within the Group use the software application, both to document evidence of the performance of more than 2,200 controls (which mitigate or manage more than 900 risks of error in financial information that have been prioritised) and to monitor, analyse, adjust, and assess the ICFRS.

Furthermore, approximately 60 officers who participate in the process of certification of the accuracy of

information under their responsibility do so by using an electronic signature directly on the computer application.

As a consequence of all of the foregoing, the final result of the certification process, which is based on the situation of internal control proper, can be reviewed by the Board of Directors of Iberdrola as one of the significant guarantees of reliability in connection with the preparation of the Group's annual and interim financial information.

## **F.7 External audit report**

### **Report on:**

**F.7.1. Whether the information on the internal control over financial reporting system has been reviewed by the external auditor, in which case the entity should include the respective report as an exhibit. Otherwise, it should provide the reasons therefor.**

The information on the internal control over financial reporting system sent to the markets has not been reviewed by the external editor for reasons of consistency with the fact that the rest of the information set forth in the Annual Corporate Governance Report is only reviewed by the auditor in connection with the accounting information contained in said Report. It is also believed that having the information on the internal control over financial reporting system reviewed externally would in a certain manner overlap the internal control review to be performed by the external auditor, according to technical auditing standards, within the context of the audit of the accounts.

## **G. DEGREE TO WHICH CORPORATE GOVERNANCE RECOMMENDATIONS ARE FOLLOWED**

**State the company's degree of compliance with the recommendations of the Good Governance Code of Listed Companies.**

**If the company does not comply with any recommendation or follows it partially, there must be a detailed explanation of the reasons providing shareholders, investors, and the market in general with sufficient information to assess the company's course of action. Generalised explanations will not be acceptable.**

- 1. The bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market**

Complies  Explain

Article 29.2 of the *By-Laws* provides that "No shareholder may cast a number of votes greater than those corresponding to shares representing ten (10%) per cent of share capital, even if the number of shares held exceeds such percentage of the share capital. This limitation does not affect votes corresponding to shares with respect to which a shareholder is holding a proxy as a result of the provisions of article 23 above, provided, however, that with respect to the number of votes corresponding to the shares of each shareholder represented by proxy, the limitation set forth above shall apply".

Section 3 of such article adds: "The limitation set forth in the preceding section shall also apply to the maximum number of votes that may be collectively or individually cast by two or more shareholders that are entities or companies belonging to the same group. Such limitation shall also apply to the number of votes that may be cast collectively or individually by an individual and the shareholder entity, entities, or companies controlled by such individual. A group shall be deemed to exist under the circumstances provided by law, and also when a person controls one or more entities or companies".

Iberdrola believes that the limitation on the maximum number of votes that may be cast by a single shareholder, or by several shareholders belonging to the same group or, if applicable, acting in concert, is a measure to protect the many minority shareholders, whose investment is thus guarded from any transaction that is contrary to the corporate interest of Iberdrola. In this regard, it should be noted that approximately one-fourth of Iberdrola's capital is held by retail investors, who thus have little room to manoeuvre and respond to a possible influence-seeking shareholder that owns a non-controlling interest and does not reach the threshold requiring a takeover bid, and whose interest is not totally in line with the corporate interest.

It should also be noted that such voting limitation has been in effect since 16 June 1990, the date on which the General Shareholders' Meeting was held at which it was resolved, by unanimous vote of the attendees, to bring the *By-Laws* of the Company (then doing business as Iberduero, S.A.) into line with the restated text of the Companies Act approved by Royal Legislative Decree 1564/1989 of 22 December. This shows the level of corporate consensus that has existed on such voting limitation from the very beginning, which has been confirmed by the fact that such limitation has remained unchanged through various by-law amendments passed by the shareholders at General Shareholders' Meetings. In turn, it reflects the will of the shareholders to increase their bargaining power in the event of hostile offers or transactions.

In any event, article 50 of the current *By-Laws* establishes the instances of removal of such voting limitation in the event that the Company is the target of a takeover bid that receives the required shareholder approval, in which case the provisions of section 527 of the Companies Act prevail. Pursuant to the foregoing, it cannot be deemed that the limitation on the maximum number of votes that may be cast by a shareholder constitutes an obstacle to a takeover bid.

- 2. When a dominant and subsidiary company are both listed, they should provide detailed disclosure on:**

- a) The activity they engage in and any business dealings between them, as well as between the listed subsidiary and other group companies.**

**b) The mechanisms in place to resolve possible conflicts of interest.**

Complies  Complies in part  Explain  Not applicable

3. During the annual general meeting the chairman of the board should verbally inform shareholders in sufficient detail of the most relevant aspects of the company's corporate governance, supplementing the written information circulated in the annual corporate governance report. In particular,

**a) Changes taking place since the previous annual general meeting.**

**b) The specific reasons for the company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.**

Complies  Complies in part  Explain

4. The company should draw up and implement a policy of communication and contacts with shareholders, institutional investors and proxy advisors that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.

This policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those charged with its implementation.

Complies  Complies in part  Explain

5. The board of directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription rights for an amount exceeding 20% of capital at the time of such delegation.

When a board approves the issuance of shares or convertible securities without pre-emptive subscription rights, the company should immediately post a report on its website explaining the exclusion as envisaged in company legislation.

Complies  Complies in part  Explain

6. Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the annual general meeting, even if their distribution is not obligatory.

**a) Report on auditor independence.**

**b) Reviews of the operation of the audit committee and the nomination and remuneration committee.**

**c) Audit committee report on third-party transactions.**

**d) Report on the corporate social responsibility policy.**

Complies  Complies in part  Explain

7. The committee should broadcast its general meetings live on the corporate website.

Complies  Explain

8. The audit committee should strive to ensure that the board of directors can present the company's accounts to the general meeting without limitations or qualifications in the auditor's report. In the exceptional case that qualifications exist, both the chairman of the audit committee and the auditors should give a clear account to shareholders of their scope and content.

Complies  Complies in part  Explain

9. The company should disclose its conditions and procedures for admitting share ownership, the right to attend general meetings and the exercise or delegation of voting rights, and display them permanently on its website.

Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.

Complies  Complies in part  Explain

10. When an accredited shareholder exercises the right to supplement the agenda or submit new proposals prior to the general meeting, the company should:

- a) Immediately circulate the supplementary items and new proposals.
- b) Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the board of directors.
- c) Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the board of directors, with particular regard to presumptions or deductions about the direction of votes.
- d) After the general meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.

Complies  Complies in part  Explain  Not applicable

11. In the event that a company plans to pay for attendance at the general meeting, it should first establish a general, long-term policy in this respect.

Complies  Complies in part  Explain  Not applicable

12. The board of directors should perform its duties with unity of purpose and independent judgement, according the same treatment to all shareholders in the same position. It should be guided at all times by the company's best interest, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.

In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the broader community and the natural environment.

Complies  Complies in part  Explain

13. **The board of directors should have an optimal size to promote its efficient functioning and maximise participation. The recommended range is accordingly between five and fifteen members.**

Complies  Explain

14. **The board of directors should approve a director selection policy that:**

- a) **Is concrete and verifiable.**
- b) **Ensures that appointment or re-election proposals are based on a prior analysis of the board's needs; and**
- c) **Favours a diversity of knowledge, experience and gender.**

**The results of the prior analysis of board needs should be written up in the nomination committee's explanatory report, to be published when the general meeting is convened that will ratify the appointment and re-election of each director.**

**The director selection policy should pursue the goal of having at least 30% of total board places occupied by women directors before the year 2020.**

**The nomination committee should run an annual check on compliance with the director selection policy and set out its findings in the annual corporate governance report.**

Complies  Complies in part  Explain

15. **Proprietary and independent directors should constitute an ample majority on the board of directors, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.**

Complies  Complies in part  Explain

16. **The percentage of proprietary directors out of all non-executive directors should be no greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.**

**This criterion can be relaxed:**

- a) **In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.**
- b) **In companies with a plurality of shareholders represented on the board but not otherwise related.**

Complies  Explain

17. **Independent directors should be at least half of all board members.**

However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30 percent of capital, independent directors should occupy, at least, a third of board places.

Complies  Explain

18. Companies should disclose the following director particulars on their websites and keep them regularly updated:

a) Background and professional experience.

b) Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.

c) Statement of the director class to which they belong, in the case of proprietary directors indicating the shareholder they represent or have links with.

d) Dates of their first appointment as a board member and subsequent re-elections.

e) Shares held in the company, and any options on the same.

Complies  Complies in part  Explain

19. Following verification by the nomination committee, the annual corporate governance report should disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 3 percent of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

Complies  Complies in part  Explain  Not applicable

20. Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latter's number should be reduced accordingly.

Complies  Complies in part  Explain  Not applicable

21. The board of directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the bylaws, except where they find just cause, based on a proposal from the nomination committee. In particular, just cause will be presumed when directors take up new posts or responsibilities that prevent them allocating sufficient time to the work of a board member, or are in breach of their fiduciary duties or come under one of the disqualifying grounds for classification as independent enumerated in the applicable legislation.

The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction alters the company's capital structure, provided the changes in board membership ensue from the proportionality criterion set out in recommendation 16.

Complies  Explain

22. Companies should establish rules obliging directors to disclose any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, and, in particular, to inform the board of any criminal charges brought against them and the progress of any subsequent trial.

The moment a director is indicted or tried for any of the offences stated in company legislation, the board of directors should open an investigation and, in light of the particular circumstances, decide whether or not he or she should be called on to resign. The board should give a reasoned account of all such determinations in the annual corporate governance report.

Complies  Complies in part  Explain

23. Directors should express their clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other directors not subject to potential conflicts of interest should strenuously challenge any decision that could harm the interests of shareholders lacking board representation.

When the board makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next recommendation.

The terms of this recommendation also apply to the secretary of the board, even if he or she is not a director.

Complies  Complies in part  Explain  Not applicable

24. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Whether or not such resignation is disclosed as a material event, the motivating factors should be explained in the annual corporate governance report.

Complies  Complies in part  Explain  Not applicable

25. The nomination committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively.

The board of directors regulations should lay down the maximum number of company boards on which directors can serve:

Complies  Complies in part  Explain

26. The board should meet with the necessary frequency to properly perform its functions, eight times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each director may propose the addition of initially unscheduled items.

Complies  Complies in part  Explain

27. Director absences should be kept to a strict minimum and quantified in the annual corporate governance report. In the event of absence, directors should delegate their powers of representation with the appropriate instructions.



Complies  Complies in part  Explain

28. When directors or the secretary express concerns about some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the meeting, they should be recorded in the minute book if the person expressing them so requests.

Complies  Complies in part  Explain  Not applicable

29. The company should provide suitable channels for directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the company's expense.

Complies  Complies in part  Explain

30. Regardless of the knowledge directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.

Complies  Explain  Not applicable

31. The agendas of board meetings should clearly indicate on which points directors must arrive at a decision, so they can study the matter beforehand or gather together the material they need.

For reasons of urgency, the chairman may wish to present decisions or resolutions for board approval that were not on the meeting agenda. In such exceptional circumstances, their inclusion will require the express prior consent, duly minuted, of the majority of directors present.

Complies  Complies in part  Explain

32. Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the company and its group.

Complies  Complies in part  Explain

33. The chairman, as the person charged with the efficient functioning of the board of directors, in addition to the functions assigned by law and the company's bylaws, should prepare and submit to the board a schedule of meeting dates and agendas; organise and coordinate regular evaluations of the board and, where appropriate, the company's chief executive officer; exercise leadership of the board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each director, when circumstances so advise.

Complies  Complies in part  Explain

34. When a lead independent director has been appointed, the bylaws or board of directors regulations should grant him or her the following powers over and above those conferred by law: chair the board of directors in the absence of the chairman or vice chairmen give voice to the concerns of non-executive directors; maintain

**contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those to do with the company's corporate governance; and coordinate the chairman's succession plan.**

Complies  Complies in part  Explain  Not applicable

**35. The board secretary should strive to ensure that the board's actions and decisions are informed by the governance recommendations of the Good Governance Code of relevance to the company.**

Complies  Explain

**36. The board in full should conduct an annual evaluation, adopting, where necessary, an action plan to correct weakness detected in:**

- a) The quality and efficiency of the board's operation.
- b) The performance and membership of its committees.
- c) The diversity of board membership and competences.
- d) The performance of the chairman of the board of directors and the company's chief executive.
- e) The performance and contribution of individual directors, with particular attention to the chairmen of board committees.

**The evaluation of board committees should start from the reports they send the board of directors, while that of the board itself should start from the report of the nomination committee.**

**Every three years, the board of directors should engage an external facilitator to aid in the evaluation process. This facilitator's independence should be verified by the nomination committee.**

**Any business dealings that the facilitator or members of its corporate group maintain with the company or members of its corporate group should be detailed in the annual corporate governance report.**

**The process followed and areas evaluated should be detailed in the annual corporate governance report.**

Complies  Complies in part  Explain

**37. When an executive committee exists, its membership mix by director class should resemble that of the board. The secretary of the board should also act as secretary to the executive committee.**

Complies  Complies in part  Explain  Not applicable

There is a single executive director and a single proprietary director on the Company's Board of Directors. The Executive Committee of Iberdrola is made up of five directors, one of which is an executive director and another a proprietary director. Their membership on the Executive Committee causes their relative weight therein to be necessarily greater than that on the Board of Directors. However, Iberdrola believes that it is essential for them to be a part of the Executive Committee. In any event, the Executive Committee also has an external director and two independent directors, one

of which is the lead independent director (*consejera coordinadora*), which provides a proper balance in the composition thereof, with representation of the various classes of directors of the Company, and ensures that their duties may not be performed along lines different from those reflected by the composition of the Board of Directors.

- 38. The board should be kept fully informed of the business transacted and decisions made by the executive committee. To this end, all board members should receive a copy of the committee's minutes.**

Complies  Complies in part  Explain  Not applicable

- 39. All members of the audit committee, particularly its chairman, should be appointed with regard to their knowledge and experience in accounting, auditing and risk management matters. A majority of committee places should be held by independent directors.**

Complies  Complies in part  Explain

- 40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the audit committee, to monitor the effectiveness of reporting and control systems. This unit should report functionally to the board's non-executive chairman or the chairman of the audit committee.**

Complies  Complies in part  Explain

- 41. The head of the unit handling the internal audit function should present an annual work programme to the audit committee, inform it directly of any incidents arising during its implementation and submit an activities report at the end of each year.**

Complies  Complies in part  Explain  Not applicable

- 42. The audit committee should have the following functions over and above those legally assigned:**

**1. With respect to internal control and reporting systems**

- a) Monitor the preparation and the integrity of the financial information prepared on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.
- b) Monitor the independence of the unit handling the internal audit function; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the service's budget; approve its priorities and work programmes, ensuring that it focuses primarily on the main risks the company is exposed to; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.
- c) Establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities.

**2. With regard to the external auditor:**

- a) Investigate the issues giving rise to the resignation of the external auditor, should this come about.
- b) Ensure that the remuneration of the external auditor does not compromise its quality or independence.
- c) Ensure that the company notifies any change of external auditor to the CNMV as a material event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.
- d) Ensure that the external auditor has a yearly meeting with the board in full to inform it of the work undertaken and developments in the company's risk and accounting positions.
- e) Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.

Complies  Complies in part  Explain

43. The audit committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.

Complies  Explain

44. The audit committee should be informed of any fundamental changes or corporate transactions the company is planning, so the committee can analyse the operation and report to the board beforehand on its economic conditions and accounting impact and, when applicable, the exchange ratio proposed.

Complies  Complies in part  Explain  Not applicable

45. The risk control and management policy should identify at least:

- a) The different types of financial and non-financial risk the company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risks), with the inclusion under financial or economic risks of contingent liabilities and other off- balance-sheet risks.
- b) The determination of the risk level the company sees as acceptable.
- c) The measures in place to mitigate the impact of identified risk events should they occur.
- d) The internal control and reporting systems to be used to control and manage the above risks, including contingent liabilities and off-balance- sheet risks.

Complies  Complies in part  Explain

46. Companies should establish a risk control and management function in the charge of one of the company's internal department or units and under the direct supervision of the audit committee or some other dedicated board committee. This function should be expressly charged with the following responsibilities:

- a) Ensure that risk control and management systems are functioning correctly and, specifically, that major risks the company is exposed to are correctly identified, managed and quantified.
- b) Participate actively in the preparation of risk strategies and in key decisions about their management.
- c) Ensure that risk control and management systems are mitigating risks effectively in the frame of the policy drawn up by the board of directors.

Complies  Complies in part  Explain

47. Appointees to the nomination and remuneration committee - or of the nomination committee and remuneration committee, if separately constituted - should have the right balance of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be independent directors.

Complies  Complies in part  Explain

48. Large cap companies should operate separately constituted nomination and remuneration committees.

Complies  Complies in part  Explain

49. The nomination committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors.

When there are vacancies on the board, any director may approach the nomination committee to propose candidates that it might consider suitable.

Complies  Complies in part  Explain

50. The remuneration committee should operate independently and have the following functions in addition to those assigned by law:

- a) Propose to the board the standard conditions for senior officer contracts.
- b) Monitor compliance with the remuneration policy set by the company.
- c) Periodically review the remuneration policy for directors and senior officers, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other directors and senior officers in the company.
- d) Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.
- e) Verify the information on director and senior officers' pay contained in corporate documents, including the annual directors' remuneration statement.

Complies  Complies in part  Explain

51. The remuneration committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors and senior officers.

Complies  Complies in part  Explain

52. The terms of reference of supervision and control committees should be set out in the board of directors regulations and aligned with those governing legally mandatory board committees as specified in the preceding sets of recommendations. They should include at least the following terms:

- a) Committees should be formed exclusively by non-executive directors, with a majority of independents.
- b) They should be chaired by independent directors.
- c) The board should appoint the members of such committees with regard to the knowledge, skills and experience of its directors and each committee's terms of reference; discuss their proposals and reports; and provide report-backs on their activities and work at the first board plenary following each committee meeting.
- d) They may engage external advice, when they feel it necessary for the discharge of their functions.
- e) Meeting proceedings should be minuted and a copy made available to all board members.

Complies  Complies in part  Explain  Not applicable

53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one board committee or split between several, which could be the audit committee, the nomination committee, the corporate social responsibility committee, where one exists, or a dedicated committee established *ad hoc* by the board under its powers of self-organisation, with at the least the following functions:

- a) Monitor compliance with the company's internal codes of conduct and corporate governance rules.
- b) Oversee the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders.
- c) Periodically evaluate the effectiveness of the company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.
- d) Review the company's corporate social responsibility policy, ensuring that it is geared to value creation.
- e) Monitor corporate social responsibility strategy and practices and assess compliance in their respect.
- f) Monitor and evaluate the company's interaction with its stakeholder groups.
- g) Evaluate all aspects of the non-financial risks the company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.

**h) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.**

Complies  Complies in part  Explain

**54. The corporate social responsibility policy should state the principles or commitments the company will voluntarily adhere to in its dealings with stakeholder groups, specifying at least:**

**a) The goals of its corporate social responsibility policy and the support instruments to be deployed.**

**b) The corporate strategy with regard to sustainability, the environment and social issues.**

**c) Concrete practices in matters relative to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conducts.**

**d) The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.**

**e) The mechanisms for supervising non-financial risk, ethics and business conduct.**

**f) Channels for stakeholder communication, participation and dialogue.**

**g) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.**

Complies  Complies in part  Explain

**55. The company should report on corporate social responsibility developments in its directors' report or in a separate document, using an internationally accepted methodology.**

Complies  Explain

**56. Director remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment, abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of non-executive directors.**

Complies  Explain

**57. Variable remuneration linked to the company and the director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans should be confined to executive directors.**

**The company may consider the share-based remuneration of non-executive directors provided they retain such shares until the end of their mandate. This condition, however, will not apply to shares that the director must dispose of to defray costs related to their acquisition.**

Complies  Complies in part  Explain

58. In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, or circumstances of that kind.

In particular, variable remuneration items should meet the following conditions:

- a) Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.
- b) Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.
- c) Be focused on achieving a balance between the delivery of short, medium and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to long-term value creation. This will ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.

Complies  Complies in part  Explain  Not applicable

59. A major part of variable remuneration components should be deferred for a long enough period to ensure that predetermined performance criteria have effectively been met.

Complies  Complies in part  Explain  Not applicable

60. Remuneration linked to company earnings should bear in mind any qualifications stated in the external auditor's report that reduce their amount.

Complies  Complies in part  Explain  Not applicable

61. A major part of executive directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.

Complies  Complies in part  Explain  Not applicable

62. Following the award of shares, share options or other rights on shares derived from the remuneration system, directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three years after their award.

The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Complies  Complies in part  Explain  Not applicable

A significant portion of the remuneration of the directors and officers of Iberdrola is received on a deferred basis in shares upon the terms approved by the shareholders. Specifically, the second



delivery of the Strategic Bonus 2011-2013, approved by the shareholders at the General Shareholders' Meeting held on 27 March 2011, was paid in 2015.

This Strategic Bonus, as well as the one approved at the General Shareholders' Meeting held on 28 March 2014, is an instrument of multi-year variable remuneration linked to the long-term performance of the Company and aligned with the shareholders' interest, given that it is paid in shares and each beneficiary's allocated a maximum theoretical amount.

The evaluation period covers three years, and payment occurs over the next three years. Recommendation 62 is made on the basis of "specify an element of deferment that allows the delivery of objectives to be confirmed". This purpose serves the Director Remuneration Policy which, as was explained, contemplates share-based remuneration instruments that are delivered on a deferred basis, for which reason the remuneration is withheld for several years.

Furthermore, it should be noted that the chairman & chief executive officer, the only executive director, has not sold shares of the Company since his appointment, and is and has for many years been the owner of a number of shares that is much higher than that provided for by this recommendation.

**63. Contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out of step with the director's actual performance or based on data subsequently found to be misstated.**

Complies  Complies in part  Explain  Not applicable

As already explained in the previous recommendation, the purpose of this recommendation 63 is also that the Remuneration Policy specify "an element of deferment that allows the delivery of objectives to be confirmed".

The Director Remuneration Policy specifies said deferral in the Strategic Bonds approved at the General Shareholders' Meetings. The delivery of shares is subject to three-year evaluation periods, and implementation occurs over the next three years. In sum, this structure allows for verification of the long-term effectiveness of satisfying the targets to which the variable remuneration is linked.

Furthermore, prior to the payment of any deferred variable remuneration, there must be a report of the Remuneration Committee confirming the effectiveness of the grounds supporting said deferred variable remuneration. If there is a circumstance that subsequently requires a correction of the parameters taken into consideration during the initial evaluation, the Board of Directors will decide whether to cancel payment of the deferred variable remuneration in whole or in part (*malus* clause).

**64. Termination payments should not exceed a fixed amount equivalent to two years of the director's total annual remuneration and should not be paid until the company confirms that he or she has met the predetermined performance criteria.**

Complies  Complies in part  Explain  Not applicable

Contracts with new executive directors and senior officers include, as from 2011, maximum severance equal to two times annual salary in the event of termination of their relationship with the Company, provided that termination of the relationship is not the result of a breach attributable thereto or solely due to a voluntary decision thereof.

The Company included guarantee clauses of up to five years in contracts with its key officers 16 years ago. Subsequently, in 2001, when the current chairman joined Iberdrola, he received the treatment in effect for such officers, in order to achieve an effective and sufficient level of loyalty. As chairman & chief executive officer, he is currently entitled to three times annual salary.

The Board of Directors has analysed this situation, the treatment of which is necessarily collective in nature. Any reduction in the salary multiples would carry high costs for the Company, for which reason the Board of Directors believes that it is most appropriate not to change the status quo. Any proposed reduction in the salary multiples would have a higher cost for the Company, as the amount of the contingency would gradually decrease due to the passage of time, resulting in payments far smaller than any possible reduction in the agreed termination benefit, taking into account the average age of the affected group and the low likelihood of the guarantees being enforced. In this regard, it should be

pointed out that at year-end 2014, there were 62 officers in this group. At year-end 2015, the number decreased to 52 without the enforcement of any guarantee.

## H. OTHER INFORMATION OF INTEREST

1. **If there are any significant aspects regarding corporate governance at the company or at entities of the group that is not included in the other sections of this report, but should be included in order to provide more complete and well-reasoned information regarding the corporate governance structure and practices at the entity or its group, briefly describe them.**
2. **In this section, you may also include any other information, clarification, or comment relating to the prior sections of this report to the extent they are relevant and not repetitive.**

**Specifically, state whether the company is subject to laws other than Spanish laws regarding corporate governance and, if applicable, include such information as the company is required to provide that is different from the information required in this report.**

3. **The company may also state whether it has voluntarily adhered to other international, industrial, or other codes of ethical principles or good practices. If so, identify the code in question and the date of adherence thereto. In particular, mention whether there has been adherence to the Code of Good Tax Practices of 20 July 2010.**

### **MISSION, VISION, AND VALUES**

Iberdrola is fully aware of its importance as a business, institutional, and social reality, and cannot nor does it want to be estranged from the challenges entailed in its position as the controlling company of one of the leading global groups in the electricity sector. The responsibilities arising from all of the above go beyond the strictly economic arena, fully reaching the social level.

Along these lines, the efforts of Iberdrola's Board of Directors since the General Shareholders' Meeting held in 2015 have been directed towards a consideration of the relations that the Company and the Group should maintain with its stakeholders, beyond its shareholders and the financial community - its workforce, regulatory entities, its customers, its suppliers, the media, society in general, and the environment, among others.

Specifically, during the month of October 2015, the Board of Directors engaged in a profound review of the mission, vision, and values of the Group to better conform them to a complex business group, with the goal of leadership in all facets of its business (both economically and especially socially) using a new focus that stresses the sustainable creation of value and emphasises the social impact of its activities.

The content of the new mission, vision, and values of the Group have been incorporated into a new rule within the Corporate Governance System: the Mission, Vision, and Values of the Iberdrola group, which contains the corporate philosophy 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.

The Company seeks a social return on all of its activities. Its corporate values reflect its commitment to the sustainable creation of value, ethical principles, transparency and good corporate governance, the development of human resources, social commitment, a sense of belonging, safety and reliability, quality, innovation, protection of the environment, customer focus, and institutional loyalty.

The Company and the other entities belonging to the Group seek to engage all stakeholders in its business enterprise in accordance with a policy on relations with all of them based on two-way communication and the principles of transparency, active listening and equal treatment, which allows for all of their legitimate interests to be taken into consideration and to effectively disclose information regarding the activities and businesses of the Group.

## SECTION A.1

The shareholders acting at the General Shareholders' Meeting of the Company held on 28 March 2014 approved two increases in share capital by means of scrip issues in order to implement, for the fourth consecutive year, the shareholder compensation system called "Iberdrola Flexible Dividend" ("Iberdrola Dividendo Flexible"), which allows the shareholders to decide whether they prefer to receive all or part of their compensation in cash or in Iberdrola bonus shares.

The second increase in capital took place in December 2014, when the traditional interim dividend for financial year 2014 would otherwise have been paid, and the number of new shares that were issued and floated came to 81,244,000, par value 0.75 euro each, without a share premium, representing approximately 1.29% of the share capital prior to the increase.

The shareholders acting at the General Shareholders' Meeting held on 27 March 2015, under item 10 on the agenda, approved a reduction in share capital by means of the retirement of 135,768,494 treasury shares of Iberdrola representing 2.125% of the share capital, and the acquisition of the Company's own shares representing a maximum of 0.199% of the share capital through a buy-back programme for the retirement thereof.

As a result of such resolution, the share capital of Iberdrola was reduced by the amount of 111,362,250.00 euros in May 2015 through the retirement of 148,483,000 treasury shares (135,768,494 own shares already in treasury and 12,714,506 shares acquired from the shareholders through the buy-back programme), representing approximately 2.324% of the share capital prior to the reduction. The share capital resulting from the reduction was set at 4,680,000,000.00 euros, corresponding to 6,240,000,000 shares.

The purpose of the reduction in capital was to retire treasury shares, for which reason there was no return of contributions as the Company itself was the holder of the retired shares.

In addition, the shareholders acting at the General Shareholders' Meeting of the Company held on 27 March 2015 approved, under item six on the agenda, two increases in share capital by means of a scrip issue in order to implement, for the sixth consecutive year, the shareholder remuneration system known as Iberdrola Flexible Dividend.

The first increase in capital took place in July 2015, when the traditional supplementary dividend for financial year 2014 would otherwise have been paid, and the number of new shares that were issued and floated came to 96,870,000, par value 0.75 euro each, without a share premium, representing approximately 1.55% of the share capital prior to the increase. The share capital of the Company came to 6,336,870,000 shares after this increase in capital.

The second increase in capital took place in January 2016, when the traditional dividend for financial year 2015 would have been paid. The number of new shares issued and floated came to 60,327,000, par value 0.75 euro each, without a share premium, representing approximately 0.95% of the share capital prior to the increase. After said increase in capital, the share capital of the Company was 6,397,197,000 shares.

## SECTION A.2

Given that the shares are represented by book entries, no information is available on a daily basis about the interest of shareholders in the share capital. However, since 7 May 2014, Iberdrola is a member within Iberclear of the Communication Service for securities holdings and the balanced list of buyers and sellers upon the terms set forth in Circular No 5/2013 of 27 November. The sources of the information provided are the notices sent by the shareholders to the CNMV and to the Company itself, and the information contained in their respective annual reports and press releases, as well as the information that the Company obtains from Iberclear.

Pursuant to the provisions of section 23.1 of Royal Decree 1362/2007 of 19 October, further developing Law 24/1988 of 28 July on the Securities Market, in connection with the transparency requirements relating to the information on issuers whose securities have been admitted to trading on an official secondary market or other regulated market in the European Union, it is deemed that significant shareholders are the holders of at least 3% of voting rights.

According to available information, the approximate breakdown of the interests in the share capital by type of shareholder is as follows:

- Foreign investors	62.9%
- Domestic entities	13.7%
- Domestic retail investors	23.4%

### SECTION A.3

Data at the date of approval of this Report.

### SECTION A.8

As of the end of financial year 2015, the number of own shares and derivatives on treasury shares at Iberdrola is 92,464,082, representing 1.459% of share capital.

Of such amount, Iberdrola has 67,636,166 own shares and 17,027,195 shares accumulated through derivatives pending settlement and that are recorded as treasury shares in the consolidated financial statements at 31 December 2015, and 7,800,721 shares corresponding to share swaps.

Pursuant to the authorisations granted to the Board of Directors by the shareholders at the General Shareholders' Meeting, during financial year 2015 Iberdrola acquired 76,341,337 own shares for 451,332 thousand euros, and 102,803,944 shares for 588,713 thousand euros, through derivatives, although the latter are included in the derivatives pending settlement as mentioned above.

In addition, 6,984,197 own shares were sold for 43,133 thousand euros. Under such authorisations, Iberdrola has retired 148,483,000 own shares.

Due to the change in the number of voting rights as a result of the increase in capital for the Iberdrola Flexible Dividend scheme, on 4 February 2016 the Company announced direct acquisitions of 41,537,228 treasury shares (0.649%).

Furthermore, at year-end 2015 there are 1,638,563 treasury shares of Scottish Power corresponding to the matching shares held in trust for the Share Incentive Plan.

### SECTION C.1.3

Pursuant to information held by the Company, it is foreseeable that the circumstances leading to the classification of Mr Iñigo Víctor de Oriol Ibarra and Mr Manuel Moreu Munaiz as other external directors do not occur during 2016 and that they become classified as independent directors.

The complete professional profiles of all the directors are available on the Company's corporate website ([www.iberdrola.com](http://www.iberdrola.com)).

### SECTION C.1.16

Mr Julián Martínez-Simancas Sánchez has ceased to hold office as a senior officer since 9 January 2016 due to his retirement. On 19 January 2016, Mr Santiago Martínez Garrido was appointed as director of Group's Legal Affairs.

### SECTION C.1.29

In December 2014, under the chairmanship of the lead independent director, there was a meeting without the presence of the chairman & CEO to deliberate on his proposed re-election as director at the General Shareholders' Meeting of 27 March 2015.

Furthermore, within the framework of the process of evaluation of the Board of Directors, the lead independent director met individually with each of the directors in order to identify possible improvements in the operation thereof.

The Appointments and Remuneration Committee was split into two separate committees on 27 March 2015.

### SECTION C.1.30

Below is the data on attendance of each and every one of the directors at the meetings of the Board of Directors and its committees during financial year 2015:

Directors	Board	Committees					
		EC	ARSC	ARC	AC	RC	CSRC

MR JOSÉ IGNACIO SÁNCHEZ GALÁN	8/8	14/14	--	--	--	--	--
MR JULIO DE MIGUEL AYNAT	1/1	--	3/3	--	--	--	--
MR SEBASTIÁN BATTANER ARIAS	1/1	--	3/3	--	--	--	--
MR XABIER DE IRALA ESTÉVEZ	8/8	14/14	--	--	--	--	--
MR IÑIGO VÍCTOR DE ORIOL IBARRA	8/8	--	--	6/6	8/8	4/4	--
MS INÉS MACHO STADLER	8/8	14/14	--	6/6	--	4/4	--
MR BRAULIO MEDEL CÁMARA	8/8	--	--	--	--	--	7/7
MS SAMANTHA BARBER	8/8	--	--	--	--	--	7/7
MS MARÍA HELENA ANTOLÍN RAYBAUD	8/8	--	--	--	8/8	--	2/2
MR SANTIAGO MARTÍNEZ LAGE	8/8	--	--	6/6	--	4/4	--
MR JOSÉ LUIS SAN PEDRO GUERENABARRENA	8/8	13/14	--	--	--	--	--
MR ÁNGEL JESÚS ACEBES PANIAGUA	8/8	14/14	--	--	8/8	--	--
MS GEORGINA KESSEL MARTÍNEZ	8/8	--	15/15	--	--	--	--
MS DENISE MARY HOLT	8/8	--	14/15	--	--	--	--
MR JOSÉ WALFREDO FERNÁNDEZ	7/7	--	11/12	--	--	--	--
MR MANUEL MOREU MUNAIZ	7/7	--	--	--	--	--	5/5

Notes:

- The denominator indicates the number of meetings held during the period of the year in which the director served as such or as a member of the respective Committee.
- EC: Executive Committee.
- ARSC: Audit and Risk Supervision Committee.
- ARC: Appointments and Remuneration Committee.
- AC: Appointments Committee.
- RC: Remuneration Committee
- CSRC: Corporate Social Responsibility Committee.

SECTION C.1.31

The Iberdrola Group has established a certification process by which those responsible for financial information in the different areas of the Company certify that: (i) the financial information they deliver to Iberdrola for purposes of consolidation does not contain any material errors or omissions and provides a fair view of the results and the financial condition within their area of responsibility, and (ii) they are responsible for establishing the ICFRS within their area of responsibility and have found, upon evaluation, that the system is effective. The text of these certifications is inspired by the form of certification established in section 302 of the U.S. Sarbanes-Oxley Act.

The culmination of the process is a joint certification that the chairman & chief executive officer and the director of Administration and Control submit to the Board of Directors.

The process is carried out by means of electronic signature in a software application which manages the areas of responsibility and time periods and which serves as a repository of all the documentation generated, allowing for periodic review by the supervisory bodies of the Group.

#### SECTION C.1.36

On 15 December 2015 the Board of Directors approved the selection of KPMG Auditores, S.L. as the auditor of the annual accounts of the Company and of its consolidated group for financial years 2017 to 2019, upon a proposal of the Audit and Risk Supervision Committee. The Board of Directors will submit this proposal to the shareholders at the General Shareholders' Meeting to be held in 2017.

#### SECTION D

All information regarding related-party transactions included in this Annual Corporate Governance Report 2015 is consistent with that contained in the Company's Annual Financial Report for financial year 2015.

#### SECTION D.2

Contracts for financial instruments are made in competition with various entities, with the one most beneficial for the Company at any time being selected. The Financing and Financial Risk Policy establishes a number of limits on derivatives contracts with a single financial institution in order to avoid excessive risk concentration, as well as to ensure a minimum creditworthiness level below which no contracts could be made. Such limits are complied with in respect of all counterparties, including the significant shareholders of the Company.

The amounts set forth as "profits and other dividends paid" correspond to the cash dividend distributed by the Company and to the free-of-charge allocation rights stemming from the two increases in share capital by means of a scrip issue approved by the shareholders at the General Shareholders' Meetings, which were sold to the Company at a guaranteed fixed price pursuant to the terms and conditions of such increases.

This information includes transactions with the shareholders Qatar Investment Authority and Kutxabank, S.A., holders of significant interests at the close of financial year 2015.

All of these transactions were made in the ordinary course of business, were carried out on an arm's-length basis, and the information about them is not needed to give a true and fair view of the assets, the financial condition, and the results of operations of the Company.

The Iberdrola Group optimises its banking transactions management by selecting financial institutions based on their solvency, presence in the Group's markets, and capacity to provide the best service in terms of costs and quality. The selection of suitable financial institutions for each bank product is supplemented by a balanced allocation based on the financial institution's risk exposure toward the Iberdrola Group and the volume of business granted.

Kutxabank provides banking services to the Group in the management of the domestic and international business.

Kutxabank corresponds in terms of how it ranks in profits and risk exposure towards the Iberdrola Group, which shows Iberdrola's commitment to achieving a balanced risk/business distribution. Kutxabank ranks below 30th as to both risk exposure and profits; therefore, it does not have a significant position as a provider of financial services to the Iberdrola Group.

#### SECTION D.4

Transactions with subsidiaries and companies in which the Company has an interest that have not been eliminated in the process of consolidation were made in the ordinary course of business of the

Company, were carried out under arm's-length conditions, and are of little significance to accurately reflect the assets, financial condition, and results of operations of the Company.

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On 20 July 2010, the Company adhered to the Code of Good Tax Practices, a document approved at the full Forum of Large Businesses (*Foro de Grandes Empresas*) created by the National Tax Administration Agency (*Agencia Estatal de Administración Tributaria*) and certain large companies, and which was held on that date.

Pursuant to the provisions of section 2 of the annex of adherence to the Good Tax Practices Code and of subsection 5.b) of the Corporate Tax Policy, the Company reports that it has complied with the provisions of such Code as from the time of approval thereof.

Specifically, it is reported that, during financial year 2015, the Company's head of tax matters appeared on 16 February and 20 July before Iberdrola's Audit and Risk Supervision Committee to report on compliance with the Corporate Tax Policy, which includes the good tax practices contained in the aforementioned Code, all of which was reported to the Board of Directors.



This annual corporate governance report was approved by the Board of Directors of the company at its meeting of 23 February 2016.

State whether any directors voted against or abstained in connection with the approval of this Report.

Yes  No

Individual or company name of director that did not vote in favour of the approval of this report	Reasons (opposed, abstained, absent)	Explain the reasons