

TODAY WE TALK TO...

ÍNIGO ELORRIAGA

Corporate Governance Director

“Above all, corporate governance has to do with transparency”

Iberdrola has just been recognised by the Good Governance and Shareholders Forum as the Best Shareholder Outreach Initiative among all listed Spanish companies. A perfect excuse to chat with one of the senior managers responsible for the Involvement Policy for our more than 600,000 shareholders.

Today we talk to... Íñigo Elorriaga.

Question. - What does corporate governance mean?

Answer. - Above all, corporate governance has to do with transparency. The usual monitoring of the economic-financial performance of listed companies was expanded some years ago to include the interest in non-financial aspects. That is why the level of financial and non-financial information offered today by these companies is so high.

Corporate governance is a discipline which through standards, recommendations and practices deals with the organisation of listed companies with the aim of enhancing decision-making. Among other things, it focuses on resolving possible conflicts of interest and attaining a proper balance of power.



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Question. - Who are the players in the world of corporate governance and who sets the pace in its development?

Answer. - Firstly, institutional investors are the major players in the financial markets and they drive this movement. They are also bound by codes that demand from them responsible and transparent administration of their investments, in particular in their voting policy.

In addition, the securities market regulators have begun to act, first recommending, but also requiring that company practices be improved.

In view of this situation, listed companies have reacted by improving their governance structure and increasing their level of transparency. Although there is still a long way to go, the progress made over the last decade has been exceptional.

Moreover, we have the proxy advisors, market intermediaries who work for institutional shareholders by analysing the agenda of meetings and recommending the way they should vote each item. They also publish their voting policies for each market. They have become true opinion leaders.

Small shareholders lack the capacity of other agents, but they are the big winners, since their investment is subject to ongoing control and scrutiny.

Question.- What changes have taken place in the ownership structure of listed companies?

Answer. - In general, there has been a very substantial increase in the participation of institutional investors, to the detriment of the direct participation of individual shareholders. In Spain also. In particular, the presence of foreign institutional investors has increased and the presence of their Spanish counterparts has decreased. Iberdrola is a good example of this. In our company, the participation of foreign institutional shareholders exceeds 60%.

Question. - ¿What consequences does this change bring?

Answer. - Institutional investors have an interest, knowledge and means for subjecting listed companies to an ongoing monitoring of financial and non-financial aspects.

One good example is that large listed companies traditionally embarked on financial roadshows to present their results and their expectations. Now, even governments do this. Iberdrola was the first one to develop corporate governance roadshows, where the companies have to explain their model and, above all, listen to the concerns and suggestions that the market puts forward so they can improve their practices.

General Shareholders' Meetings are another good example. Before, it was easy for the Boards of Directors, but now they have to win the votes. There are quite a few companies that receive relevant percentages of negative votes against some of their resolution proposals.

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This results in healthier practices and more comprehensive and transparent information. Our website should be mentioned in this regard. In its Shareholders and Investors section, it includes a very detailed level of information on our corporate governance system and its operation.

Listed companies have been forced to open their doors and windows. Now, it is also time for shareholders to exercise their rights responsibly.

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Question. - We have heard a lot lately about shareholder involvement. Involve them in what?

Answer. - Iberdrola has more than 600,000 shareholders all over the world. They all have the same rights. However, not all of them are interested in exercising the right to information and right to vote.

The involvement we are offering them seeks to open channels so shareholders can exercise their right to information and participate in the company's corporate life by putting forward their suggestions. And not only on the date of the General Meeting, but 365 days a year. The Board of Directors is committed to listening and taking their voice into account. As I mentioned earlier, small shareholders are the real winners with this initiative.

Question. - What do we do in Iberdrola to involve them?

Answer. - What we do, and what we will do! Iberdrola has a long tradition of keeping in contact with its shareholders. The Investor Relations division holds more than 1,100 meetings (many of them face-to-face) a year with institutional investors and shareholders of over 20 nationalities.

In addition, the telematic channel OLA (On-Line Shareholders) has received more than 147,000 visits since its launch. The questions and concerns are dealt with in less than 48 hours.

Before we mentioned the corporate governance roadshows, which are covered by a multidisciplinary team that maintains contacts throughout the year and, in particular, when the General Meeting is convened.

Shareholders will soon be convened via OLA to take part in meetings focused on topics of interest that will be attended by company executives. We are also thinking about convening them to face-to-face meetings where we will address relevant issues such as, for example, the securities market's operation.

In addition, we want to benefit from the power of the social media to offer them information and, above all, to listen to their concerns and suggestions.

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Question. - Shareholders' Day, which we held last 27 March, was very well received. Why was it decided to take this step in the evolution of the traditional General Shareholders' Meeting?

Answer. - The law only provides for meetings between the Board of Directors and the shareholders on the occasion of the General Meeting. And it does so by subjecting this meeting to formalities that detract from the quality of communication. Shareholders' Day enabled us to enhance this meeting and reduce these formalities, by offering our shareholders a setting where they could receive information and raise questions beyond the Meeting's agenda.

Question. - What advantages can we expect in the Company if our shareholders become more involved?

Answer. - The main advantage is the knowledge that this communication will offer us. To the extent that we take up the challenge that this involvement poses, our decisions, practices and corporate action will be more legitimate.

Question. - Is it easy to involve shareholders without slipping into opportunistic activism or insider information?

Answer. - Involving shareholders is not easy. Firstly, because many of them feel they are investors, rather than shareholders. In addition, the initiative itself is innovative and its success depends essentially on the shareholders' interest in becoming involved. This is why we will present this Policy at an event that will be held on 7 October in Bilbao in partnership with Deusto Business School and, the following day, in Madrid in collaboration with ICADE.

Having said this, neither opportunism nor insider information will be a risk, since with this involvement we are not expecting them to play a role other than their role as shareholders, and the principle of equal treatment is the first mandate in our Policy.

“Mass employee participation in the company's ownership is proof of their trust and commitment”

Question. - It seems that employees are deeply involved from the shareholding point of view. More than 7,000 are company shareholders. Is this further proof of the trust that the various stakeholders have placed in the company?

Answer. - Iberdrola employees are possibly the main stakeholder with which the company interacts. Their mass participation in the company's ownership is no doubt proof of their trust and commitment. I am sure that it is one of the groups that will be most affected by the Involvement Policy.

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Picture by Fernando Gómez

About Íñigo Elorriaga

He holds a degree in Law, specialising in Legal-Financial Affairs, 1984 (Deusto University). He graduated in the General Management Programme, 1994, (IESE). He is a practising lawyer and a member of the Bizkaia Bar Association

He began his professional career in 1984 and, after working for the Aurora Polar insurance company (today AXA), in 1987 he joined Iberdrola's General Secretary's Office. In 2001 he was appointed as Corporate Governance Director.

