

Report on the appointment, ratification and re-election of the directors of Iberdrola, S.A. General Shareholders Meeting 2019



Iberdrola, S.A.
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To the attention of the chair of the Appointments Committee:

In accordance with the request of the Appointments Committee of Iberdrola S.A. (hereinafter, “**Iberdrola**”), reflected in our mandate letter dated November 22nd, 2018, we set out below our report elaborated for the analysis of the proposals for the appointment, ratification and/or re-election of directors subject to the General Shareholders Meeting.

INTRODUCTION

This report is issued in the interest of Iberdrola, with a double purpose:

I) Analyse the proposal of re-election of Mr. José Ignacio Sánchez Galán as executive director.

In order to do that, various aspects are analysed that we believe the market would give greater importance to in relation to this question. Specifically, the analysis executed includes the following aspects:

1. The performance the company has had since 2001, in contrast to its comparable companies, and the valuation of its management from the market.
2. The level of support that the Board of Directors has received from the shareholders at General Meetings and from the market in recent years.
3. The strategic moment in which the group finds itself.
4. In addition, there is an analysis of the governance and organisation model of Iberdrola which fundamental lines have been extendedly approved by the General Shareholder’s Meeting, to verify that it ensures the effective separation of the duties of supervision and management, and that there are checks-and-balances that avoid potential risks associated with an accumulation of powers within the executive chairman; as well as the potential implications of a change thereof.

II) Assess the profiles of the independent directors that are subject to appointment, ratification and re-election at the General Shareholders Meeting of 2019.

In particular, it is assumed that the Board of Directors will propose the appointment of Ms. Sara de la Rica Goiricelaya, the ratification of Mr. Xabier Sagredo Ormaza and the re-election of Ms. María Helena Antolín Raybaud, Mr. Manuel Moreu Munaiz, Ms. Denise Holt and Mr. José W. Fernández

1) RE-ELECTION OF MR. JOSÉ IGNACIO SÁNCHEZ GALÁN AS EXECUTIVE DIRECTOR

CONCLUSIONS

After the exam realized on the issues raised, the following conclusions have been reached:

1.- **Iberdrola's performance:** During the period of 2001-20017¹ Iberdrola presents a better performance than comparable companies and the EUROSTOXX Utilities index. Likewise, the management of the company has been supported by the market, with a valuation multiple (in terms of Enterprise Value/EBITDA) above that of comparable companies.

2.- **Support received:** Iberdrola's Board of Directors has received majority **support** from the shareholders at the General Meetings. The levels of dissent in voting are less than those of comparable companies. Iberdrola has been recognised by the market with various awards for its management and for the quality of its corporate governance. In the same way, the management of the chairman has received the continuous support of the non-executive directors in the evaluations executed annually.

3.- **Strategic moment:** Iberdrola is in the second year of implementation of its 2018-2022 Strategic Plan, presented in February 2018 to the international financial community and which has received a broadly support by the market. The evolution of the company during this new period until now reflects a high level of compliance with the defined objectives.

4.- **Governance model and organisation:** Iberdrola's governance and organisation model, approved by the shareholders at a General Meeting, provides different tools to ensure the **separation** of supervision (exercised independently) from management, and avoid the concentration of **power**.

- a) Iberdrola has a Board of Directors with a majority of independent directors and that is diverse, with a lead independent director, with advanced corporate governance practices and a governance model that ensures the effective separation of the duties of supervision of management:
 - i. The **Board** of Directors of Iberdrola, which is made up of a majority of independent directors guaranteed by the *By-Laws*, presents a diverse **composition** in terms of its professional profiles, nationality and gender, and is continually being refreshed.
 - ii. It has a **lead independent director** with broad powers of effective checks-and-balances, amongst others, including the power to call meetings of the Board of Directors; to participate in the planning of its agenda and to request the inclusion of items on the agenda; to lead and direct the annual evaluation of the chairman; to coordinate the non-executive directors; or to maintain contacts with shareholders. Additionally, he participates in the procedure for re-election of the chairman which first step has been the coordination and preparation of the proposal for re-election, supported by all of the independent directors.
 - iii. The company has the most advanced **corporate governance practices**, particularly in the areas of transparency, risk management and conflicts of interest, remuneration, continuous refreshment and evaluation of its Board of Directors.
 - iv. The group has an **organisational and corporate structure** in which the **duties** of supervision **are separated**, mainly entrusted to the Board of Directors of Iberdrola, from the duties of management of the various businesses, which are vested in the head of business companies.

¹ In the preparation of the report the data used is as of closing date of 2017, unless in the case of capitalization and quotation because of the availability of information for all the companies of the sample at the date of 31 January 2019.

- b) Furthermore, Iberdrola's Corporate governance system subjects the executive powers of the chairman & CEO to a set of additional checks-and-balances that effectively avoid potential risks associated with an accumulation of powers:
- i. Executive checks-and-balances figures:
 - **Business CEO**, with overall responsibility for all of the group's businesses: networks, generation, renewables and retail, in all of the geographic areas in which Iberdrola has a presence, regularly reporting to the Board and to the market on the company's progress.
 - **CEOs** at Iberdrola España, S.A.U., Scottish Power Ltd., Neoenergia S.A., Iberdrola México, S.A. de C.V. and Avangrid, Inc., CEOs with responsibility for the performance of the aforementioned companies in the main countries in which Iberdrola does business.
 - ii. Delegated executive management at **13 head of business companies** which main function is to manage the various businesses within a decentralised matrix-based organisational model. These companies have their own board of directors and management bodies.
- c) Furthermore, no evidence has been found to conclude that there are **alternative governance models** that guarantee better performance, in terms of evolution of capitalisation, degree of support at meetings or corporate governance practices.

In fact, after an analysis of **changes in model** at companies on a global level various recent cases have been found in which the shareholders have rejected at a General Meeting the separation of positions between the chairman and CEO due to the risk of negative impact on performance. In addition, various studies reflect that the separation of roles done only for corporate governance reasons can have negative effects on the performance of companies, as it can give rise to confusion in the market and tension between management and the Board of Directors.

Undertaking at this time a change in the model of **Iberdrola** would require not only a change in a position, but a transformation of it as a whole.

Given the performance of the company, the support received from the market and the strategic moment in which the group finds itself, the consistency of the proposed re-election of Mr. José Ignacio Sánchez Galán as executive director is confirmed.

Furthermore, it is concluded that the current governance model of Iberdrola ensures the separation of the function of supervision from that of management, and avoids potential risks associated with the accumulation of powers thanks to the various tools and checks-and-balances of the governance system. Additionally, no empirical evidence has been found of better performance in other alternative models and, in fact, risks arising from a hypothetical change in the model have been identified that would require Iberdrola to transform its entire corporate governance model.

The arguments set forth above are described in further detail below.

DETAILED ANALYSIS

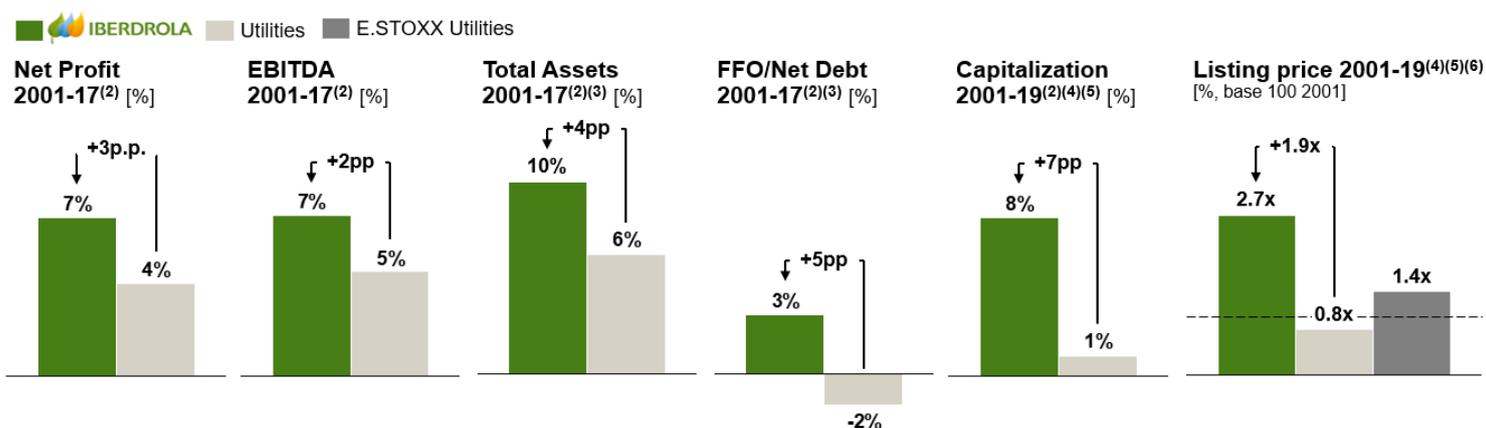
1. Iberdrola's performance since 2001.

Iberdrola has had a **performance and evolution of its principal indicators better than that of comparable companies**. Furthermore, the market valuation is also higher than that of comparable companies:

- a) **Economic-financial performance above that of comparable companies:** since 2001 Iberdrola has had an annually growth above that of comparable companies in terms of net profit (+3 p.p.), EBITDA (+2 p.p.), asset base (+4 p.p.), FFO/Net debt (+5 p.p.) and capitalization (+7 p.p.)². The listing price of Iberdrola's shares has also performed better than the EUROSTOXX Utilities index.

Figure 1: Iberdrola's economic-financial performance vs. comparable companies³

Annual growth Iberdrola vs. Main integrated European utilities⁽¹⁾



- b) **Market valuation above that of comparable companies:** the strategic decisions adopted during this period have allowed the creation of a long-term industrial enterprise supported by five pillars: (i) investment in projects with profitable growth over the long term; (ii) operational excellence; (iii) the customer at the centre of the business model; (iv) optimisation of invested capital; and (v) innovation and digitisation to optimise costs and create new opportunities within all the businesses.

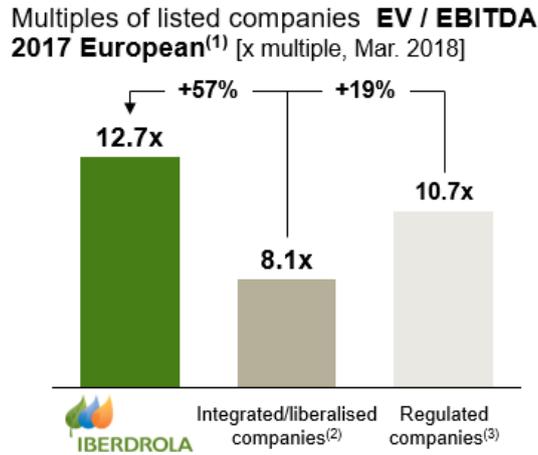
The valuation done by analysts of Iberdrola, in terms of Enterprise Value/EBITDA, is 57% **higher** than that of the average of integrated/liberalised companies⁴ and 19% higher than that of regulated companies.

² The growth in every parameter is annual, at the date of 2017, excepting the cases of quotation (accumulated) and capitalization where 2019 is used.

³ (1) Principal European integrated utilities: Naturgy, Centrica, EDF, Enel, RWE, EON, Engie, EDP, SSE; (2) Weighted average based on indicator (excl. Iberdrola); (3) Does not include Centrica or RWE as data for the 2001-2017 period is not available; (4) EDF and Engie data 2005-2019; (5) Data as at January 2019; (6) Weighted average based on volume of capitalisation (excl. Iberdrola). Source: Corporate information from the companies; Bloomberg; PwC analysis. The period from 2001 to the present is used because it corresponds to the chairman & CEO's length of service as a member of the Board of Directors.

⁴ Integrated companies: Iberdrola, EDP, SSE, Naturgy, Engie, Endesa, EDF, EON.

Figure 2: EV/EBITDA multiples⁵



- c) **Recognition for its commitment to a Social dividend.** The Ethisphere Institute recognised Iberdrola as one of the most ethical companies of the world in 2018; it's the only electric utility in Europe included in the "Boomberg Gender-Equality" index in 2018, and it has included the "Sustainable Development Goals" of the United Nations as a central part of its strategy.

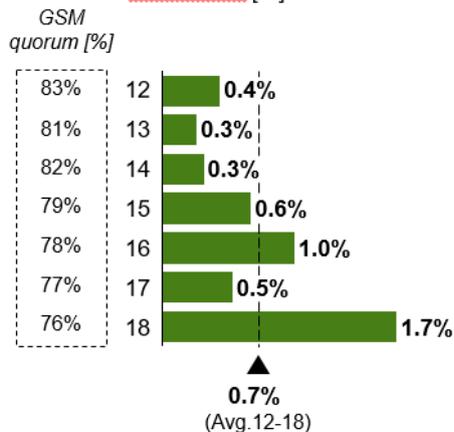
In the analysis executed by Iberdrola about the principal economic, tax, social and environmental impacts, it's concluded that, for every euro of profit, Iberdrola generates 10.4 euros in GDP in the geographical areas in which it does business⁶.

2. Support received from shareholders and from the market.

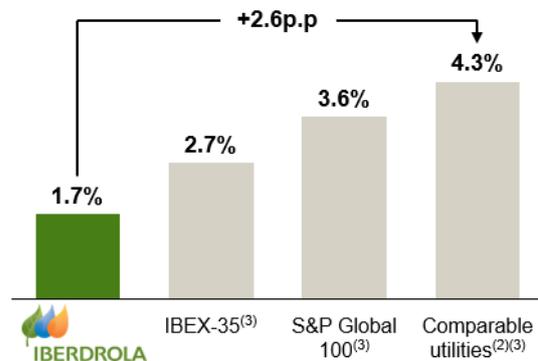
- a) Iberdrola has received broad **shareholder support** with a level of dissent at its General Meeting that is 2.6 p.p. lower than that at comparable companies in 2018.

Figure 3: Rejection and Quorum at 2012-2018 General Shareholders' Meetings of Iberdrola⁷

Average rejection of proposals at GSM 2012-18⁽¹⁾ Iberdrola [%]



Average rejection of proposals at GSM 2018⁽¹⁾ [%]



⁵ (1) Analysts' reports at March 2018; (2) Includes: Iberdrola, EDP, SSE, Naturgy, Engie, Endesa, EDF, EON; (3) Includes: Enagas, Terna, National Grid, Innogy, REE. Source: Analysts' reports; Capital IQ; PwC analysis.

⁶ Report of Economical Impact, tax, social and environmental of Iberdrola's group on the world elaborated by PwC 2016.

⁷ (1) Votes against over all votes; (2) Principal European integrated utilities: Naturgy, Centrica, EDF, Enel, RWE, EON, Engie, EDP, SSE; (3) Weighted average by stock market capitalisation (Data as at September 2018). Source: Corporate information from the companies; Iberdrola; PwC analysis.

- b) The **chairman's** management has received the **support of the market and of the directors**.
- i. **Accolades:** The chairman has received various accolades in recent years, highlighting among them the award “Best Performing Electric Utility CEO in the world” from Harvard Business Review (2017) or the “Best European Utility Top Executive” award from Institutional Investor Research Group, an award he has received on eleven occasions.
 - ii. **Analysts** from J.P. Morgan, RBC and Berstein, among others, agree on recognising the value of the chairman, describing him as “*one of the most respected European leaders at the helm of an important utility*”⁸ and noting that “*he is a key driving force whose continuity is perceived by institutional investors as a very significant contribution to the credibility of the long-term objectives*”⁹. Furthermore, no negative evaluations by analysts have been found regarding his performance.
 - iii. **Non-executive directors:** As shown in the evaluation of the chairman during recent years, the non-executive directors have shown broad support for his work.

Figure 4: Opinions of the directors in the evaluation of the chairman

2018 Evaluation of the Chairman: “The directors value the chairman ensuring that the subjects dealt with at meetings of the Board of Directors include the most significant issues and that sufficient discussion time is devoted to supervising strategic issues in detail.”

2017 Evaluation of the Chairman: “The directors positively value the time that the chairman devotes to investors and other stakeholders.” “The opinion of the directors is that the relationship with senior management is quite good. Presentations by the officers are encouraged by the Board in order to improve the information received by the directors.”

2016 Evaluation of the Chairman: “The directors emphasise the closeness and availability of the chairman to discuss any issue that concerns them at any time.” “The general opinion is that the chairman ensures that the directors have access to all required information.”

- c) Iberdrola's **corporate governance** counts with the recognition of the market. Apart from receiving multiple awards, it has had a presence for 19 years on the Dow Jones Sustainability Index, well above the average 9.7 years of comparable companies in the industry and the 11.6 years of comparable companies on the IBEX-35.

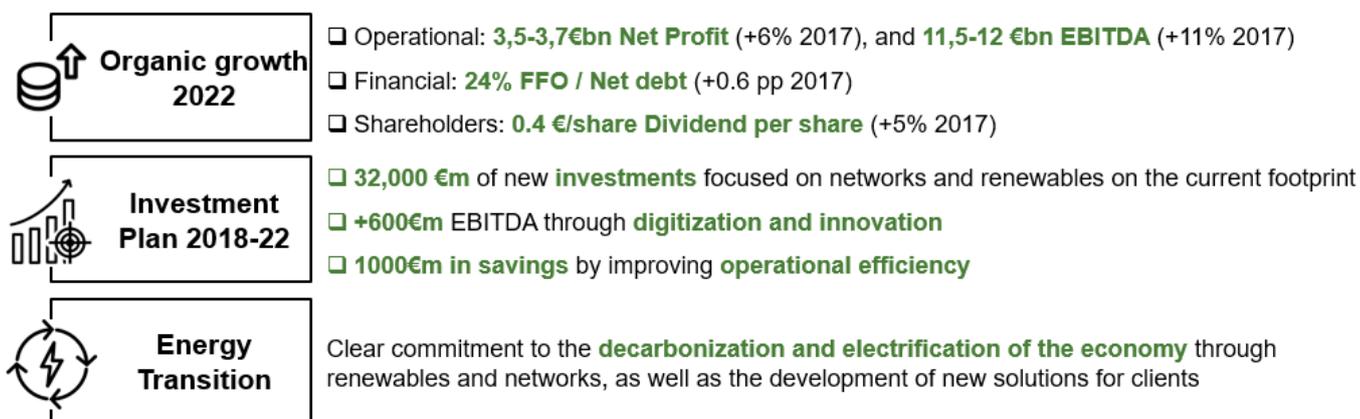
⁸ Royal Bank of Canada – 2017.

⁹ JP Morgan – 2017.

3. Strategic moment of the company.

- a) In financial year 2019 the company is in the second year of compliance with its Strategic Plan 2018-2022 which was presented in February 2018 to the international financial community:

Figure 5: Iberdrola's commitments 2018-2022¹⁰



- b) The Strategic Plan 2018-2022 has been received well by the markets, and as of today the targets set out therein are being met.
- c) The results of the first nine months of financial year 2018 show that the targets established in the strategic plan are being met.

Figure 6: Compliance with 2018-2022 Iberdrola's Plan

2018-2022 Plan: Well on track



In fact, a preliminary assessment of the performance of the executive directors in 2018 reflects a high level of achievement of the objectives set out in the *Annual Director Remuneration Report* approved by the shareholders at the General Shareholders' Meeting on 13 April 2018.

¹⁰ Source: Iberdrola; PwC analysis.

Figure 7: Main objectives 2018¹¹

Parameters linked to the annual variable retribution of the executive directors	
Chairman & CEO	Business CEO
<p>Economic financial objectives</p> <ul style="list-style-type: none"> ✓ Net revenue for the financial year 2018 was € 3,014M (+ 7.5%) ✓ In fiscal year 2017, net revenue increased by 3.7%, while shareholder compensation increased by 4.4% ✓ The FFO / Net Debt ratio at the end of the year has reached 21.5% <p>Corporate social responsibility objectives</p> <ul style="list-style-type: none"> ✓ In 2018 the presence of women in management positions has increased ✓ Iberdrola has managed to maintain its presence in the most relevant global sustainability indexes (FTSE4Good, Dow Jones Sustainability Index and World's Most Ethical Companies) ✓ Iberdrola has exceed the number of training hours per employee compared to the rest to the rest of comparable companies 	<p>Economic financial objectives</p> <ul style="list-style-type: none"> ✓ Net revenue for the financial year 2018 was € 3,014M (+ 7.5%) ✓ The FFO / Net Debt ratio at the end of the year has reached 21.5% ✓ The Operating Expense / Gross Margin ratio stood at 26.9% at the end of the 2018 fiscal year <p>Corporate social responsibility objectives</p> <ul style="list-style-type: none"> ✓ In 2018 the ratio of incidence of own personnel decreased with respect to the average of the last 5 years

Given the performance of the company, the support received from the market and the strategic moment in which the group finds itself, the consistency of the proposed re-election of Mr. José Ignacio Sánchez Galán as executive director is confirmed.

¹¹ Pending update of figures at year-end. Source: Iberdrola ACGR, estimated data from Iberdrola and external ranking of DJSI, FTSE4Good and World's Most Ethical Companies 2018.

4. Governance and organisational model of the group.

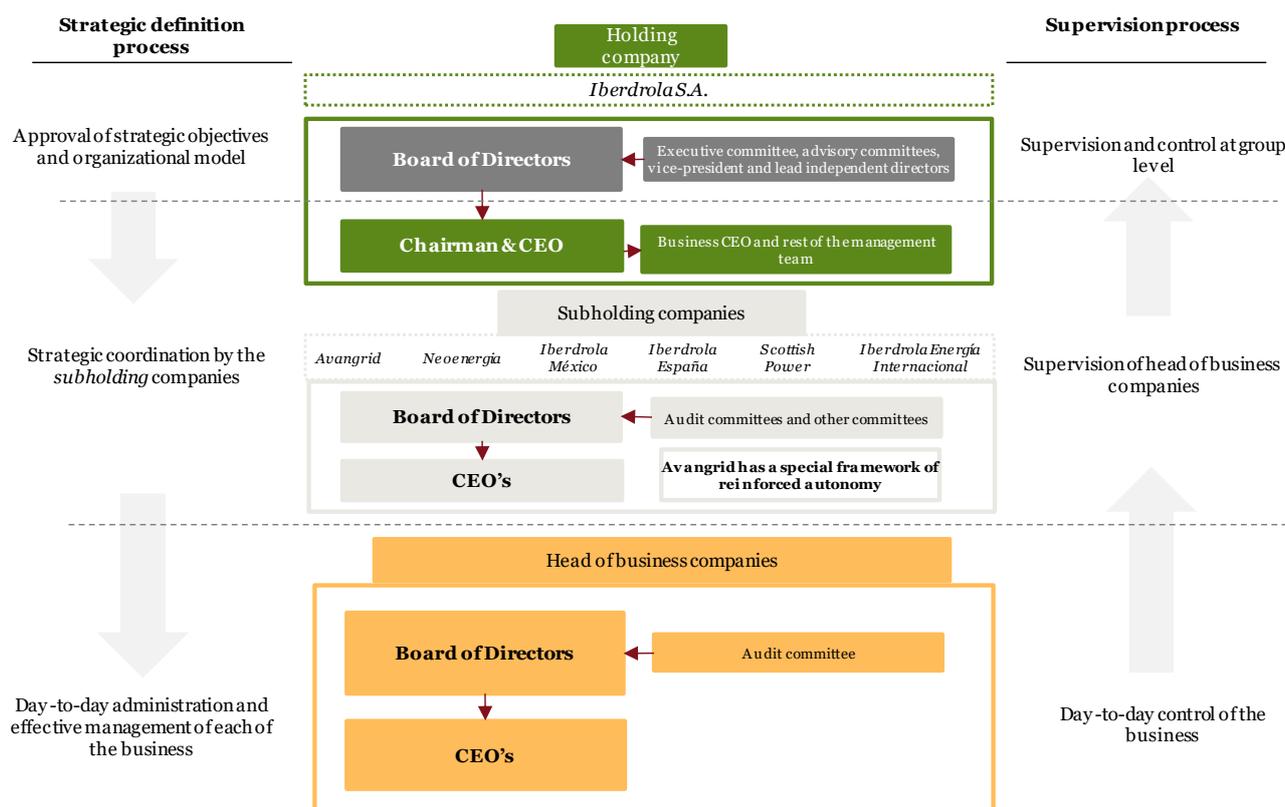
- a) **Effective separation of the duty of supervision, exercised independently, from that of management:** Iberdrola has a Board of Directors with a majority of independent directors, a lead independent director with duties beyond those legally required, and a governance system with advanced corporate practices that separates the duties of supervision and management:
- i. Iberdrola's **Board of Directors** has a **majority of independent directors**, is **diverse** and is **continually** refreshed. The advisory committees are also made up of a majority of independent directors:
- Broad **majority of independents** on the Board of Directors (10 of the 14 directors, which is 71% vs. the average of 51% for IBEX-35 companies). For the advisory committees it is a 77%. Furthermore, the By-Laws do not allow the Board of Directors to make or propose appointments that break such majority.
 - **Diversity** of gender (36% female directors vs. 23% average for IBEX-35, with a female vice chair and 3 committees chaired by female directors), nationalities (36% foreign directors vs. 23% average for IBEX-35) and knowledge (directors with business or economic and financial training -50%-, law -42%-, humanities -29%- and engineering -21%-).
 - Four **advisory committees** (Audit and Risk Supervision Committee, Appointments Committee, Remuneration Committee and Sustainable Development Committee), which are given broad powers and are made up of a majority of independent directors.
 - **Balance** in seniority of non-executive directors: 50% have seniority of less than 5 years, a result of continuous refreshment.
 - **Dedication:** the directors have consistently attended all meetings during the last four years (average 99% attendance). In addition, the internal rules of the Company prevent directors from being members of the Board of more than three listed companies.
 - **Continuous training** of the directors, with more than 25 documents and training sessions at the Board of Directors and the committees during financial year 2018.
- ii. Iberdrola has, as its main check-and-balance, a **lead independent director**, appointed upon a proposal of the Appointments Committee, with the executive directors abstaining from the appointment:
- The lead independent director has **broad duties**, even beyond those provided by law, which strengthens the position and makes the performance thereof more effective. In between others, participating in the preparation of the agenda for each meeting of the Board of Directors; directing the annual evaluation of the chairman; coordinating, meeting with and reflecting the concerns of the non-executive directors or maintaining contacts with shareholders.
 - The lead director **effectively complies with the duties thereof:**
 - Meetings with **directors and annual evaluation** of the chairman:
 - Annually performing individual interviews with the directors within the framework of the evaluation of the chairman.
 - The conclusions from the interviews are provided to an external consultant and included in the *Report on Evaluation of the Chairman* that is submitted to the Appointments Committee and, subsequently, to the Board.

- The external consultant, based on the opinion received, includes specific measures in the continuous improvement plan proposed to the Board.
 - **Process for re-election:** the lead independent director Mr. Juan Manuel González Serna has met with all of the independent directors and has treated the re-election of Mr. José Ignacio Sánchez Galán as executive director. The directors have unanimously supported the proposed re-election thereof.
 - **Meetings and contacts with shareholders:** Participating in specific meetings with Iberdrola's shareholders, and reporting to the Board of Directors on the main issues discussed at such meetings.
- iii. Iberdrola has the **most advanced corporate governance practices:**
- **Transparency:** Iberdrola publishes an *Activities Report of the Board of Directors and of the Committees thereof* with the objective of informing the market in detail regarding the work of the Board of Directors and informing about the activities carried out to further develop the *Shareholder Engagement Policy*.
 - **Control of conflicts of interest:** Iberdrola's internal corporate governance regulations have strict rules and procedures to handle conflicts of interest that might arise within its Board of Directors and to report thereon in the Notes accompanying the Annual Accounts.
 - **Remuneration:** the *Director Remuneration Policy* approved in 2018 by the shareholders links the short and long-term variable remuneration of the executive directors to the achievement of the company's financial and non-financial objectives, ensuring the alignment of remuneration with the group's results. It corresponds to the Remuneration Committee, made up of a majority of independent directors, responsible for evaluating at the end of each financial year the performance of the company regarding the targets set for each year and for determining the level of achievement therewith. The objectives are based on measurable and quantifiable indicators. In order to evaluate these indicators, the Committee relies on the advice of an external expert. In addition, it also periodically engages in an in-depth analysis comparing the remuneration systems applicable to comparable companies at the international level with the help of an external consultant.
 - **Appointments of directors:** the process of appointing directors, led by an Appointments Committee made up of a majority of independent directors, is based on the standards established in the *Board of Directors Diversity and Director Candidate Selection Policy* which ensures that the proposed appointments of directors are based on a prior analysis of the needs of the Board of Directors and guarantees that there is a diversity of skills, knowledge, experience, origins, nationalities, age and gender. The suitability of the candidates is evaluated by a specialised external consultant.
 - **Refreshment of the members of the Board:** the composition of Iberdrola's Board of Directors has been evolving in its composition in order to strengthen its independence and improve its diversity of gender, viewpoints and training. From 2006 to date, the percentage of independent directors has increased from 47%¹² to 71%. The presence of women on the Board of Directors in the management board has increased from 6.6% to 36%; and, from not having any foreign directors, they now represent 36% of the Board.

¹² Considering those directors in this category and with a seniority of less than 12 years as independent in order to unify the comparison.

- **Supervision of risks:** the Audit and Risk Supervision Committee, made up of a majority of independent directors, analyses the risk reports at least quarterly and updates the Risk Policies annually.
 - **Evaluation of the governance bodies and of the chairman:** Iberdrola is a pioneer in the evaluation of its governance bodies for which purpose it has the help of a prestigious independent external consultant, the independence of which is verified by the Appointments Committee. The evaluation is performed annually.
 - **Process for re-election of the chairman:** the process for re-election of the chairman of Iberdrola ensures independence in decision-making: (i) the process is initiated by the lead independent director; (ii) part of a proposal signed by all of the independent directors; (iii) a report is requested from a prestigious independent expert; (iv) the Appointments Committee discusses the proposal and prepares a report; (v) the Board of Directors, based on all of the foregoing, prepares a report justifying the re-election and submits the proposal at the General Shareholders' Meeting.
- iv. Iberdrola has a **corporate and governance structure** that ensures the separation, on one side, of the duties of supervision and control (mainly entrusted to Iberdrola's Board of Directors) and, on the other, from those of day-to-day and effective management (within the head of business companies). This separation is set forth in article 4 of Iberdrola's *By-Laws* approved at the General Meeting.

Figure 8: Iberdrola's governance model



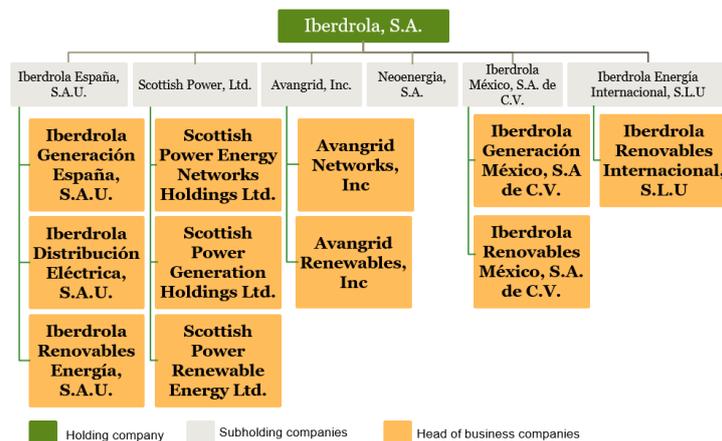
b) **Additional checks-and-balances that avoid the concentration of power within the executive chairman:** Iberdrola has a decentralised matrix-based corporate structure with executive check-and-balance figures.

i. Iberdrola’s governance model has **several executive figures that act as additional checks-and-balances:**

- **Business CEO**, with overall responsibility for all of the group’s businesses. The Business CEO is responsible for the networks businesses, generation, renewables and retail in all of the territories in which Iberdrola has a presence, regularly reporting to the Board and to the market regarding the company’s performance and evolution.
- **CEO’s** at Iberdrola España, S.A.U., Scottish Power Ltd., Neoenergia, S.A., Iberdrola México, S.A. de C.V. and Avangrid, Inc., with responsibility for the performance of the company in the main countries in which Iberdrola does business.

ii. The executive function is delegated to 13 head of business companies dedicated to the management of the various businesses within a decentralised matrix-based organisational model. These companies have their own board of directors and management bodies.

Figure 9: Corporate structure of the Iberdrola group

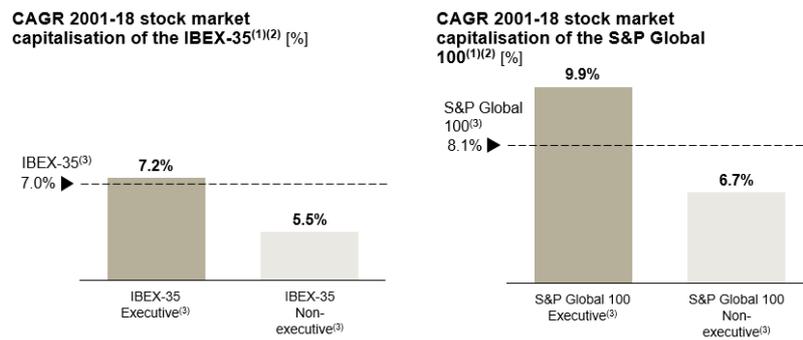


c) **Leadership models and alternative governance and implications of a change.**

i. **There are no alternative governance models shown** to have a direct effect on better performance of companies:

- **Impact on performance:** one cannot conclude that there is a correlation between the existence of a non-executive chairman and the good or poor performance of a company. In fact, IBEX-35 and S&P companies with an executive chairman have had in recent years a growth of 0.2 p.p. and 1.8 p.p. respectively, above the average of these indices and greater than those that have non-executive chairmen.

Figure 10: Annual growth in stock market capitalisation 2001-2018, IBEX-35 and S&P Global 100¹³



Furthermore, 80% of the top 5 companies with the highest annual growth in capitalisation on these indices have an executive chairman who receives strong support at the General Meeting.

- **Impact on level of support at General Meeting:** nor has a correlation been identified between the existence of an executive chairman and greater or lesser support at the General Shareholders' Meeting.
- **Impact on corporate governance performance:** of the IBEX-35 companies with a presence in 2018 on the DJSI World index (Dow Jones Sustainability Index), 73% have an executive chairman.
- **Corporate governance studies:** although studies on the separation of roles are not conclusive, 57% of reference works on the topic (25 studies and specific articles) conclude that the leadership and governance model is indifferent to the economic-financial performance of companies. 23% of the studies are in favour of the unification of the roles of chairman and CEO. The other 20% prefer a separation of the positions, although some of these studies also accept the unification of the positions in certain circumstances. A conclusion can therefore not be reached on the issue:
 - Multiple studies like those of the *Stanford Center for Corporate Governance*¹⁴, *Wharton Business School*, and those published by *Harvard Business Review*¹⁵ conclude that the model has no effect on the performance of U.S. listed companies.
 - At the European level, a study of the principal European companies included in the *Global Fortune 500*¹⁶ concludes that there is no causal relationship between the leadership and governance model and company performance.
 - ISS, despite specifying in its *Voting Guidelines* that it is against the combination of the figures of CEO and executive chairman, recognises in its *Governance Insights* that there is no consensus in support for the separation of roles between CEO and chairman. It adds, in addition, that the trends in this area will vary based on geographic region and that the specific circumstances of each company should be taken into account in evaluating its governance system.¹⁷
 - Glass Lewis stresses that the empirical studies on the separation of the roles of chairman and CEO are not conclusive regarding the benefits of one model over the other.¹⁸

¹³ (1) Data as at September 2018; (2) Only includes companies on the IBEX-35 and/or S&P Global 100 currently and in 2001; (3) Weighted average by volume of stock market capitalisation. Source: Corporate information from the companies; Bloomberg; Reuters; PwC analysis.

¹⁴ Stanford University Rock Center for Corporate Governance, David F. Lacker, Brian Tayan (2016).

¹⁵ E.g.: Chairman and CEO: The controversy over Board Leadership (2016).

¹⁶ CEO duality and firm performance and empirical study of EU listed firms, Cheng (2014).

¹⁷ Source: ISS Governance Insights 2017.

¹⁸ Source: Glass Lewis Independent Board Chair 2016.

- The lack of uniformity in international practice and the non-existence of an empirical basis to find one option more recommendable than the other is the reason that the *Good Governance Code of Listed Companies* of February 2015 did not make a pronouncement in favour of one model or the other.
 - This lack of evidence is consistent with the concept of corporate governance as a sophisticated discipline that prevents the application of the same governance model to all companies, as it must be adapted to the specific circumstances in each case and must be explained based thereon how it responds to the required separation of the duties of supervision and management.
 - The governance model does have to ensure the effective separation of the duties of supervision and management. If the positions of chairman and CEO are not separated there must be a lead independent director with significant duties and a guarantee that they are complied with.
- ii. A change in the leadership model might have a **negative impact on performance**, for which reason the shareholders of various companies have recently rejected the separation of the figures.
- **Studies:** various studies¹⁹ reflect that the separation of roles only for corporate governance reasons can have negative effects on the performance of companies, as it can give rise to confusion in the market and tension between management and the Board of Directors.

Figure 11: Example of study that indicates potential negative effects of the separation of roles



GLASS LEWIS

*“Some studies indicate that **separating the roles of chair and CEO may have negligible or negative impacts on corporate performance**. For example, some critics claim that separating the two role leads to confusion and power struggles between management and the board” – Glass Lewis (2016)*

- **Cases:** numerous shareholders of companies with good performance including for example CocaCola, Walt Disney, JP Morgan, Netflix, Chipotle, Bank of America, Mattel, Chevron or Best Buy have recently rejected at the general meetings the option of separating the roles of chairman and chief executive, given the impact that this change might have on the company’s performance.
- iii. In the case of Iberdrola, a **possible change in the leadership model could not be limited** solely to the separation of the positions, but rather would require a global reconsideration of the corporate governance model of the company described above.

Therefore, it is concluded that the current governance model of Iberdrola ensures the separation of the function of supervision from that of management, and avoids potential risks associated with the accumulation of powers thanks to the various tools and checks-and-balances of the governance system. Additionally, no empirical evidence has been found of better performance in other alternative models and, in fact, risks arising from a hypothetical change in the model have been identified that would require Iberdrola to transform its entire corporate governance model.

¹⁹ Selection of numerous studies, including among others: UK Guidelines 2018 an overview of the Glass Lewis Approach; CEO and Chairman of the Board: A controversy in corporate governance, Julie Courtney (2018); Chairman and CEO: The controversy over board leadership, HBR (2016); CEO and Chairman: Are two heads better than one?, Tone at the top (2016), Prevalence of combined CEO/Chairman roles and non-executive Chairman roles, Mercer (2016); Weighing the benefits of a combined Chair and CEO roles, Peter Gleason (2015), etc.

II) APPOINTMENT, RATIFICATION AND RE-ELECTION OF INDEPENDENT DIRECTORS

CONCLUSIONS

1. Level of independence and diversity:

The proposals for appointment, ratification and re-election of directors allow continuing the process of renewal and continuous improvement of the composition of the Board of Iberdrola, increasing gender diversity, while maintaining the level of independence and plurality of nationalities in the same.

- a) **Gender diversity:** The percentage of female directors would reach 43%, ranking as the IBEX-35 company with the highest female representation and in the 99th percentile with respect to the international sample, whose female average is 24%.

It should be noted that Iberdrola has been awarded by a multitude of international organizations as a benchmark in terms of gender diversity, having obtained prestigious awards such as being the only Spanish energy Company to appear in the *Gender Equality Index*, awarded by Bloomberg, which accounts the gender diversity of the Board, among other aspects.

- b) **Diversity of nationalities:** The percentage of foreigners would remain at 36%, 13 points more than the average of IBEX-35, reaching the 77th percentile in the international sample.
- c) **Independence of the Board:** The Board would have 71% of independent directors, well above the IBEX-35 average which stands at 51% and at the 73rd percentile on the selection of international best practices.
- d) **Average seniority of the independent directors:** The average seniority of the independent directors of Iberdrola would decrease to 4.4 years. At the same time, more than half of the directors' seniority would be less than 5 years, proof of the continuous refreshment of the Board.

The result achieved by Iberdrola would improve the average seniority of the independent directors with respect to the IBEX-35, which is in the 4.5 years and of the international reference companies, which goes up to 6.7 years.

2. Evolution of the capabilities of the Board of Directors:

The evolution of profiles in the Board during the last years has allowed to reinforce the knowledge and key experiences for the management of the Company.

With the proposals analyzed, the Board will consolidate its knowledge in key areas identified in the matrix of suitable qualities for the administration of the Company. Thus, it would be provided with greater knowledge in key markets of the Group (e.g. Mr. José W. Fernández or Ms. Denise Holt), strengthen its capacities in accounting, financial and risk management (e.g. Mr. Manuel Moreu Munaiz or Mr. Xabier Sagredo Ormaza), it would increase the experience in the institutional and legal field (e.g. Mr. José W. Fernández) as well as in the management and/or definition of the remuneration policy (e.g. Ms. María Helena Antolín Raybaud).

3. Performance and dedication:

The directors who submit to re-election have fulfilled their duties of assistance, training and information to the company throughout the period. Specifically, their assistance has been practically 100% in all cases, they have complied with their training and information duties, as well as with the application of the rules governed by Iberdrola's Corporate governance system with regard to possible conflicts of interest or compatibility of the position of director with other possible positions.

These aspects have been verified and confirmed in the evaluations carried out by the independent consultant. Thus, the evaluations made to Ms. María Helena Antolín Raybaud, to Mr. José W. Fernández, to Ms. Denise Holt, to Mr. Manuel Moreu Munaiz and to Mr. Xabier Sagredo Ormaza show 100% compliance in all the areas evaluated.

At the same time, Ms. María Helena Antolín Raybaud fulfilled 100% in the specific indicators that apply to the chairmen of the committees.

4. Main skills and characteristics of Ms. Sara de la Rica Goiricelaya:

The appointment of Ms. Sara de la Rica Goiricelaya contributes to strengthening the Board's knowledge of certain key capacities, such as (i) the economic environment, in an increasingly complex macroeconomic environment and with greater uncertainties, due to its condition of professor of the Department of Fundamentals of Economic Analysis II of the University of the Basque Country, (ii) talent management, given his position in the Scientific Committee of the Basque Institute for educational evaluation, (iii) as well as his knowledge in strategy of Corporate Social Responsibility, acquired thanks to its position as director of the ISEAK Foundation, whose mission is to generate evidence-based knowledge to assist in decision-making.

In addition, the director brings knowledge of the energy and industrial sector, being director of Iberdrola Spain since March 2017 and international experience having previously held various positions of responsibility in the European Society for Population Economics.

On the other hand, the new director helps to improve the gender diversity of the Board of Directors, placing Iberdrola as a leading company in this aspect. In addition, her appointment allows maintaining the level of independence of the Board and reduces the average seniority of independent directors.