

Introduction to the Corporate Governance System

I. Iberdrola's Identity and its Three Dimensions: Business, Corporate and Institutional

1. The origin of Iberdrola, S.A. ("Iberdrola" or the "Company") goes back to 1901, when it was organised in Bilbao under the name Hidroeléctrica Ibérica, S.A. in order to meet the growing demand for electric power in the principal industrial regions of the north of Spain.
2. It is currently an independent and open company, domiciled in Biscay, which is quoted on the securities market and which constitutes an historical, business, corporate and institutional reality of tremendous size and unquestionable value and significance, a reference point for diverse stakeholders and the economic and social environment in which it does business.
3. It heads a leading global group in the energy sector, which focuses its activities on the production, transport, distribution and supply of electricity, an essential item for millions of users and customers, through the use of environmentally-friendly and innovative sources and technologies, at the vanguard of the digital transformation.
4. Iberdrola seeks to achieve its corporate interest by observing the best corporate governance practices and taking into consideration all of the stakeholders relating to its business activity and institutional reality. For this reason, it promotes a framework of relations based on continuous dialogue and active listening, and on the principles of transparency and equal treatment, which allows for these groups to become part of its successful business enterprise and for the building of strong ties with them that generate trust and forge a sense of belonging to a great company. In particular, Iberdrola has been a pioneer in boosting the effective engagement of its shareholders in corporate life, and believes it of fundamental importance to maintain its leadership in this area.
5. As a result of this on-going dialogue with its stakeholders, and aware of the unavoidable economic, social and environmental impact of all of its activities, Iberdrola has accepted the mandate of its shareholders, expressed through various bylaw reforms, to promote the progress of the communities in which it is present, including the most fragile or vulnerable groups.
6. Thus, based on this mandate, Iberdrola frames all of its business action within its commitment to a mission, a vision and values and within the context of respect for Human Rights, promoting initiatives that contribute to achieving a more just, egalitarian and healthy society, and particularly the achievement of the Sustainable Development Goals (SDGs) approved by the United Nations, especially those relating to universal access to electricity and the fight against climate change, but also others like the promotion of innovation, the development of education, the protection of biodiversity, gender equality, and particularly the empowerment of women, as well as the protection of disadvantaged groups. Ultimately, it seeks to cause all stakeholders to participate in the social dividend generated by its activities, or shared value, which is the sum of all the economic, social and environmental values that a company creates through its activity, within the environment in which it does business.

II. The Iberdrola Group

7. Iberdrola leads as the holding company of a group of companies present in Spain, Portugal, the United Kingdom, the United States of America, Mexico and Brazil, among other countries, structured into three levels that differentiate the functions of strategy, supervision and control of the overall group (attributed to the holding company), those of organisation and coordination of the businesses of each country (corresponding to the country subholding companies), and those of day-to-day administration and effective management of each of such businesses (the purview of the head of business companies).
8. The corporate and governance structure of the Iberdrola group operates jointly with the Business Model, which allows the global integration of the businesses, seeks to achieve maximum operational efficiency of the various units, and ensures the dissemination, implementation and monitoring of the general strategy, the basic management guidelines established for each of them, and best practices.
The Business Model combines a decentralised decision-making structure, inspired by the principle of "subsidiarity", with robust coordination mechanisms that ensure the global integration of all of the group's businesses, above all based on an effective checks-and-balances system, which prevents management power from being centralised within a single governance body or a single person.
9. The Iberdrola group has minority shareholders not only within the holding company, but also within certain country subholding companies, like the Brazilian company Neoenergia, S.A. and the U.S. company Avangrid, Inc., the latter of which is listed on the secondary securities market. Within a special framework of strengthened autonomy enjoyed by the listed country subholding companies, Iberdrola ensures that the legitimate interests of the shareholders of said companies have sufficient protection and adequately co-exist with the general interests of the Group and with the interests of the shareholders of the holding company.

III. The Corporate Philosophy of Iberdrola and its Corporate Governance System.

10. Iberdrola develops its strategy in accordance with a mission, a vision and certain values to which all of the companies and persons forming part of the Group are committed, the common denominator of which is a commitment to the sustainable creation of value and the social dividend, as well as leadership in the performance of all of its activities.
11. The mission, the vision and the values of Iberdrola take specific shape in the Corporate Governance System, i.e. the Company's internal rules, which, in exercising the corporate autonomy supported by law, and subject to a process of constant

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- review for the continuous inclusion of best practices, is established to ensure the best compliance with the social contract that binds its shareholders, and particularly the corporate object and interest within which they are defined.
12. The Corporate Governance System is based on the *By-Laws*, a norm approved by the shareholders at the General Shareholders' Meeting, which represents the maximum expression of the corporate autonomy of Iberdrola and constitutes the primary source of its own system of rules.
The *By-Laws*, and particularly the first title thereof, contains the definition of Iberdrola's enterprise, the particular concept of the corporate interest that must govern the conduct of its management bodies, the commitment to the social dividend, and the determination of the essential basis and of the most significant foundations and aspects of its business, corporate and institutional organisation, which make up its virtual soul.
 13. The basic principles appearing in the preliminary title of the *By-Laws* are further developed in the *Mission, Vision and Values* of the Iberdrola group, the corporate philosophy of the Group and on which Iberdrola's enterprise is based, which informs the organisation and conduct of the Group, which governs the day-to-day activities of which it is comprised, and which guides its strategy and all of its conduct.
The *Mission* of the Group is based on the sustainable creation of value in the performance of all of its activities. This *Mission* is complemented by the *Vision*, which reflects the Group's desire to promote a better future, decisively boosting social well-being through the provision of a service as essential as the efficient, safe, sustainable and environmentally-friendly supply of electric energy, a common good for present and future generations, to a growing number of people and communities.
The *Mission* and *Vision* of the Iberdrola group is built on the basis of certain specific *Values*, including respect for Human Rights and universal ethical principles, transparency, good governance and institutional loyalty, development of the human team, promotion of a sense of belonging among the various stakeholders connected to Iberdrola, and ultimately, engagement with and commitment to the social reality of the time, the demands and circumstances thereof, its challenges, and its opportunities.
 14. The content of the *Mission, Vision and Values* of the Iberdrola group is further developed and takes form in the Company's *Code of Ethics*, applicable to the directors, professionals and suppliers of the Group's companies, and which seeks to foster a culture based on ethics and on a commitment to sustainable development, shared by all agents participating in the Group's value creation chain.
 15. The Corporate Governance System includes another three regulatory foundations in addition to the *By-Laws* and the *Mission, Vision and Values of the Iberdrola group* and the *Code of Ethics*: (i) the corporate policies; (ii) the governance rules of the corporate decision-making bodies and of other functions and internal committees, and (iii) the rules relating to compliance, which group together the rules intended to prevent market abuse.
 16. Within the framework of the law and the *By-Laws*, the corporate policies define the directives and guidelines for conduct in which the *Mission, Vision and Values of the Iberdrola group* take shape and which guide the conduct of the shareholders, directors, officers and other professionals of the group. These policies, inspired by the business and ethical ideas, principles and values making up Iberdrola's ideological and axiological foundation, contain the detailed guidelines and directives on conduct ensuring that the group's strategy is consistent therewith, reducing discretionality in management and favouring the strengthening and enrichment of the Iberdrola group's reality and identity. The Corporate Policies are grouped into three categories: (i) corporate governance and regulatory compliance, (ii) risks, and (iii) sustainable development.
 17. The governance rules of the corporate decision-making bodies and of other functions and internal committees include regulations, codes and rules that establish, among other things, the composition, powers and rules of operation thereof, as well as the duties and obligations of their members.
 18. Finally, the block relating to compliance, and particularly to the market abuse prevention rules, contains all of the rules approved by the Board of Directors to avoid this type of conduct, ensure equal conditions for all investors market abuse, which ensure that all shareholders are in equal conditions and the protection thereof against the improper use of inside information regarding the Company, as well as conduct constituting market manipulation. This regulatory block is included in the *Internal Regulations for Conduct in the Securities Markets*.
 19. Consistent with the structure described above, the Corporate Governance System is formally ordered into five books: Book One, which contains the *By-Laws*; Book Two, which contains the *Mission, Vision and Values of the Iberdrola group* and the *Code of Ethics*, Book Three, which groups together the corporate policies, Book Four, which contains the governance rules of the corporate decision-making bodies and of other functions and internal committees; and finally Book Five, which contains the regulatory compliance rules, and particularly those relating to the prevention of market abuse.
 20. Iberdrola aspires for its Corporate Governance System to enjoy the highest possible levels of compliance and dissemination, particularly taking advantage of the most advanced, environmentally-friendly technologies. Therefore, the full text or a summary of the documents that make up the Company's Corporate Governance System is available on the Company's corporate website (www.iberdrola.com). They are also published in accessible formats so that they can be consulted using the most frequently utilised electronic devices, including smart phones, tablets and computers.
 21. In order to further improve and continually update the Corporate Governance System, Iberdrola draws on the external advice of the law firms "CMS Albiñana & Suarez de Lezo", "Cortés, Abogados", "Garrigues" and "Uría Menéndez".

In Bilbao, on 23 October 2018

The Board of Directors of Iberdrola, S.A.

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