

# 5. Policy for the Definition and Coordination of the Iberdrola Group and Foundations of Corporate Organisation

DS

24 April 2019

## Index

1. General Premises	2
2. Scope	2
3. Definition of the Corporate and Governance Structure	2
4. The Group's Business Model	3
5. Operating Committee	3
6. Duties of the Board of Directors with respect to Corporate Organisation	4
7. Related-Party Transactions	4
8. Use of the IBERDROLA Brand	4
9. Presence of the Group on the Internet and in Social Media Corporate Websites	4

NOTICE. This document is a translation of a duly approved Spanish-language document, and is provided for informational purposes only. In the event of any discrepancy between the text of this translation and the text of the original Spanish-language document that this translation is intended to reflect, the text of the original Spanish-language document shall prevail.

## 1. General Premises

The Board of Directors of IBERDROLA, S.A. (the “Company”) establishes the structure of the group of companies of which the Company is the controlling entity, within the meaning established by law (the “Group”). In this regard, in the exercise of the powers attributed thereto, it approves this *Policy for the Definition and Coordination of the Iberdrola Group and Foundations of Corporate Organisation*, which forms part of the Company’s Corporate Governance System.

Pursuant to the provisions of its *By-Laws*, the Company pursues its corporate object indirectly, by owning shares or membership interests in other companies and increasingly abroad.

The corporate and governance organisation is based on a recognition of the reality of a multinational group, which is diversified, organised efficiently and coordinated around the Company and the various country subholding companies and head of business companies, subject to common guidelines and the principle of subsidiarity.

Therefore, essential premises for this *Policy* are the differentiation of the functions corresponding to the Company, as a holding company of the Group, domiciled in Biscay and with Spanish nationality, from the country subholding companies established in the various territories in which the Group does business, and the head of business companies, whether Spanish or foreign.

Thus, based on the foregoing premises, this *Policy* provides the foundations for the corporate organisation and governance of the Company and of the Group that best respond to its multinational, plurisocietal reality with a presence in various businesses and sectors and to the exigencies that currently require improved development of the corporate object and fuller satisfaction of the corporate interest.

## 2. Scope

This *Policy for the Definition and Coordination of the Iberdrola Group and Foundations of Corporate Organisation* shall apply to all companies of the Group.

Without prejudice to the foregoing, companies that are not wholly owned by the Group may maintain their own corporate and governance structure (with respect to said companies and their dependent entities) in order to comply with the contractual commitments assumed towards the other external shareholders. In these cases, the representatives of the Group shall endeavour to promote the application of the principles that inspire the corporate and governance structure described in the preceding section, and particularly the differentiation between the functions of day-to-day administration and effective management and those of supervision and control.

## 3. Definition of the Corporate and Governance Structure

The corporate organisation of the Group, which forms an essential part of the Corporate Governance System, is comprised of:

- a) The Company, which is configured as a holding company, the main function of which is to act as the entity owning the equity stakes in the country subholding companies.
- b) The country subholding companies, which in turn group together the equity stakes in the Group’s head of business companies.
- c) The head of business companies.

All of them have their own human and material resources to autonomously carry out the duties assigned thereto by the Corporate Governance System.

This corporate configuration is intended to favour an agile and rapid decision-making process in day-to-day management that is dependent on the head of business companies, while at the same time achieving appropriate coordination at the Group level as a result of the supervisory duties performed by the Company’s country subholding companies.

Based on this corporate configuration, the Group’s governance model is governed by the principles described below, which duly distinguish between day-to-day and effective management duties, on the one hand, and supervision and control duties, on the other:

- a) Vesting within the Company’s Board of Directors of powers relating to approval of the strategic goals of the Group, the definition of its organisational model, the supervision of compliance therewith and further development thereof, as well those relating to decisions on matters of strategic importance at the Group level, while fully observing the special framework of strengthened autonomy of the listed country subholding companies referred to in d) below.
- b) Assumption by the chairman of the Board of Directors & chief executive officer, with the technical support of the Operating Committee, by the Business CEO (*consejero-director general de los negocios del Grupo*) appointed by the Board of Directors for this duty, with overall responsibility for all of the businesses of the Group, and by the rest of the management team, of the duty of organisation and strategic coordination within the Group through the dissemination, implementation and monitoring of the overall strategy and the basic management guidelines established by the Board of Directors. The chairman of the Board of Directors & chief executive officer shall ensure that the CEOs of the country subholding companies follow said basic management and strategy guidelines of the Group in the performance of their duties.
- c) The function of strategic organisation and coordination is strengthened through the country subholding companies. Except as provided in section 2 above, these entities group together the equity stakes in the Group’s head of business companies and carry out the function of organisation and coordination in relation to such countries and/or businesses as are decided by the Company’s Board of Directors, disseminating, implementing and ensuring compliance with the policies, strategies and general guidelines of the Group based on the characteristics and unique aspects of their respective countries and/or businesses.

One of the main functions of the country subholding companies is to centralise the provision of services common to the head of business companies, always in accordance with the provisions of applicable law and especially the legal provisions regarding the

separation of regulated activities. Country subholding companies have boards of directors that include independent directors, as well as their own CEOs, audit committees, internal audit areas and compliance divisions.

In this regard, the country subholding companies facilitate the coordination of companies in which they hold an interest and are given the responsibility of ensuring compliance with legal provisions on the separation of regulated activities.

In order to specify the application of the Corporate Governance System based on applicable law in each country, as well as the characteristics and particular features thereof, and to comply with the responsibilities allocated by the Corporate Governance System thereto, the country subholding companies approve rules applicable to the companies in which they hold interests, and specify the application at the country level, if applicable, of the content of the basic policies or guidelines approved by the Board of Directors of the Company for the entire Group.

The CEOs of each country subholding company, appointed by their respective boards of directors, shall promote the specific application of the Corporate Policies and of any basic management guidelines at the country level, represent their respective companies before domestic institutions, and perform such other duties as are determined by each boards of directors, always acting under the supervision thereof.

- d) The listed country subholding companies of the Group have a special framework of strengthened autonomy that covers three areas:

In the regulatory area, the boards of directors of the listed country subholding companies are authorised to approve their own corporate policies and other internal codes and procedures that specify, develop or make exceptions from the content of the equivalent rules of the Corporate Governance System.

In the related-party transactions area, the boards of directors of listed country subholding companies have a committee of their Board of Directors comprised exclusively of directors without a connection to the Company and that have the power to approve all transactions between the listed country subholding company and the subsidiaries thereof with the other companies of the Group (in addition to the authorisations generally required in each case based on the nature of each transaction).

In the management area, listed country subholding companies enjoy a system of strengthened autonomy vis-à-vis the Company, which prevents the Company and the other companies of the Group from giving to their management team and the management teams of their subsidiaries instructions that interfere with the exercise of the powers vested therein by the Corporate Governance System.

The special framework of strengthened autonomy is implemented in the respective contracts signed by the Company with each listed country subholding company.

- e) The head of business companies of the Group assume decentralised executive responsibilities, enjoy the independence necessary to carry out the day-to-day administration and effective management of each of the businesses, and are responsible for the day-to-day control thereof.

These head of business companies are organised through their respective boards of directors, which include independent directors where appropriate, and their own management decision-making bodies; they may also have their own audit committees, internal audit areas and compliance units or divisions.

The selection of the directors of the country subholding and head of business companies shall endeavour to comply with the *Board of Directors Diversity and Member Selection Policy*, avoiding any implied bias entailing any kind of discrimination, and, in particular, that hinders the selection of female directors.

In order to facilitate the orderly performance of the duties inherent in its status as a holding entity of the Group, the Company's Board of Directors establishes a number of mechanisms that allow for the exchange of information needed for the strategic coordination of the activities performed by the various country subholding companies and head of business companies, without detracting from independence in decision-making by each of them or the requirements imposed on their directors by law and those deriving from the Corporate Governance System, in the interest of all of the companies within the Group.

#### 4. The Group's Business Model

The corporate and governance structure of the Group in turn allows for global integration of the businesses in accordance with the Group's Business Model, which is focused on maximising the operational efficiency of the various business units and ensures the dissemination, implementation and monitoring of the overall strategy and the basic management guidelines established for each business, primarily through the exchange of best practices among the various companies of the Group and without detracting from independence in decision-making by each of them.

As part of the Group's Business Model, the Company promotes the creation and operation of global committees in the interest of each of the businesses in order to maximise the generation of synergies and the exploitation thereof by all of the companies of the Group. These committees are authorised to approve global guidelines and recommendations, propose initiatives for improvement, favour the exchange of best practices and support the Business CEO and the business directors in the performance of their duties of coordination and supervision.

#### 5. Operating Committee

Within the Group's corporate and governance structure, the Operating Committee is an internal committee of the Company, the essential function of which is to provide technical, information and management support to the chairman of the Board of Directors and chief executive officer, in order to facilitate the development of the Group's Business Model.

## 6. Duties of the Board of Directors with respect to Corporate Organisation

The Board of Directors of the Company in any event has the following duties with respect to the corporate and governance structure of the Group:

- a) At all times conform the corporate and governance structure, as well as the Business Model of the Group, to the requirements of the corporate interest, complying in all cases with applicable law and the Corporate Governance System.
- b) Conform the structure of the Group to the legal requirements applicable in the jurisdictions in which it does business, and particularly to those regarding the rules of each jurisdiction on separation of regulated activities.
- c) Determine the location of the headquarters of the Company and of the other non-listed companies of the Group or companies held through a listed country subholding company based on the corporate interest, and make the relevant decisions or when appropriate submit them to the shareholders at a General Shareholders' Meeting for adoption thereof.
- d) Regulate, analyse and decide on possible conflicts of interest and related-party transactions among the companies of the Group. As regards those affecting listed country subholding companies, the Company's Board of Directors shall ensure compliance with the rules on related-party transactions established within the corresponding special framework of strengthened autonomy.
- e) Endeavour to ensure the reconciliation of the interest of the companies in the Group that have outside shareholders with the policies and strategies of the Group.
- f) Introduce appropriate strategic coordination mechanisms in the interest of the Company and of the companies within the Group, pursuant to the Group's Business Model.
- g) 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.
- h) Submit to a decision by the shareholders at a General Shareholders' Meeting the assignment to dependent entities of core activities theretofore carried out by the Company, even though the Company retains full control of such entities.

In turn, as regards investee entities that do not form part of the Group, the Board of Directors, in defining the general strategy of the Group, shall respect the particular regulatory aspects affecting such entities due to their nature as a regulated or listed company, their nationality, the jurisdictions in which they do business or any other circumstance that might affect them.

## 7. Related-Party Transactions

The Board of Directors of the Company, or in urgent cases the Executive Committee, shall be the bodies competent to authorise Related-Party Transactions (as such term is defined in the *Regulations of the Board of Directors*) in which companies of the Group that are not listed companies or subsidiaries thereof participate, when they have corporate governance rules similar to those of the Company.

In those instances in which the Related-Party Transaction must be authorised by the Board of Directors or the Executive Committee of the Company, and the Company does not directly intervene in such transaction, the scope of authorisation shall be circumscribed to verification that the Related-Party Transaction is conducted under arm's length conditions and with due observance of the principle of equal treatment of shareholders in the same situation, with the board of directors of the company participating in the Related-Party Transaction maintaining its powers to decide on whether or not it is appropriate to carry out the transaction.

## 8. Use of the IBERDROLA Brand

The Corporate Governance System recognises the IBERDROLA brand as a hallmark of the Company and the principal symbol of the mission, vision and values of the Group. Generally, the companies of the Group use such brand -owned by the Company- as part of their trade names and distinctive marks used to carry out their business. The use thereof is governed by the provisions of the *Brand Policy* and other internal rules established by the Company.

## 9. Presence of the Group on the Internet and in Social Media Corporate Websites

The country subholding and head of business companies of the Group shall endeavour to ensure their presence on the Internet, and in particular shall actively participate in social media in order to relate with their respective stakeholders.

For these purposes, the country subholding companies and head of business companies shall have their own identity on social media and their corporate website, the contents of which must be managed in accordance with the guidelines established for such purpose by the Company, and for each country by the country subholding companies, if applicable.

The country subholding and head of company companies shall adopt the measures necessary to avoid their corporate websites being confused with that of the Company.

The corporate websites of the country subholding companies and of the head of business companies shall be structured around specific sections intended to identify the corresponding company and its activities, describe its relationship with the Group and its position regarding corporate governance, sustainability and the environment; and promote its relations with the most significant stakeholders and with society in general.

This *Policy for the Definition and Coordination of the Iberdrola Group and Foundations of Corporate Organisation* was initially approved by the Board of Directors on 18 December 2007 and was last amended on 24 April 2019.