

5.1 Corporate Governance Model

Foundations of Iberdrola's corporate governance model

A. Corporate Governance System

Iberdrola is a leading multinational group in the energy sector that seeks to create value sustainably for all of its Stakeholders through the use of environmentally friendly energy sources. It is committed to the fight against climate change, the social dividend and the generation of employment and wealth in its surroundings, considering its employees to be a strategic asset.

Iberdrola has a Corporate Governance System made up of the *Mission, Vision and Values of the group*, the *By-Laws*, the *Corporate Policies*, the *Governance Rules of the Corporate Bodies* and *Internal Committees and Compliance*, all available at www.iberdrola.com.

The content thereof is inspired by and based on a commitment to best corporate governance practices, business ethics and social responsibility in all of its areas of activity.

Position	Director	Status	Date of last appointment	Ending date
Chairman & CEO	José Ignacio Sánchez Galán (Salamanca, Spain, 1950)	Executive	27-03-2015	27-03-2019
Director	Íñigo Víctor de Oriol Ibarra (Madrid, Spain, 1962)	Other external	08-04-2016	08-04-2020
Director	Inés Macho Stadler ⁽¹⁾ (Bilbao, Spain, 1959)	Independent	08-04-2016	08-04-2020
Director	Braulio Medel Cámara (Marchena, Spain, 1947)	Independent	08-04-2016	08-04-2020
Director	Samantha Barber (Dunfermline, Fife, Scotland, United Kingdom, 1969)	Independent	08-04-2016	08-04-2020
Director	María Helena Antolín Raybaud (Toulon, France, 1966)	Independent	27-03-2015	27-03-2019
Director	Ángel Acebes Paniagua (Ávila, Spain, 1958)	Independent	27-03-2015	27-03-2019
Director	Georgina Kessel Martínez (Mexico City, Mexico, 1950)	Independent	28-03-2014	28-03-2018
Director	Denise Mary Holt (Vienna, Austria, 1949)	Independent	27-03-2015	27-03-2019
Director	José W. Fernández (Cienfuegos, Cuba, 1955)	Independent	27-03-2015	27-03-2019
Director	Manuel Moreu Munaiz (Pontevedra, Spain, 1953)	Independent	27-03-2015	27-03-2019
Director	Xabier Sagredo Ormaza (Portugalete, Spain, 1972)	Other external	08-04-2016	08-04-2020
Director	Juan Manuel González Serna (Madrid, Spain, 1955)	Independent	31-03-2017	27-03-2021
Director	Francisco Martínez Córcoles (Alicante, Spain, 1956)	Executive	31-03-2017	27-03-2021

[1] Inés Macho Stadler is the lead independent director.

B. Governance model

Duly differentiates between the duties of strategy and supervision and those of guidance and management:

- Iberdrola’s Board of Directors, made up of a large majority of independent directors (one of whom is the lead independent director), focuses its activity on the determination, supervision and monitoring of the policies, strategies and general guidelines of the Iberdrola group.
- The chairman of the Board of Directors & chief executive officer and the rest of the management team are responsible for the organisation and strategic coordination of the group.
- In the principal countries in which the group operates, organisation and strategic coordination is implemented through country subholding companies, which group together equity stakes in the head of business companies and centralise the provision of common services. Each of these companies has its own CEO.

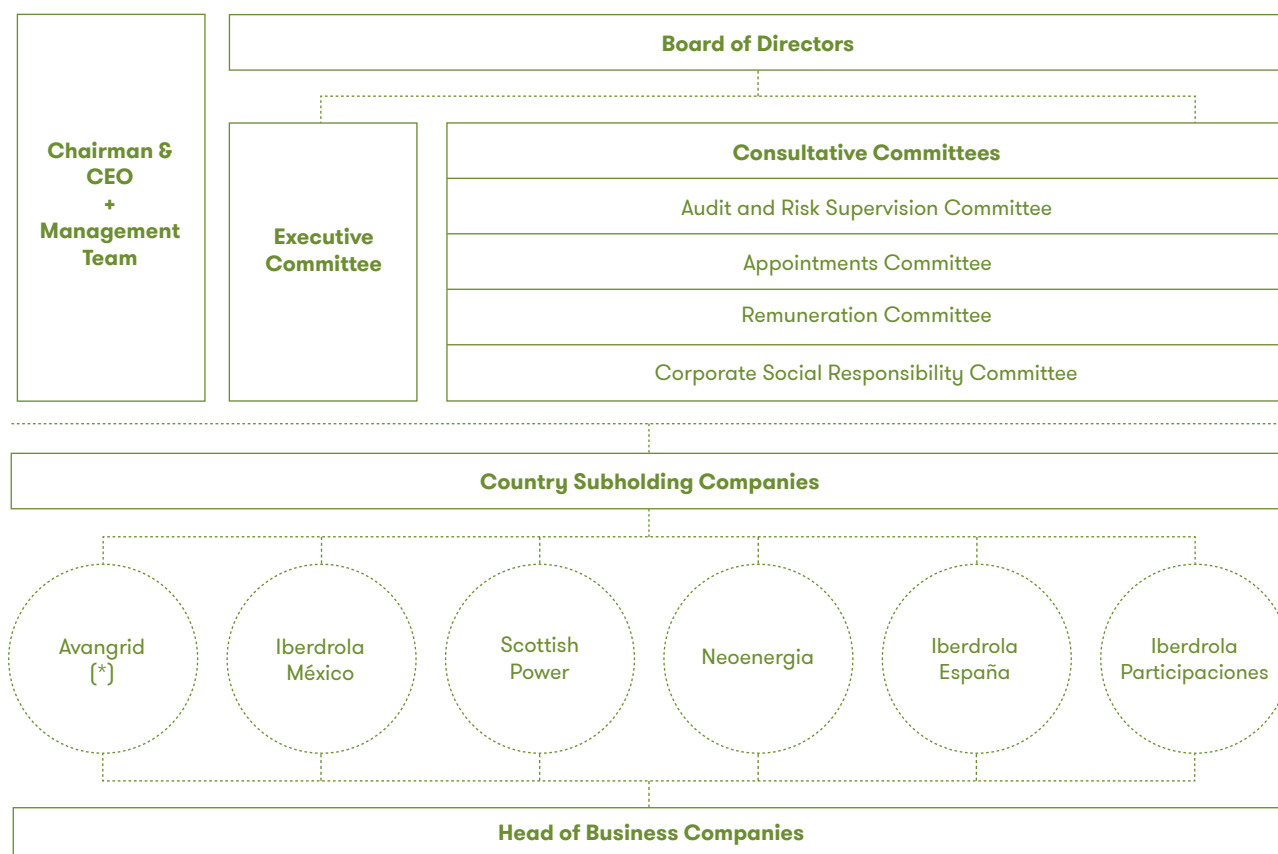
The Iberdrola group also has a country subholding company, Iberdrola Participaciones, S.A. (Sociedad Unipersonal), that groups together the non-energy businesses.

Country subholding companies have boards of directors, including independent directors, and their own audit and compliance committees, internal audit divisions and compliance units or divisions.

Listed country subholding companies like Avangrid, Inc. have a framework of strengthened autonomy.

- The head of business companies are in charge of the day-to-day administration and effective management of each business. They also have boards of directors, which include independent directors and specific management teams.
- The *Activities Report of the Board of Directors and of the Committees thereof* reports on their operation.

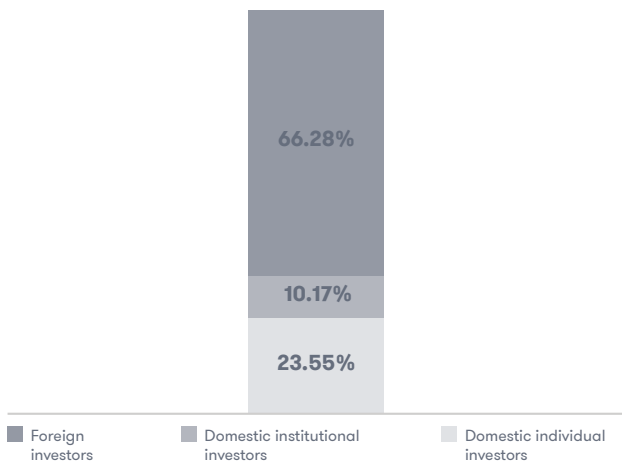
Corporate and governance structure of Iberdrola, S.A.



(*) Company listed on the New York Stock Exchange.

C. Equity structure

Iberdrola has more than 600,000 shareholders throughout the world, and none of them has a controlling interest.



Status at 31 Dec 2017.

Foreign institutional shareholders account for 66.28% of the capital.

External corporate governance awards / page 43

Iberdrola’s response to the corporate governance challenge

A. Corporate governance strategy

The key elements defining Iberdrola’s corporate governance strategy are:

- Shareholder engagement
- Social dividend and sustainability
- Active listening and commitment to the legitimate interests of the other Stakeholders
- Strategic leadership by the Board of Directors
- Diverse and balanced composition of the Board of Directors
- Effective system of checks and balances
- Corporate structure and Governance Model
- Prudent and balanced management of risks
- Proactive compliance function

Corporate Governance System

B. Continuous Improvement of its corporate governance rules and practices

On corporate governance matters, the company looks to the Good Governance Code of Listed Companies published by the CNMV and generally accepted practices in the international markets.

71.4% of the directors are independent.

	Director Remuneration Report
Remuneration policy	Executive directors’ variable remuneration tied to objectives. Clause on cancellation and reimbursement of variable remuneration.
	71.4% of directors are independent.
	System of checks and balances, including a lead independent director.
Operation of the Board	Gender diversity: 5 women on the Board. All consultative committees are chaired by women. Diversity of skills, experience, nationality and origin.
	External evaluation of governance bodies.
	Corporate Social Responsibility Committee.
Social responsibility and corporate reputation	Social Responsibility Policies focused on the maximisation of the social dividend and Stakeholder engagement. Fight against Climate Change.
	General Shareholders’ Meeting conceived of and certified as a sustainable event.

Ethics and Social Responsibility / page 92

C. Commitment to shareholders and investors

- The Iberdrola group has a strong industrial and financial model based on balanced growth, focused on the regulated networks businesses, renewables, and long-term contract assets, focused on the achievement of growing profits and an increase in shareholder remuneration.
- The *Shareholder Engagement Policy* is intended to understand the opinions and concerns of the shareholders in the areas of corporate governance and social responsibility, encourage their sense of belonging and align their interests with those of Iberdrola.
- Boost shareholders’ participation throughout the year, and especially at the General Shareholders’ Meeting.

The quorum in attendance at the 2017 General Shareholders’ Meeting was 77.2%.



D. Remuneration policy

- Director remuneration aligned with strategic objectives and shareholder return. The remuneration model for directors is based primarily on three components:

Remuneration model for the Board

Type of remuneration	External (non-executive) directors	Executive directors
Fixed	According to their duties	On market terms.
Short-term variable	Not applicable	Tied to financial and non-financial targets.
Long-term variable	Not applicable	Tied to multi-annual targets payable in shares (3-year accrual period and payment deferred over 3 years following accrual).

The *Annual Director Remuneration Report 2016* received 96.74% votes in favour (not counting abstentions or blank votes).

Parameters to which the annual variable remuneration of executive directors is tied in 2018

Financial	Results. Shareholder return. Financial strength. Operational efficiency.
Social responsibility	Presence on international indices. Encourage gender equality in management positions. Professional training. Occupational safety.

Parameters to which the multi-annual variable remuneration of executive directors is tied (2017-2019)

Growth in net profit.
Total shareholder return.
Maintenance of financial strength.
Reduction in CO₂ emissions.

Principal activities of the Board of Directors

Key issues in 2017

Iberdrola's Board of Directors has focused its activities mainly in the following areas:

Strategy

Growth	The Board of Directors designs the group's strategy and decides the key investments.	Long-term view of the electricity industry and of the principal challenges and trends.
		Update of the <i>Outlook 2016-2020</i> , with an increase in investments of €1,000 million.
		Approval of the strategy and budgets for financial year 2018.
		Monitoring of the inclusion of the businesses of <i>Elektro into Neoenergia</i> , creating a leading electric company in Brazil and Latin America.
Sustainable remuneration	The Board of Directors reviews the alignment of shareholder remuneration with the group's performance.	Shareholder remuneration 2016-2020 in line with the increase in results, with a pay-out in the range of 65-75%.
		Approval of an increase of close to 11% in shareholder remuneration with a charge to 2016.
		Establishment of the <i>Iberdrola Flexible Remuneration</i> scheme.
Maximisation of social dividend	The Board of Directors defines the guidelines that direct the group's activities in the area of social responsibility.	Evaluation of contribution to and impact on society using parameters that determine the <i>Social Dividend</i> .
		Update of the company's strategic positioning in relation to <i>Climate Change</i> and integration of the <i>Sustainable Development Goals</i> into the strategy.
		Supervision of the group's activities in the area of <i>sustainability and Social Responsibility</i> .
		Update of the <i>Stakeholder Relations Policy</i> and the <i>Policy on Respect for Human Rights</i> .
Financial strength	The Board of Directors monitors the evaluation of the financial situation to ensure economic/ financial strength over the long term.	Monitoring of the financing policy and of the principal transactions in the capital markets.

Supervision

Supervision	The Board of Directors, with the support of the Executive Committee, supervises the implementation of the group's strategy and the development of the group's organisational model on an ongoing basis.	Detailed study of the markets, with special attention on issues with strategic impact.
		Monitoring of the corporate reorganisation in Brazil.
		Regular supervision of key financial indicators.
		Supervision of the implementation of the strategy to maximise the social dividend.

© **Activities Report of the Board and its Committees**

Risk supervision

The Board of Directors monitors the level of risk by means of periodic tracking of the most significant threats.

Regular supervision and control of corporate risks.

On-going review of the internal control system.

Amendment and update of the Risk Policies.

Supervision of the Strategic Plan and cybersecurity risks.

Corporate governance

Ongoing efforts to identify and implement best corporate governance practices are key pillars for the creation of sustainable value.

Selection and composition of the governance bodies.

Analysis of the composition of the committees of the Board of Directors.

Appointment of new directors.

Evaluation and re-election of directors.

Making various improvements designed to encourage shareholder participation in the General Shareholders' Meeting.

Approval of the remuneration of the directors and senior officers.

Subsequent reforms of the Corporate Governance System.

Coordination and supervision of the process of evaluation of the Board of Directors.

Social responsibility and sustainability

The Board is committed to the fight against climate change, the development of clean energy and respect for the environment and biodiversity, as well as the maximisation of the social dividend.

Modification of various Social responsibility and sustainability policies.

Approval of incentives to strengthen the group's commitment to innovation.

Monitoring the group's activities in the area of Social Responsibility and the alignment thereof with the main leading bodies.

Review of the company's cybersecurity activities and protocols for conduct in the event of reputational impact.

The Board of Directors has focused its work on defining strategy, monitoring the implementation and control of risks and advancing best corporate governance practices.