

5. A Framework of Trust

5.1 Corporate Governance Model

Foundations of Iberdrola's corporate governance model

A. Corporate Governance System

Iberdrola is a multinational leader in the energy sector committed to ethics, transparency and good governance, and which pays special attention to the social dividend, for which reason it made changes to its Corporate Governance System in 2018 in order to include the SDGs within its strategy.

The intention of its Board of Directors is to have a diversity of gender and professional experiences, with a plurality of opinions and independent judgement. Female presence is significant not only because of the number of women but especially due to the positions they hold.

Position	Director	Condition ¹	Date of last appointment	Ending date
Chairman & CEO	José Ignacio Sánchez Galán (Salamanca, Spain, 1950)	Executive	27-03-2015	27-03-2019
Vice Chair	Inés Macho Stadler (Bilbao, Spain, 1959)	Other external	08-04-2016	08-04-2020
Director	Íñigo Víctor de Oriol Ibarra (Madrid, Spain, 1962)	Other external	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 Jesús Acebes Paniagua (Ávila, Spain, 1958)	Independent	27-03-2015	27-03-2019
Director	Georgina Kessel Martínez (Mexico City, Mexico, 1950)	Independent	13-04-2018	13-04-2022
Director	Denise 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)	Independent	08-04-2016	08-04-2020
Director	Juan Manuel González Serna ⁽²⁾ (Madrid, Spain, 1955)	Independent	31-03-2017	31-03-2021
Director	Francisco Martínez Córcoles (Alicante, Spain, 1956)	Executive	31-03-2017	31-03-2021
Director	Anthony L. Gardner (Washington, D.C., U.S.A., 1963)	Independent	13-04-2018	13-04-2022

(1) As at the date of review of the report by the Board of Directors.

(2) Juan Manuel González Serna is the lead independent director.

B. Governance model

Differentiation between the duties of strategy and supervision and those of guidance and management. Based on a system of checks-and-balances that avoids the accumulation of powers:

- 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.

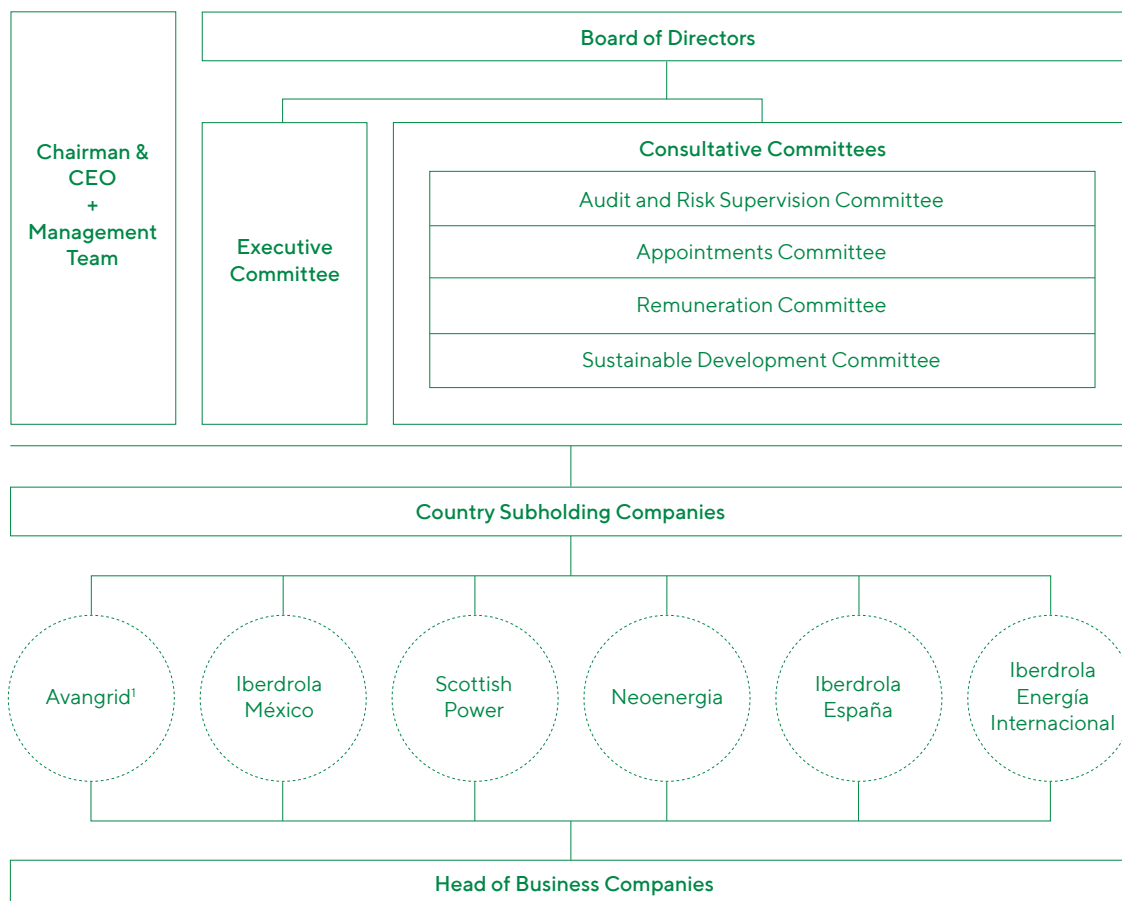
The Iberdrola group also has a country subholding company, Iberdrola Participaciones, S.A., that groups together the non-energy businesses.

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.



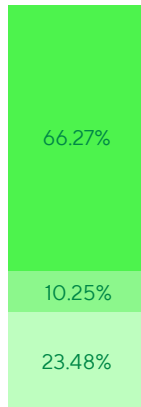
(1) Company listed on the New York Stock Exchange.

**Foreign institutional shareholders account for 66.27% of the capital.
71.4% of the directors are independent.**

External corporate governance awards/recognition / page 43

C. Equity structure

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



Foreign investors
Domestic institutional investors
Domestic individual investors

Status at 31 Dec 2018

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.

Remuneration policy	<p>Director Remuneration Policy approved by the shareholders at the General Shareholders' Meeting.</p> <p>Executive directors' variable remuneration tied to objectives.</p> <p>Clause on cancellation and reimbursement of variable remuneration (<i>malus and claw-back clauses</i>).</p>
Operation of the Board	<p>71.4% of the directors are independent.</p> <p>System of checks and balances, including a lead independent director.</p> <p>Gender diversity: 5 women on the Board. A female vice-chair of the Board, and three Committee chairs.</p> <p>Diversity of skills, experience, nationality and origin.</p> <p>External evaluation of governance bodies.</p>
Social responsibility and corporate reputation	<p>Sustainable Development Committee.</p> <p>Sustainable development policies focused on the maximisation of the social dividend, promotion of the SDGs and Stakeholder engagement.</p> <p>Fight against Climate Change.</p> <p>General Shareholders' Meeting conceived of and certified as a sustainable event.</p>

Ethics and Sustainable Development / page 89

Corporate Governance System

Iberdrola's response to the corporate governance challenge

A. Corporate governance strategy

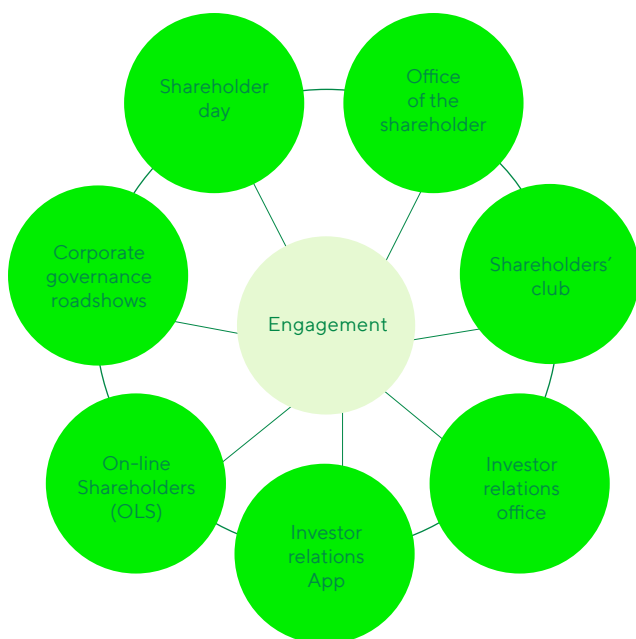
The key elements defining Iberdrola's corporate governance strategy are:

- Shareholder engagement
- Corporate structure and Governance Model
- Diverse and balanced composition of the Board of Directors
- Effective system of checks and balances.
- Social dividend and achievement of the SDGs
- Active listening to the legitimate interests of the Stakeholders
- Prudent and balanced management of risks

The quorum in attendance at the 2018 General Shareholders' Meeting was 76.09%.

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 sustainable development, encourage their sense of belonging and align their interests with those of Iberdrola.
- Boost shareholders' participation throughout the year, especially at the General Shareholders' Meeting.



D. Remuneration policy

- The *Director Remuneration Policy* was approved by the shareholders at the General Shareholders' Meeting held on 13 April 2018.
- Director remuneration is aligned with strategic objectives and shareholder return.

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).

Parameters to which the annual variable remuneration of executive directors is tied in 2019

Operational / Financial	Net Profit. Shareholder remuneration. Financial strength. Efficiency in costs. Investments.
Sustainable Development	Female presence in management positions. Presence on international indices. Training.

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 CO ₂ emissions.

Principal activities of the Board of Directors

Key topics in 2018

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

Strategy

Profitable growth	The Board of Directors designs the group's strategy and decides the key investments.	<p>Long-term view of the electricity industry and of the principal challenges and trends.</p> <p>Approval of the <i>Outlook 2018-2022</i>.</p> <p>Approval of the strategy and budgets for financial year 2019.</p> <p>Definition of the digitisation strategy for the 2018-2022 period.</p>
Sustainable Remuneration	The Board of Directors compares shareholder remuneration with the group's performance.	<p>Shareholder remuneration 2018-2022 in line with the increase in results, with a pay-out ratio between 65-75%.</p> <p>Approval of an increase in shareholder remuneration with a charge to 2017.</p> <p>Introduction of the new <i>Iberdrola Flexible Remuneration</i> system.</p>
Maximisation of social dividend	The Board of Directors defines the guidelines that direct the group's activities in the area of sustainable development.	<p>Integration of the UN Sustainable Development Goals as part of the strategy.</p> <p>Supervision of the group's activities in the area of sustainable development.</p> <p>Approval of initiatives to strengthen the commitment to innovation.</p> <p>Update of the <i>General Sustainable Development Policy</i> and the <i>Human Resources Framework Policy</i>.</p>
Financial strength	The Board of Directors controls the financial situation to ensure the sustainability of the business over the long term.	Monitoring of the financing policy and 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.	<p>Detailed study of the markets, with special attention on issues with strategic impact.</p> <p>Supervision of key financial indicators.</p> <p>Supervision of the implementation of the strategy to maximise the social dividend.</p> <p>Supervision of implementation of the company's digitisation and innovation strategy.</p>
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The Board of Directors has focused its work on defining strategy, monitoring the implementation and control of risks and advancing best corporate governance practices.

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.

Review of the geostrategic risks associated with the company.

Supervision of the *Strategic Plan and cybersecurity risks*.

Analysis of the risks arising from the performance of activities with an impact on climate change.

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.

Appointment of Ms Inés Macho Stadler as vice-chair of the Board.

Appointment of new directors.

Evaluation and re-election of directors.

Strengthening of the checks-and-balances system with the appointment of CEOs at the various companies.

Supervision of the implementation of measures adopted at the group level to recruit, retain, manage and promote talent.

Analysis of the latest corporate governance trends.

Continuous update of the Corporate Governance System.

Sustainable Development

The Board is committed to achievement of the Sustainable Development Goals, especially the fight against Climate Change and to sustainable and clean energy.

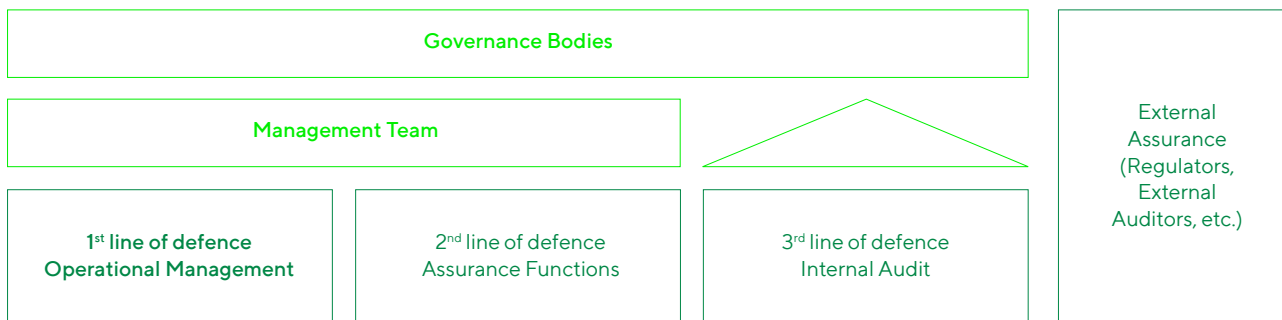
Amendment of various sustainable development policies.

Strengthening of company's commitment to the SDGs.

Supervision of the group's activities in the area of sustainable development and the alignment thereof with the leading bodies.

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

5.2 Three Lines of Defence



Based on the document "Guidance on the 8th EU Company Law Directive, article 41" ECIIA/FERMA, September 2010.

Three lines of defence model

The Internal Control System of Iberdrola and the companies of its group is configured by reference to international best practices. It is based on a guarantee combined around three lines of defence, providing a comprehensive view of how the different parts of the organisation interact in an effective and coordinated manner, increasing the efficiency of the processes for management and internal control of the entity's significant risks.

1st line of defence Operational Management

As the first line of defence, the management team and the professionals of Iberdrola and its group are the direct managers of the risks of the entity.

Thus, the company's Management is responsible for maintaining effective control and implementing procedures to control risks on a continuous basis.

Internal Control Objectives (COSO. May 2013)

Operations objectives- Pertain to the effectiveness and efficiency of the entity's operations, including operational and financial performance goals, and safeguarding assets against loss.

Reporting objectives- Pertain to internal and external financial and non-financial reporting and may encompass reliability, timeliness, transparency or other terms as set forth by regulators, recognised standard setters or the entity's policies.

Compliance objectives- Pertain to adherence to laws and regulations to which the entity is subject.

2nd line of defence Assurance Functions

As the second line of defence, certain functions provide the foundation for the entity's internal control system, proposing guidelines to the Board of Directors and monitoring how the first line of defence implements them.

The primary assurance functions within Iberdrola, within their respective areas of responsibility, are: (i) the group's Risk Division, within the framework of its functions within the Comprehensive Risk Control and Management System; (ii) the Compliance Unit, which is responsible for proactively ensuring the effective operation of the Compliance System; and (iii) the Internal Control Division, which is part of the Administration and Control Division, within its duties relating to the internal control and risk management systems in relation to the preparation of financial information (ICFRS).

3rd line of defence Internal Audit

The function of the Internal Audit area, as the third line of defence, is to proactively ensure the proper functioning of the internal control, risk management, and governance systems, systematically auditing the first and second lines in the performance of their respective duties of management and control.

To ensure its independence, the director of the Internal Audit Area reports hierarchically to the chairman of the Board of Directors and functionally to the Audit and Risk Supervision Committee.

The Internal Audit divisions of the various country subholding companies have this same positioning, and are coordinated under the framework of the *Basic Internal Audit Regulations* of Iberdrola and its group, which forms part of Iberdrola's Corporate Governance System.

Significant Risks Facing Iberdrola's Primary Businesses / pages 50, 54, 58

Comprehensive Risk Control and Management System / page 86

Compliance Unit / page 89

Iberdrola adopts the three lines of defence model to ensure effective and integrated management of its Internal Control System.

The 2018 annual activities plans of the Internal Audit Area Division of Iberdrola and of the Internal Audit divisions of the group, with a risk-based focus looking to support the achievement of the company's goals, responded to the requirements established by the Audit and Risk Supervision Committee of Iberdrola and the respective Audit and Compliance Committees of the country subholding companies, and included work for the senior management and the rest of the organisation, including:

- Half-yearly reviews of the operation of the most critical controls of the Internal Control Over Financial Reporting (ICFR) System, as well as reviews of the various cycles of preparation of the financial information of Iberdrola, S.A. and the various companies of the group, within the framework of the general goal of reviewing the entire ICFR over a period of 5 years.
- Audits of key corporate and business process and risks, based on the Risk Policies approved by the Board of Directors on an annual basis.
- Audits of compliance programmes and frameworks established by the group in the various areas of application, such as the crime prevention programme.

Continuing with the commitment made in 2005, the Internal Audit area submits to an exhaustive review every five years of compliance with internal audit rules (called a Quality Assurance Review) by the Global Institute of Internal Auditors. During the last review in 2015, the certification of Iberdrola, S.A. and of ScottishPower was renewed and the scope of the certification was expanded to include Iberdrola España and Avangrid.

Furthermore, the Internal Audit has had ISO 9001 certification since 1999, updated to version 9001:2015. This ensures that all of the group's internal auditors perform duties under the same framework and that such framework is aligned with the international professional rules of the function.

Basic Internal Audit Regulations of Iberdrola, S.A. and its group

Approved by the Board of Directors of Iberdrola upon a proposal of its Audit and Risk Supervision Committee (updated on 23-Octo-2018).

Defines its nature as an independent internal unit, and establishes the regulation, competencies, powers and duties of Internal Audit, among other things.

Establishes the framework of relations with: i) the Board of Directors, its Chairman and Committees; ii) the Internal Audit divisions of the other companies of the group; and iii) the rest of the organisation.

Disseminates the knowledge of the Internal Audit function among the professionals of the group.

Serves as a reference for the management model and the quality system of the Internal Audit Area of the company and the Internal Audit divisions of the other companies of the group.

External assurance

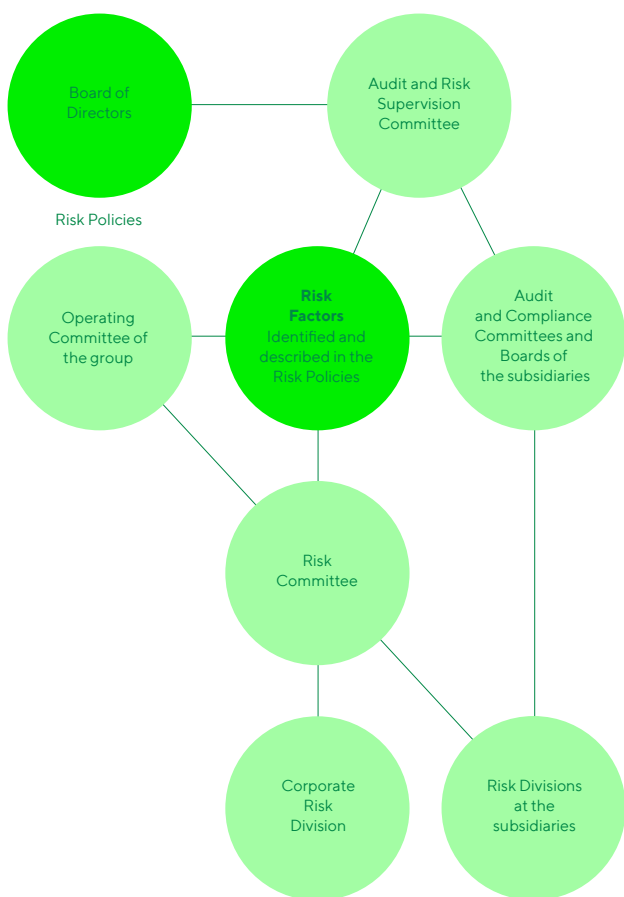
Regulatory bodies and other entities external to the organisation play a significant role in the general structure of governance, internal control and risks of Iberdrola, especially in the regulated businesses. The regulators establish requirements intended to strengthen the controls of an organisation and perform a function of independent and separate monitoring, and the auditors provide assurance regarding the true and fair view of the entity's financial information. In this regard, the powers of the Audit and Risk Supervision Committee of Iberdrola and the Audit and Compliance Committees of the country subholding companies include ensuring the preservation of the independence of the auditors in the performance of their duties

5.3 Risks

Commitment of the Board of Directors and of senior management

Iberdrola’s Board of Directors and senior management is strongly committed to and engaged in the management of the group’s risks:

- **Ex-ante:** acceptable levels of risk tolerance are reviewed and approved on an annual basis through risk policies and limits that establish the qualitative and quantitative risk appetite at the group level and at each of the main businesses and corporate functions.
- **Ex-post:** periodic monitoring of significant risks and threats and the various exposures of the group, as well as of compliance with the approved risk policies, limits and indicators.



Comprehensive Risk Control and Management System

The *General Risk Control and Management Policy* of the group approved by the Board of Directors establishes the mechanisms and basic principles for appropriate management of the risk/opportunity ratio, at a risk level that makes it possible to:

- Attain strategic goals with controlled volatility.
- Provide the maximum level of assurance.
- Protect the results and reputation of the group.
- Defend the interests of the Stakeholders and guarantee the business stability and financial strength of the group.

At the operational level, the Comprehensive Risk Control and Management System is structured around a Risk Committee and an independent specialised Risk Division that analyses and quantifies the risks within the main businesses and corporate functions of the group.

Duties of the Risk Division

Active management

Credit risk. Analysis and approval of counterparties and limits and/or establishment of admission criteria in order to minimise credit losses within the group.

Market risk. Analysis and approval of detailed limits in order to delimit the effects of volatility in the markets in which the group operates.

Enterprise Risk Management (“ERM”) focus

Ensure that there are mechanisms for all significant risks of the group to be adequately identified, measured, managed and controlled at all times and that they are regulated reported to the various committees.

Instruments and reports:

- Risk policies and risk limits and indicators.
- Quarterly report on key risks.
- On-going monitoring and detection of emerging risks.

Operational risk is centrally managed through the group’s corporate Insurance, Information Technology and Cybersecurity units.

By way of supplement, the group has a Compliance System, linked to the Board’s Sustainable Development Committee, with elements that include the Code of Ethics and the Compliance Unit.

Risk management within the Iberdrola group is based on foresight, independence, commitment to the group's business objectives and the engagement of senior management and the Board

Risk policies and limits of the Iberdrola group

The *General Risk Control and Management Policy* is further developed and supplemented with the following specific policies established in relation to certain risks, corporate functions or businesses of the group, which are also annually approved by the Board of Directors at the head of the group, and which include limits and indicators that are subsequently monitored:

Specific risk policies of the businesses:

- *Liberalised Businesses of the Iberdrola group.*
- *Renewable Energy Businesses of the Iberdrola group.*
- *Networks Businesses of the Iberdrola group.*
- *Real Estate Business.*

Corporate risk policies:

- *Corporate Credit Risk Policy.*
- *Corporate Market Risk Policy.*
- *Operational Risk in Market Transactions Policy.*
- *Insurance Policy.*
- *Investment Policy.*
- *Financing and Financial Risk Policy.*
- *Treasury Share Policy.*
- *Risk Policy for Equity Interests in Listed Companies.*
- *Reputational Risk Framework Policy.*
- *Procurement Policy.*
- *Information Technologies Policy.*
- *Cybersecurity Risk Policy.*

The country subholding companies adopt the group's risk policies and specify the application thereof, approving the guidelines on specific risk limits, based on the nature and particularities of the businesses in each country. The listed country subholding companies or companies with significant stakes of other partners, under their own special framework of strengthened autonomy, approve their own risk policies.

Principal risk factors of the Iberdrola group

The group is exposed to various risks inherent in the different countries, industries and markets in which it operates, and which may prevent it from achieving its objectives and implementing its strategies. These risks are grouped into:

Corporate governance risks: those that endanger the corporate interest and strategy of the company.

Market risks: exposure to volatility in variables like prices of electricity and other energy commodities, exchange rate, interest rate, etc.

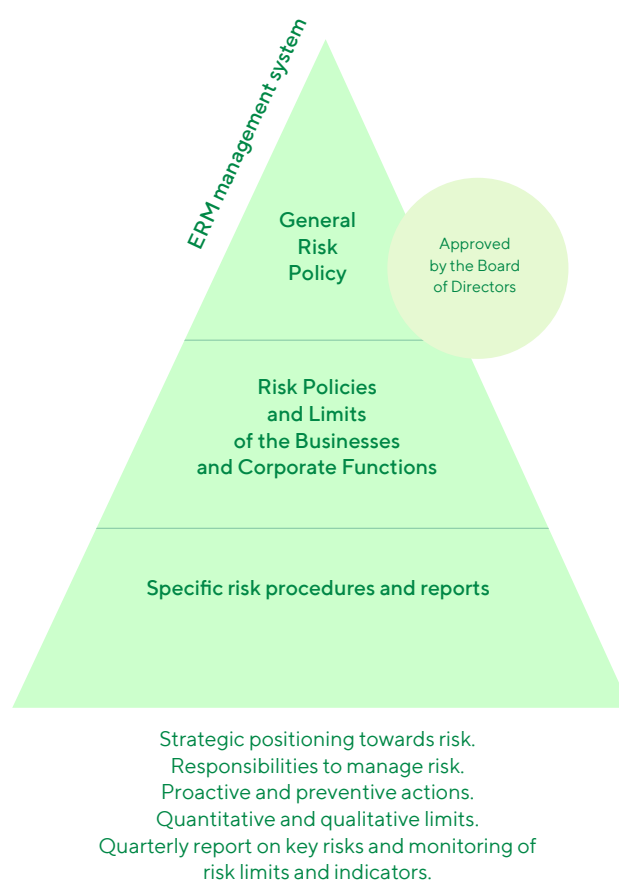
Credit risks: possibility of contractual breach by a counterparty, causing economic or financial losses.

Business risks: deriving from the uncertainty of the behaviour of variables intrinsic to the business, characteristics of demand, climatology, etc.

Regulatory and political risks: coming from regulatory changes made by the regulators that can affect remuneration of the regulated businesses, environmental or tax provisions, etc.

Operational, Technological, Environmental, Social and Legal Risks: economic losses resulting from inadequate internal procedures, technical failures, human errors, climate change, etc.

Reputational risks: potential negative impacts on the company arising from performance below the expectations of its Stakeholders.



Risk factors and mitigation measures

Price and demand risks

Changes in the price of electricity	<p>The main variable affecting the results of the group's Wholesale and Retail Businesses as regards market prices is the price of electricity, which relatively corresponds to the price of fuel and applicable emission rights, required to produce such electricity.</p> <p>The group's Renewables Businesses preferentially sell their energy at: i) regulated tariff; or ii) fixed price via PPAs. The remaining market exposure of the Spain and United Kingdom Renewables Businesses is transferred to the Wholesale and Retail Business of such countries.</p> <p>Offsetting at-risk positions between wholesale and retail activities allows for a large reduction in the group's market risk; the remaining risk is mitigated via diversification of purchase/sale agreements and the specific clauses thereof, and by trading in derivatives.</p>		
Changes in energy commodity prices	<p>- Spain</p> <p>Possible impact of a 5% change in the price of electricity and/or of energy commodities and CO₂</p>	<p>● Integrated Wholesale, Retail and Renewables Risk (windfarms prior to 2004)</p>	
	- United Kingdom	● Integrated Retail and Renewables Risk (power from wind farms subject to ROCs)	
	- Mexico	● The PPAs with the CFE do not have a market risk	
	- United States	● For windfarms exposed to the market	
Change in demand	<p>Wholesale, Retail and Renewables Businesses: moderate short-term impact, given the characteristics of the group's generation facilities and the structure of the long-term power purchase agreements.</p> <p>No impact on the group's Networks Businesses except for the Brazilian subsidiaries in between tariff periods.</p>	<p>Possible impact of 1% reduction in demand</p>	<p>● Wholesale and Retail Spain</p> <p>● Wholesale and Retail United Kingdom</p>

Resource risks

Change in hydroelectric resources - Spain	<ul style="list-style-type: none"> In the medium-to-long term, humid years are offset by dry years. The storage capacity of multi-year reservoirs and the group's portfolio of power plants mitigate the level of volatility during the year. 	<p>Lower hydroelectric production - Spain</p>	● Renewables Business - Spain
Change in wind resources - group	<ul style="list-style-type: none"> Mitigated thanks to the high number of facilities in operation and the geographic dispersion thereof. In the medium-to-long term, years with more wind are offset by years with less wind. 	<p>Lower wind output - group</p>	● Renewables Business - group

Financial risks

Change in interest rate	<p>The Iberdrola group maintains a fixed-rate and variable-rate debt structure, based on the structure of its revenues and the sensitivity thereof to changes in interest rates.</p>	<p>Possible impact on financial cost of +25 bps increase</p>	● Group financial cost
Change in exchange rate	<p>This risk is mitigated by taking on debt and carrying out all its financial flows in the functional currency corresponding to each company, whenever possible and economically efficient, and managing its open positions with derivatives. The risk associated with the translation of results from subsidiaries is closed out annually.</p>	<p>Possible impact on financial cost of 5% increase in currency</p>	● Group financial cost

Other risks

Credit risk	<ul style="list-style-type: none"> Main sources: amounts outstanding (customers, suppliers, banks, partners, etc.) and cost of replacement. Retail: cost of late payments/defaults has been kept to moderate levels, close to 1% of the total invoicing. Networks: In Spain and in the United Kingdom there is no retail sale of energy, in the United States and Brazil late payments are generally recovered. 		
Operational risk	<p>These risks are mitigated by making the necessary investments, applying operation and maintenance procedures and programmes (supported by quality systems), planning appropriate training and skills development for staff, and finally by obtaining appropriate casualty and civil liability insurance.</p>		
Regulatory and political risk	<p>The group is subject to laws and regulations on tariffs and other regulatory aspects of its activities in the countries in which it does business. The introduction of new laws/regulations or amendments to existing ones could adversely affect operations, annual results and the financial value of the businesses of the group (including the risks relating to Brexit).</p>		
Climate change risk	<p>Includes the risks of transition (regulatory or market associated with emissions reduction goals) and physical risks (deriving from potential impacts of an increase in extreme climate phenomena, increase in temperatures, increase in sea level, changes in rain patterns, etc.). Iberdrola believes that it is well positioned with respect to this risk, given the nature of its current businesses and its main goals for growth.</p>		

● <15 M€ ● 15-50 M€ ● >50 M€

5.4 Ethics and Sustainable Development

Compliance System

Iberdrola’s Compliance System is made up of the substantive rules, formal procedures and major activities within the group to encourage the organisation to act in accordance with applicable ethical principles and legal provisions, through a set of procedures and actions designed to prevent, detect and react to irregular actions, fraud or actions contrary to the Iberdrola group’s *Code of Ethics* or applicable laws and regulations.

The Code of Ethics, which forms part of Iberdrola’s Corporate Governance System, was approved by the Board of Directors in 2002 and is regularly updated. In October 2018, the Board of Directors approved the merger of the three codes existing at the time into a single code: *Directors’ Code of Ethics, Employees’ Code of Ethics and Suppliers’ Code of Ethics*.

Compliance Unit

Iberdrola has created a Compliance Unit, a collective, internal and permanent body linked to the Sustainable Development Committee of the Board of Directors.

There is a compliance division linked to the Audit and Compliance Committees at each subholding company and/or head of business company.

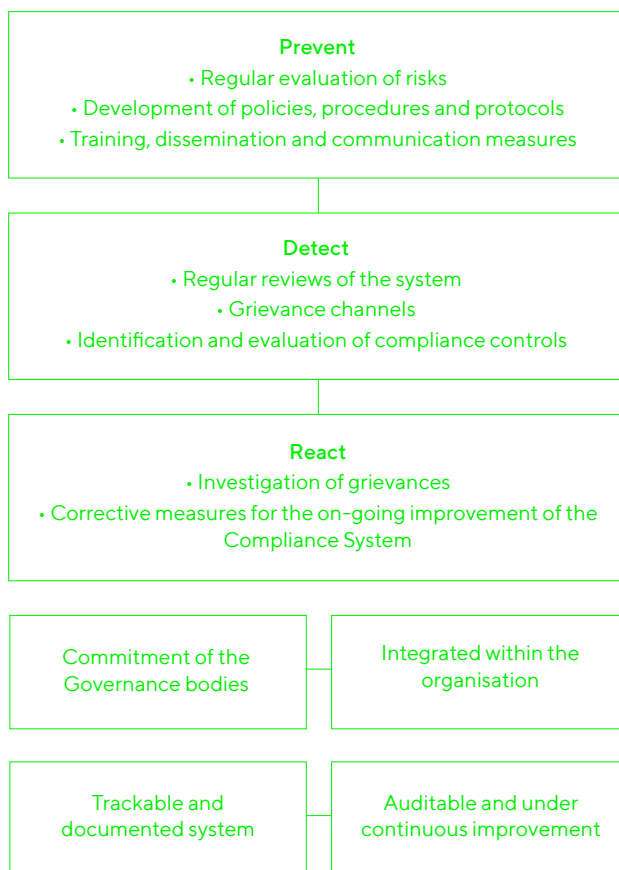
The duties of all of them include promoting a culture of ethical behaviour and zero tolerance for fraud and the commission of unlawful acts and management of the Compliance System.

Powers of the Unit

The Compliance Unit has powers related to the *Code of Ethics*, the *Anti-Corruption and Anti-Fraud Policy*, the *Crime Prevention Policy*, the *Internal Regulations for Conduct in the Securities Markets*, legal provisions regarding the separation of activities, and all other powers that may be entrusted thereto by the Sustainable Development Committee or the Board of Directors of the company or that are established in Iberdrola’s Corporate Governance System.

Main areas of the Compliance System

The main activities and areas of activity within the framework of the group’s Compliance System are: (i) the crime prevention programmes, which are developed within the provisions of the Spanish Criminal Code (without prejudice to additional actions required by the laws of any other jurisdiction in which the group does business), (ii) measures for compliance with the *Code of Ethics*, which includes specific training and communication plans for all professionals of the group, (iii) the development and implementation of specific rules and measures regarding fraud and corruption, (iv) actions to ensure compliance with the rules on market abuse and separation of activities, and (v) management of the ethics mailboxes.



Principal awards/recognitions

In 2018, Iberdrola renewed the *Compliance Leader Verification* certification provided by the Ethisphere Institute to those companies that show they have an ethical culture implemented within all of their businesses and activities as well as a robust and effective compliance system.

In 2018 it also renewed the *UNE-ISO 37001* and *UNE19601* certifications provided by Aenor.

Furthermore, the companies of the Spain subgroup also obtained these certifications in 2018.

Iberdrola has been chosen for the sixth consecutive year as one of the most ethical companies in the world, according to the *World's Most Ethical Companies 2019* ranking prepared by the *Ethisphere Institute*, thus recognising the ethical leadership and conduct of the organisation.

Finally, Expansion has given Iberdrola the *Company with best compliance practices 2018-2019* award, recognising the company's compliance system and structure.



Organisation of social responsibility within the group

Iberdrola's commitment to sustainable development is carried out by integrating the UN 2030 Agenda into the strategy and operations of the Iberdrola group.

The group's Social Responsibility is thus developed generically for all of the Areas and Businesses, in all countries.

The Corporate Sustainable Development Committee and the Sustainable Development Committees of the country subholding companies coordinate the balanced development of Social Responsibility within the Iberdrola group. The Sustainable Development Committee performs the work of supervision within its purview.

"Responsible Energy for People" Plan

The most significant contributions towards achieving the SDGs are focused around two major foundations that inspire our actions:

- We care for the planet, putting ourselves in the lead of reducing emissions in the energy sector.
- We contribute to the well-being and progress of the societies of all the territories in which we are present.

Iberdrola's commitment takes shape through various lines of work that cover more than 300 environmental, social and economic activities, thus responding to the expectations and needs of our Stakeholders, encompassed within 7 priorities.

Main priorities of the SR Plan

Sustainable economic growth
 Workplace health & safety and personal development
 Fight against climate change and protecting biodiversity
 Innovation, digitalization and quality for our customers
 Contributing to the wellbeing of our communities
 Good governance, transparency and stakeholder engagement
 Promoting CSR in the supply chain

Iberdrola considers its corporate values to include ethical principles, good governance and transparency, and social commitment

External awards/recognitions



Only European electric utility included in the 19 editions, regarded as one of the eight top sustainable electric utilities in the world.



Only Spanish electric company selected in 2019 as one of the 100 most sustainable companies in the world.



A rating in CDP Climate Change, and among A-list in CDP Supply Chain.



Iberdrola selected AAA.



Iberdrola selected in various Euronext Vigeo Eiris indices.



Classified as "Silver Class" in the electricity sector.



First Spanish utility and fifth worldwide.



Leader among Spanish utilities: electricity, gas and water.



Iberdrola classified as Prime.



Iberdrola classified as the top utility in report on status of sustainability reporting 2018.



Iberdrola among top 25 scoring companies.



Iberdrola among the top three utilities.



Only Spanish utility included in the index.



Iberdrola selected in various sustainability indices.



Iberdrola selected in ET Global 800 and ET Europe 300.