

## 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 <sup>1</sup> | Date of last appointment | Ending date |
|----------------|--|------------------------|--------------------------|-------------|
| Chairman & CEO | José Ignacio Sánchez Galán<br>(Salamanca, Spain, 1950)                 | Executive              | 27-03-2015               | 27-03-2019  |
| Vice Chair     | Inés Macho Stadler<br>(Bilbao, Spain, 1959)                            | Other external         | 08-04-2016               | 08-04-2020  |
| Director       | Íñigo Víctor de Oriol Ibarra<br>(Madrid, Spain, 1962)                  | Other external         | 08-04-2016               | 08-04-2020  |
| Director       | Samantha Barber<br>(Dunfermline, Fife, Scotland, United Kingdom, 1969) | Independent            | 08-04-2016               | 08-04-2020  |
| Director       | María Helena Antolín Raybaud<br>(Toulon, France, 1966)                 | Independent            | 27-03-2015               | 27-03-2019  |
| Director       | Ángel Jesús Acebes Paniagua<br>(Ávila, Spain, 1958)                    | Independent            | 27-03-2015               | 27-03-2019  |
| Director       | Georgina Kessel Martínez<br>(Mexico City, Mexico, 1950)                | Independent            | 13-04-2018               | 13-04-2022  |
| Director       | Denise Holt<br>(Vienna, Austria, 1949)                                 | Independent            | 27-03-2015               | 27-03-2019  |
| Director       | José W. Fernández<br>(Cienfuegos, Cuba, 1955)                          | Independent            | 27-03-2015               | 27-03-2019  |
| Director       | Manuel Moreu Munaiz<br>(Pontevedra, Spain, 1953)                       | Independent            | 27-03-2015               | 27-03-2019  |
| Director       | Xabier Sagredo Ormaza<br>(Portugalete, Spain, 1972)                    | Independent            | 08-04-2016               | 08-04-2020  |
| Director       | Juan Manuel González Serna <sup>(2)</sup><br>(Madrid, Spain, 1955)     | Independent            | 31-03-2017               | 31-03-2021  |
| Director       | Francisco Martínez Córcoles<br>(Alicante, Spain, 1956)                 | Executive              | 31-03-2017               | 31-03-2021  |
| Director       | Anthony L. Gardner<br>(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.

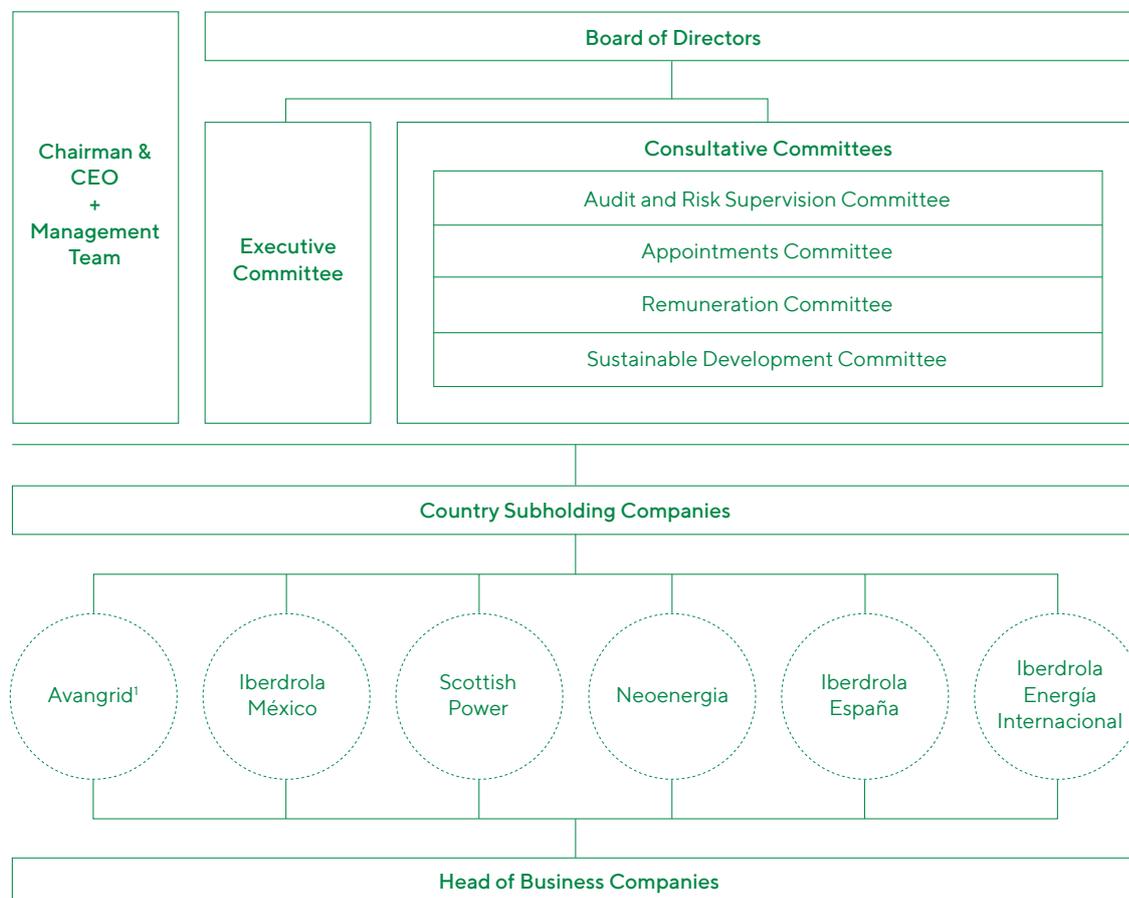
The Iberdrola group also has a country subholding company, Iberdrola Participaciones, S.A., that groups together the non-energy businesses.

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.



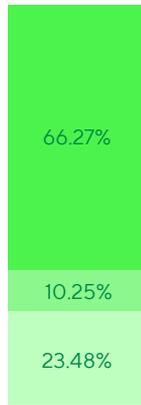
(1) Company listed on the New York Stock Exchange.

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

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**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>                                      |

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Corporate Governance System

**Iberdrola's response to the corporate governance challenge**

**A. Corporate governance strategy**

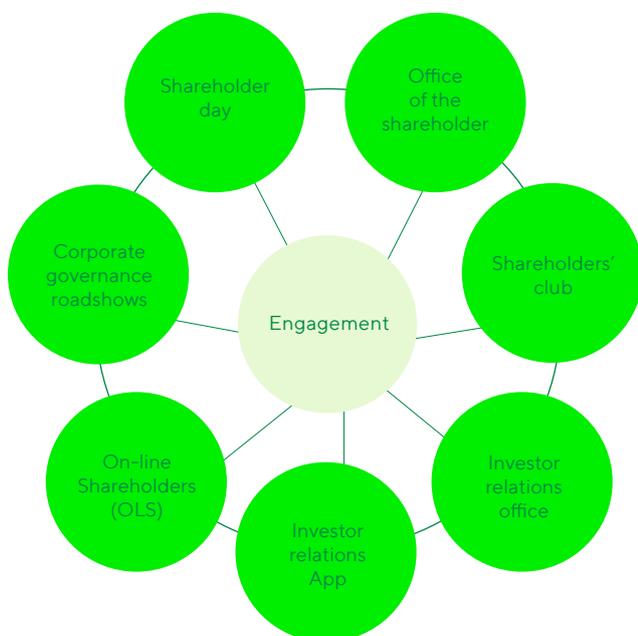
The key elements defining Iberdrola's corporate governance strategy are:

- 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.<br>Shareholder remuneration.<br>Financial strength.<br>Efficiency in costs.<br>Investments. |
| Sustainable Development | Female presence in management positions.<br>Presence on international indices.<br>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 <sub>2</sub> 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 <b>electricity industry</b> and of the <b>principal challenges and trends</b>.</p> <p>Approval of the <i>Outlook 2018-2022</i>.</p> <p>Approval of the <b>strategy and budgets</b> for financial year 2019.</p> <p>Definition of the <b>digitisation strategy</b> for the 2018-2022 period.</p>   |
| Sustainable Remuneration        | The Board of Directors compares shareholder remuneration with the group's performance.                                   | <p><b>Shareholder remuneration 2018-2022</b> in line with the increase in results, with a pay-out ratio between 65-75%.</p> <p>Approval of an <b>increase in shareholder remuneration with a charge to 2017</b>.</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 <b>UN Sustainable Development Goals</b> as part of the strategy.</p> <p>Supervision of the group's activities in the area of <b>sustainable development</b>.</p> <p>Approval of initiatives to strengthen the commitment to <b>innovation</b>.</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 <b>markets</b>, with special attention on issues <b>with strategic impact</b>.</p> <p>Supervision of <b>key financial indicators</b>.</p> <p>Supervision of the implementation of the strategy to <b>maximise the social dividend</b>.</p> <p>Supervision of implementation of the company's <b>digitisation and innovation strategy</b>.</p> |
|-------------|---|--|

## 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.