



# General Shareholders' Meeting

Annual Corporate Governance Report / 2018  
Financial Year 2017



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**ANNUAL CORPORATE GOVERNANCE REPORT  
OF LISTED COMPANIES**

**Data identifying issuer**

<b>Ending date of reference financial year</b>	31/12/2017
<b>Tax Identification Code</b>	A-48010615
<b>Registered name</b>	IBERDROLA, S.A.
<b>Registered address</b>	Plaza Euskadi número 5, Bilbao 48009 Bizkaia España

## A. OWNERSHIP STRUCTURE

A.1. Complete the following table about the share capital of the company:

Date of last change	Share capital (€)	Number of shares	Number of voting rights
21/07/2017	4,738,136,250	6,317,515,000	6,317,515,000

State whether there are different classes of shares with different rights attaching thereto:

Y  No   
e   
s

Class	Number of shares	Nominal value per share	Number of voting rights per share	Different rights

A.2. Breakdown of direct and indirect holders of significant shareholdings in the company as of the end of the financial year, excluding directors:

Individual or company name of the shareholder	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Direct holder of the interest	Number of voting rights	
QATAR INVESTMENT AUTHORITY	-	QATAR HOLDING LUXEMBOURG II, S.À.R.L.	541,378,280	8.57
NORGES BANK	202,762,459	-	-	3.21
Capital Research and Management Company (CRMC)		CRMC GROUP	195,735,221	3.10
BLACKROCK, INC.	-	BLACKROCK GROUP	191,563,600	3.03

State the most significant changes in the shareholding structure that have occurred during the financial year:

Individual or company name of the shareholder	Date of transaction	Description of transaction
KUTXABANK, S.A.	12/04/2017	Decrease to below 3% of share capital
NORGES BANK	10/07/2017	Decrease to below 3% of share capital
NORGES BANK	27/07/2017	Increase to above 3% of share capital
CAPITAL RESEARCH AND MANAGEMENT COMPANY	23/03/2017	Increase to above 3% of share capital

CAPITAL RESEARCH AND MANAGEMENT COMPANY	16/05/2017	Decrease to below 3% of share capital
CAPITAL RESEARCH AND MANAGEMENT COMPANY	07/06/2017	Increase to above 3% of share capital

A.3. Complete the following tables about members of the board of directors of the company who have voting rights attaching to shares of the company:

Individual or company name of director	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Direct holder of the interest	Number of voting rights	
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	5,433,431	-	-	0.14
	-	ROYAL PARK 2000, S.L.	3,558,967	
MR IÑIGO VÍCTOR DE ORIOL IBARRA	1,225,083	-	-	0.02
MS INÉS MACHO STADLER	64,485	-	-	0.00
MR BRAULIO MEDEL CÁMARA	29,037	-	-	0.00
MS SAMANTHA BARBER	1,848	-	-	0.00
MS MARÍA HELENA ANTOLÍN RAYBAUD	3,247	-	-	0.00
MR ÁNGEL JESÚS ACEBES PANIAGUA	6,377	-	-	0.00
MS GEORGINA KESSEL MARTÍNEZ	4,277	-	-	0.00
MS DENISE MARY HOLT	541	-	-	0.00
MR JOSÉ WALFREDO FERNÁNDEZ	0	-	-	0.00
MR MANUEL MOREU MUNAIZ	23,695	-	-	0.00
	-	MS MARÍA GAMAZO TRUEBA	23,695	
MR XABIER SAGREDO ORMAZA	0	-	-	0.00
MR JUAN MANUEL GONZÁLEZ SERNA	42,451	GRUPO SIRO CORPORATIVO, S.L.	374,507	0.01

MR FRANCISCO MARTÍNEZ CÓRCOLES	303,423	-	-	0.00
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<b>Total percentage of voting rights held by the board of directors</b>	0.15
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Complete the following tables about members of the company's board of directors who hold rights to shares of the company:

Individual or company name of director	Number of direct rights	Indirect rights		Number of equivalent shares	% of total voting rights
		Direct holder	Number of voting rights		
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	2,921,192	MR JOSÉ IGNACIO SÁNCHEZ GALÁN	2,921,192	2,921,192	0.05
MR FRANCISCO MARTÍNEZ CÓRCOLES	541,862	MR FRANCISCO MARTÍNEZ CÓRCOLES	541,862	541,862	0.00

**A.4. State, if applicable, the family, commercial, contractual or corporate relationships between significant shareholders, to the extent known to the company, unless they are immaterial or result from the ordinary course of business:**

Related individual or company name	Type of relationship	Brief description

**A.5. State, if applicable, the commercial, contractual, or corporate relationships between significant shareholders and the company and/or its group, unless they are immaterial or result from the ordinary course of business:**

Related individual or company name	Type of relationship	Brief description

**A.6. State whether any private (paracorporate) shareholders' agreements affecting the company pursuant to the provisions of sections 530 and 531 of the Companies Act (*Ley de Sociedades de Capital*) have been reported to the company. If so, briefly describe them and list the shareholders bound by the agreement:**

Yes  No

Participants in the private shareholders' agreement	% of share capital affected	Brief description of the agreement

State whether the company is aware of the existence of concerted actions among its shareholders. If so, briefly describe them:

Yes  No

Participants in concerted action	% of share capital affected	Brief description of the concerted action

Expressly state whether any of such agreements, arrangements, or concerted actions have been modified or terminated during the financial year:

Not applicable.

A.7. State whether there is any individual or legal entity that exercises or may exercise control over the company pursuant to section 5 of the Securities Market Act (*Ley del Mercado de Valores*). If so, identify it:

Yes  No

Individual or company name

  

Comments

A.8. Complete the following tables about the company's treasury shares:

As of year-end:

Number of direct shares	Number of indirect shares (*)	Total % of share capital
75,710,149	0	1.198

(\*) Through:

Individual or company name of direct holder of the interest	Number of direct shares
<b>Total:</b>	

Explain any significant changes, pursuant to the provisions of Royal Decree 1362/2007, that have occurred during the financial year:

Explain any significant changes
<p>The Company sent to the CNMV three updates to its treasury share position in 2017 as a result of a change in the number of voting rights arising from corporate transactions:</p> <ul style="list-style-type: none"> <li>- notices of direct acquisitions of a total of 21,605,738 shares (0.334%) were provided on 30 January, coinciding with the increase in capital resulting from the "Iberdrola Flexible Dividend" programme.</li> </ul>

- notices of direct acquisitions of a total of 52,670,619 shares (0.844%) were provided on 1 June, coinciding with the reduction in capital; and
- notices of direct acquisitions of a total of 18,424,109 shares (0.292%) were provided on 31 August, coinciding with the increase in capital resulting from the "Iberdrola Flexible Dividend" programme.

During financial year 2017, the Company also provided a notice arising from consecutive direct acquisitions of own shares due to said acquisitions exceeding 1% of voting rights since the preceding notice:

- notices of direct acquisitions of a total of 69,572,560 shares (1.094%) were provided on 4 January 2017.

**A.9. Describe the terms and conditions and the duration of the powers currently in force given by the shareholders to the board of directors in order to issue, repurchase, or transfer own shares of the company:**

The shareholders acting at the General Shareholders' Meeting held on 28 March 2014 resolved to expressly authorise the Board of Directors, with the power of substitution, pursuant to the Companies Act (*Ley de Sociedades de Capital*), to carry out the derivative acquisition of the shares of Iberdrola on the following terms:

- Purchases may be made by Iberdrola directly, or indirectly through its subsidiaries. Subsidiaries carrying out regulated activities are excluded pursuant to the provisions of the Electricity Industry Act (*Ley del Sector Eléctrico*) and the Hydrocarbons Act (*Ley de Hidrocarburos*).
- Purchases shall be made by means of a purchase and sale agreement, a swap arrangement, or any other transaction permitted by law.
- Purchases may be made up to the maximum sum permitted by law (i.e. 10% of the share capital).
- Purchases may not be made at a higher price than that quoted on the Stock Exchange or at a price lower than the share's nominal value.
- The authorisation was granted for a period not to exceed five years as from the approval of the resolution.
- The acquiring company shall establish a restricted reserve in shareholders' equity equal to the amount of the shares of the controlling company recorded under assets. Such reserve shall be maintained for so long as the shares are not transferred or retired, in compliance with the provisions of the Companies Act.

The shares, if any, purchased as a result of the aforementioned authorisation could be used for either transfer or retirement or could be applied to the remuneration systems provided for in the Companies Act; added to the foregoing alternatives was the possible development of programmes fostering the acquisition of interests in the Company, such as, for example, dividend reinvestment plans, loyalty bonds or similar instruments.

Furthermore, at the General Shareholders' Meeting held on 8 April 2016, the shareholders resolved to authorise the Board of Directors to increase share capital upon the terms and within the limits set forth in section 297.1.b) of the Companies Act, with the power to exclude preemptive rights, limited to a maximum nominal amount of 20% of the share capital.

**A.9.bis Estimated free-float:**

	%
<b>Estimated free-float:</b>	80.72

**A.10. State whether there are any restrictions on the transfer of securities and/or any restrictions on voting rights. In particular, disclose the existence of any**

**restrictions that might hinder a takeover of the company through the acquisition of its shares in the market.**

Yes  No

Description of restrictions
<p>Those having an interest equal to or greater than 3% of the capital or voting rights of two or more companies that have the status of Principal Operator in certain markets or sectors (including the generation and supply of electricity) may not exercise rights in excess of such percentage in more than one entity.</p> <p>Article 29.2 of the By-Laws provides that no shareholder may cast a number of votes greater than those corresponding to shares representing 10% of the share capital.</p> <p>According to article 28, a shareholder may not exercise their right to vote at the General Shareholders' Meeting if it deals with a resolution intended to: (a) relieve the shareholder of an obligation or grant the shareholder a right; (b) provide the shareholder with any kind of financial assistance, including the provision of guarantees in favour thereof; or (c) release the shareholder, if a director, from obligations arising from the duty of loyalty as provided by law.</p> <p>Article 50 of the By-Laws provides that the by-law restrictions against the exercise of voting rights by shareholders affected by conflicts established in article 28 above and the limitation on the maximum number of votes that may be cast by a single shareholder contained in sections 2 and 4 of article 29 above shall be deprived of effect upon the occurrence of certain circumstances in the case of a takeover bid.</p> <p>Furthermore, section 527 of the Companies Act provides that at listed companies (<i>sociedades anónimas cotizadas</i>), the by-law provisions that directly or indirectly set, as a general rule, the maximum number of votes that may be cast by the same shareholder, by the companies belonging to the same group or by those acting in concert with the foregoing shall be of no effect when, following a takeover bid, the bidder has reached a percentage that is equal to or greater than 70% of the voting share capital, unless such bidder is not subject to equivalent breakthrough measures or has not adopted them.</p> <p>Pursuant to U.S. law, due to the business carried out by Avangrid, Inc. (a company belonging to the Iberdrola group) in that country, the acquisition of an interest giving rise to the holding of 10% or more of the share capital of Iberdrola will be subject to the prior approval of certain U.S. regulatory authorities.</p>

**A.11. State whether the shareholders acting at a general shareholders' meeting have approved the adoption of breakthrough measures in the event of a takeover bid pursuant to the provisions of Law 6/2007.**

Yes  No

**If applicable, explain the approved measures and the terms on which the restrictions will become ineffective.**

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**A.12. State whether the company has issued securities that are not traded on a regulated market within the European Community.**

Yes  No

**If applicable, specify the different classes of shares, if any, and the rights and obligations attaching to each class of shares.**

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**B. GENERAL SHAREHOLDERS' MEETING**

**B.1. State and, if applicable, describe whether there are differences with the minimum requirements set out in the Companies Act in connection with the quorum needed to hold a valid general shareholders' meeting.**

Yes  No

	Quorum % different from that established in section 193 of the Companies Act generally	Quorum % different from that established in section 194 of the Companies Act for the special circumstances described in section 194.
Required quorum upon 1 <sup>st</sup> call	-	66.67
Required quorum upon 2 <sup>nd</sup> call	-	60.00

Description of differences
As the only exception to the rules provided for in the Companies Act, article 21.2 of the By-Laws increases the quorum required to hold a valid meeting "in order to adopt resolutions regarding a change in the object of the Company, transformation, total split-off, dissolution of the Company, and the amendment of this section 2", in which case "shareholders representing two-thirds (2/3) of subscribed share capital with voting rights must be in attendance at the first call to the General Shareholders' Meeting, and shareholders representing sixty (60%) per cent of such share capital must be in attendance at the second call".

**B.2. State and, if applicable, describe any differences from the rules set out in the Companies Act for the adoption of corporate resolutions:**

Yes  No

**Describe how they differ from the rules provided by the Companies Act.**

	Qualified majority other than that established in section 201.2 of the Companies Act for the cases set forth in section 194.1 of the Companies Act	Other instances in which a qualified majority is required
% established by the entity for the adoption of resolutions	75.00%	75.00%

Describe the differences
Article 52 of the By-Laws provides that all resolutions intended to eliminate or amend the provisions contained in title IV (breakthrough of restrictions in the event of takeover bids), in article 28 (conflicts of interest), and in sections 2 to 4 of article 29 (limitation upon the maximum number of votes that a shareholder may cast), shall require the affirmative vote of three-fourths (3/4) of the share capital present in person or by proxy at a General Shareholders' Meeting.

**B.3. State the rules applicable to the amendment of the by-laws of the company. In particular, disclose the majorities provided for amending the by-laws, and any rules provided for the protection of the rights of the shareholders in the amendment of the by-laws.**

In addition to the provisions of section 285 *et seq.* of the Companies Act, the *By-Laws* of Iberdrola contain articles 21.2 (qualified quorum) and 52 (qualified majority) mentioned in sections B.1 and B.2 above.

**B.4. State the data on attendance at the general shareholders' meetings held during the financial year referred to in this report and those of the prior financial year:**

Attendance data					
Date of general shareholders meeting	% of shareholders present in person	% of shareholders represented by proxy	% absentee voting		% Total
			Electronic voting	Other	
08/04/2016	8.00	69.68	0.19	0.04	77.91
31/03/2017	4.33	71.92	0.82	0.13	77.20

**B.5. State whether there are any by-law restrictions requiring a minimum number of shares to attend the general shareholders' meeting.**

Yes  No

Number of shares required to attend the general shareholders' meeting	
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**B.6. Section deleted.**

**B.7. State the address and method for accessing the company's website to access information regarding corporate governance and other information regarding general shareholders' meetings that must be made available to the shareholders through the Company's website.**

[www.iberdrola.com](http://www.iberdrola.com) > Corporate Governance.  
 Information regarding past general shareholders' meetings of the Company can be accessed at the same address: [www.iberdrola.com](http://www.iberdrola.com) > Corporate Governance > General Shareholders' Meeting.

## C. STRUCTURE OF THE COMPANY'S MANAGEMENT

### C.1. Board of directors

#### C.1.1. Maximum and minimum number of directors set forth in the by-laws:

Maximum number of directors	14
Minimum number of directors	9

#### C.1.2. Complete the following table identifying the members of the board:

Individual or company name of the director	Representative	Type of director	Position on the board	Date of first appointment	Date of last appointment	Election procedure
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	-	EXECUTIVE	CHAIRMAN/CEO	21/05/2001	27/03/2015	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MR IÑIGO VÍCTOR DE ORIOL IBARRA	-	OTHER EXTERNAL	DIRECTOR	26/04/2006	08/04/2016	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MS INÉS MACHO STADLER	-	INDEPENDENT	DIRECTOR	07/06/2006	08/04/2016	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MR BRAULIO MEDEL CÁMARA	-	INDEPENDENT	DIRECTOR	07/06/2006	08/04/2016	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MS SAMANTHA BARBER	-	INDEPENDENT	DIRECTOR	31/07/2008	08/04/2016	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MS MARÍA HELENA ANTOLÍN RAYBAUD	-	INDEPENDENT	DIRECTOR	26/03/2010	27/03/2015	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MR ÁNGEL JESÚS ACEBES PANIAGUA	-	INDEPENDENT	DIRECTOR	24/04/2012	27/03/2015	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MS GEORGINA KESSEL MARTÍNEZ	-	INDEPENDENT	DIRECTOR	23/04/2013	28/03/2014	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MS DENISE MARY HOLT	-	INDEPENDENT	DIRECTOR	24/06/2014	27/03/2015	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MR JOSÉ WALFREDO FERNÁNDEZ	-	INDEPENDENT	DIRECTOR	17/02/2015	27/03/2015	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MR MANUEL MOREU MUNAIZ	-	INDEPENDENT	DIRECTOR	17/02/2015	27/03/2015	GENERAL SHAREHOLDERS' MEETING RESOLUTION

MR XABIER SAGREDO ORMAZA	-	OTHER EXTERNAL	DIRECTOR	08/04/2016	08/04/2016	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MR JUAN MANUEL GONZÁLEZ SERNA	-	INDEPENDENT	DIRECTOR	31/03/2017	31/03/2017	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MR FRANCISCO MARTÍNEZ CÓRCOLES	-	EXECUTIVE	DIRECTOR	31/03/2017	31/03/2017	GENERAL SHAREHOLDERS' MEETING RESOLUTION

<b>Total number of directors</b>	14
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**State the vacancies on the board of directors during the reporting period:**

Individual or company name of director	Class of director at time of vacancy	Date of vacancy
MR SANTIAGO MARTÍNEZ LAGE	Independent director	31/03/2017
MR JOSÉ LUIS SAN PEDRO GUERENABARRENA	Other external	31/03/2017

**C.1.3. Complete the following tables about the members of the board and each member's status:**

#### **EXECUTIVE DIRECTORS**

Individual or company name of director	Position within the company's structure
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	Chairman & CEO
MR FRANCISCO MARTÍNEZ CÓRCOLES	Business CEO

<b>Total number of executive directors</b>	2
<b>Total % of the board</b>	14.29

#### **EXTERNAL PROPRIETARY DIRECTORS**

Individual or company name of director	Individual or company name of the significant shareholder represented by the director or that has proposed the director's appointment

<b>Total number of proprietary directors</b>	0
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Total % of the board	
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### EXTERNAL INDEPENDENT DIRECTORS

Individual or company name of director	Profile
MS INÉS MACHO STADLER	<p>Bilbao, Spain, 1959</p> <p>She is a professor of Economics in the Economics and Economic History Department of Universidad Autónoma de Barcelona and a professor of the Barcelona Graduate School of Economics. She is also a member of the Council of the French Economic Observatory (<i>Observatoire Français des Conjonctures Économiques</i>) (OFCE), and honorary member of the European Economic Association and of the Spanish Economic Association (<i>Asociación Española de Economía</i>).</p> <p>Academic training</p> <p>Degree in Economics from Universidad del País Vasco, Master in Economics from l'École des Hautes Études en Sciences Sociales, and Doctor in Economics (Ph.D.) from the same academic institution and from l'École Nationale de la Statistique et de l'Administration Économique (ENSAE) (Paris, France).</p> <p>Noteworthy experience in the energy and industrial economy sector</p> <p>She has been a member of the International Scientific Advisory Committee of the Basque Centre for Climate Change (bc3) and has served as chair of the Scientific Committee of the 2011 Conference of the Spanish Association for Energy Economics (<i>Asociación Española para la Economía Energética</i>).</p> <p>Noteworthy experience in other industries</p> <p>She has been president of the Spanish Economic Association, coordinator of the National Agency for Quality Evaluation and Accreditation (<i>Agencia Nacional de Evaluación y Prospectiva</i>), and representative at the European Science Foundation, as well as a member-elect of the Council of the European Economic Association and a member of the Executive Committee of the European Association for Research in Industrial Economics. She has been a member of the Advisory Board of the Research Service of Caja de Ahorros y Pensiones de Barcelona, "la Caixa".</p> <p>She has taught at universities in Germany, Belgium, Brazil, Denmark, France, Portugal, and Spain.</p>
MR BRAULIO MEDEL CÁMARA	<p>Marchena, Spain, 1947</p> <p>Braulio is chair of Fundación Bancaria Unicaja and of Hidralia, S.A., and vice-chair of Confederación Española de Cajas de Ahorros (CECA). He is an independent director of the listed company Acerinox, S.A. and a director of Caja de Seguros Reunidos, Compañía de Seguros y Reaseguros, S.A., as well as a Professor of Public Finance at Universidad de Málaga.</p> <p>Academic training</p> <p>Degree in Economics and Business Administration from Universidad Complutense de Madrid and Doctorate in Economics and Business Administration from Universidad de Málaga.</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>He has been a member of the board of Compañía Sevillana de Electricidad, S.A., Retevisión, S.A. and Abertis Infraestructuras, S.A.</p> <p>Noteworthy experience in other industries</p> <p>He has been executive chair of Unicaja Banco, S.A. and chair of Ahorro Corporación, S.A., of Federación de Cajas de Ahorros de Andalucía and of CECA, and a member of the board of Centros Comerciales Carrefour, S.A., and has been a member of the governance bodies of the World Savings and</p>

	<p>Retail Banking Institute and of the European Savings and Retail Banking Group, of which he was vice-chair.</p> <p>He has also served as Deputy Minister for Economy and Finance of the Autonomous Government of Andalusia and as chair of Consejo Andaluz de Colegios de Economistas. He has also been a member of the board of trustees of the following foundations: Tres Culturas del Mediterráneo, El Legado Andalusi, Doñana 21 and CIEDES (<i>Centro de Investigaciones Estratégicas y Desarrollo Económico y Social</i>).</p>
<p>MS SAMANTHA BARBER</p>	<p>Dunfermline, Scotland, 1969</p> <p>She is chair of Scottish Ensemble, vice-chair of Scotland's 2020 Climate Group, and member of the Board of Scottish Water and its Remuneration Committee, of the GlobalScot Network and of the Advisory Board for the Imperial College London MBA. She also performs advisory and business coaching work.</p> <p>Academic training</p> <p>Bachelor of Arts in Applied Foreign Languages and European Politics from the University of Northumbria, Newcastle (England, United Kingdom) and Post-Graduate degree in EU Law from the University of Nancy (France).</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>She has been a member of the Advisory Council of Scottish Power following the integration of the Scottish company into the Iberdrola group.</p> <p>Noteworthy experience in other industries</p> <p>She has been a consultant within the European Parliament, where she provided support to the Economic and Monetary Affairs Committee, a board member of Business for Scotland, and the chief executive of Scottish Business in the Community.</p> <p>She has also been a member of the Advisory Board of Breakthrough Breast Cancer and of the Board of Directors of Right Track Scotland, an organisation dedicated to advancing educational, training, and employment opportunities for youths at risk of social exclusion.</p> <p>She was chosen as one of the "Top 100 Women to Watch" according to the FTSE list and Cranfield University, and was a finalist and earned second place in the annual Director of the Year Awards 2012 of IoD Scotland NED.</p>
<p>MS MARÍA HELENA ANTOLÍN RAYBAUD</p>	<p>Toulon, France, 1966</p> <p>She is vice-chair of the Board of Directors and member of the Management Committee of Grupo Antolín Irausa, S.A. She is also president of the Spanish Association of Automotive Equipment and Component Manufacturers (<i>Asociación Española de Fabricantes de Equipos y Componentes para Automoción</i>) (Sernauto), vice president of Excellence in Management Club (<i>Club de Excelencia en la Gestión</i>), and a board member of France Foreign Trade (<i>Comercio Exterior de Francia</i>), Spain section.</p> <p>Academic training</p> <p>Degree in International Business and Business Administration from Eckerd College, St. Petersburg, Florida (United States of America), and a Master of Business Administration from Anglia University, Cambridge (United Kingdom) and from Escuela Politécnica de Valencia (Spain).</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>She has served as an independent director of Iberdrola Renovables, S.A. and a member of its Related-Party Transactions Committee.</p> <p>She has been in charge of the corporate Industrial and Strategy Divisions of Grupo Antolín Irausa, S.A., where she has also been a director of Human Resources and the head of Total Quality for the Group.</p>
<p>MR ÁNGEL JESÚS ACEBES PANIAGUA</p>	<p>Ávila, Spain, 1958</p> <p>He is chairman and founding partner of Grupo MA Abogados Estudio</p>

	<p>Jurídico, S.L., as well as sole director and professional partner of Doble A Estudios y Análisis, S.L.P. He is also a member of the Advisory Board of Wolters Kluwer España, and a trustee of Fundación para el Análisis y Estudios Sociales (FAES) and of Fundación Universitaria de Ávila, UCAV.</p> <p>Academic training</p> <p>Degree in Law from Universidad de Salamanca.</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>As a lawyer, he has advised companies in the energy and technological/industrial sectors, among others. He also has significant knowledge of the regulatory area due to his work as a member of the Council of Ministers of the Government of Spain, a senator, and a national deputy.</p> <p>Noteworthy experience in other industries</p> <p>He has served on the board of Caja Madrid Cibeles, S.A., which manages the investments of Grupo Caja Madrid in other companies with activities in the financial and insurance sectors (like Mapfre Internacional, S.A.) as well as the retail banking sector outside of Spain. After the public listing of Bankia, S.A., he was a member of the board of Banco Financiero y de Ahorros, S.A. (“BFA”), chairing its Audit and Compliance Committee.</p> <p>In the institutional arena, he has been Minister for Public Administrations, Minister of Justice and Minister of the Interior of the Spanish Government.</p>
<p>MS GEORGINA KESSEL MARTÍNEZ</p>	<p>Mexico City, Mexico, 1950</p> <p>She is an independent director and chair of the Audit Committee of Grupo Financiero Scotiabank Inverlat, and a partner of Spectron E&amp;I, as well as a member of the Business Board of Universidad de las Américas Puebla (UDLAP).</p> <p>Academic training</p> <p>Holder of a degree in Economics from Instituto Tecnológico Autónomo de México and of a Master’s and Doctor’s degree in Economics from Columbia University (New York).</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>She has been chair of the Energy Regulatory Commission (<i>Comisión Reguladora de Energía</i>) and Energy Secretary of the Government of Mexico.</p> <p>She has also been chair of the Board of Directors of Pemex (Petróleos Mexicanos) and of the Board of Directors of the Federal Electricity Commission (<i>Comisión Federal de Electricidad</i>) (CFE).</p> <p>She has participated in the Energy Council of the World Economic Forum and in the United Nations Organization Secretary General’s advisory group (Sustainable Energy for All).</p> <p>Noteworthy experience in other industries</p> <p>She has been an adviser to the chair of the Federal Competition Commission (<i>Comisión Federal de Competencia</i>), head of the Quasi-Autonomous Non-Governmental Organisations Investment and Divestment Unit (<i>Unidad de Inversiones y Desincorporación de Entidades Paraestatales</i>) of the Office of the Secretary of Finance and Public Credit of Mexico, general manager of the National Mint of Mexico (<i>Casa de Moneda de México</i>), member of the boards of Nacional Financiera (Nafinsa) and of Banco Nacional de Comercio Exterior (Bancomext), and general manager of Banco Nacional de Obras y Servicios Públicos.</p> <p>In the academic field, she has been a professor in the Economics Department of Instituto Tecnológico Autónomo de México, deputy chair of the course towards a Degree in Economics, and chair of the Alumni Association. She was also holder of the Quintana Chair for Research in International Trade and is the author of many papers and specialised articles.</p>
<p>MS DENISE MARY</p>	<p>Vienna, Austria, 1949</p>

<p>HOLT</p>	<p>She is an independent director and member of the Risk Committee of HSBC Bank plc., chair and independent director of M&amp;S Financial Services Ltd., independent director and member of the Quality and Safety and Compensation Committees of the Board of Directors of Nuffield Health, as well as a member of the Board of the University of Sussex.</p> <p>Academic training</p> <p>Degrees in Spanish Philology, French Philology, and Political Sciences from the University of Bristol and Doctor of Laws from the same university (England, United Kingdom).</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>She has been an independent director of Scottish Power Renewable Energy Ltd. and of Scottish Power Energy Networks Holdings Ltd.</p> <p>Noteworthy experience in other industries</p> <p>In her diplomatic career, she has been first secretary of the Embassy of the United Kingdom in Brazil, director of Human Resources, of Migration and of the Overseas Territories at the UK Foreign and Commonwealth Office, and ambassador of the United Kingdom to Mexico, Spain, and Andorra. For her contribution to the British diplomatic service, she was elevated to Dame Commander of the Order of St Michael and St George (DCMG).</p> <p>She has also been chair of the Anglo-Spanish Society and of the Institute of Latin American Studies at the University of London, and has chaired the Nominations Committee of the Alzheimer's Society.</p>
<p>MR JOSÉ WALFREDO FERNÁNDEZ</p>	<p>Cienfuegos, Cuba, 1955</p> <p>He is a partner of Gibson, Dunn &amp; Crutcher and a member of the board of directors of the Council of the Americas and the Center for American Progress.</p> <p>Academic training</p> <p>Degree in History from Dartmouth College (New Hampshire, United States of America), and Juris Doctor from Columbia University (New York, United States of America).</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>He has been Assistant Secretary of State for Economic, Energy and Business Affairs for the United States of America. He has also been an independent director of Iberdrola USA, Inc.</p> <p>Noteworthy experience in other industries</p> <p>He has served on the boards of Dartmouth College, NPR Station WBGO-FM, the Middle East Institute, and Ballet Hispánico of New York and of non-governmental institutions such as Acción Internacional. He has also been the State Department's representative on the Committee on Foreign Investment in the United States.</p> <p>In addition, he was named one of the "World's Leading Lawyers" by Chambers Global for his M&amp;A work, an "Expert" by the International Financial Law Review, one of the "World's Leading Privatization Lawyers" by Euromoney, and "Embajador de la Marca España" (Ambassador of the Spain Brand).</p>
<p>MR MANUEL MOREU MUNAIZ</p>	<p>Pontevedra, Spain, 1953</p> <p>He is president of the Seaplace, S.L., sole director of H.I. de Iberia Ingeniería y Proyectos, S.L. and of Howard Ingeniería y Desarrollo, S.L., an independent director of Tubacex, S.A. and a member of the Spanish Committee of Lloyd's Register EMEA. He is also a professor of the Master's Programme in Oil (ETSIN) at Universidad Politécnica de Madrid - ETSIN, of the Maritime Master's Programme of Instituto Marítimo Español and of Universidad Pontificia Comillas.</p> <p>Academic training</p>



	<p>Doctorate in naval engineering from Escuela Técnica Superior de Ingenieros Navales (ETSIN) of the Universidad Politécnica de Madrid, and Master's degree in Oceanic Engineering from the Massachusetts Institute of Technology (MIT).</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>He has been an independent director of Iberdrola Renovables, S.A., and an independent director and member of the Audit and Compliance Committee of Gamesa Corporación Tecnológica, S.A.</p> <p>Noteworthy experience in other industries</p> <p>He has been a member of the board of Metalships and Docks, S.A., Neumáticas de Vigo, S.A. and Rodman Polyships, S.A., dean of the Colegio Oficial de Ingenieros Navales y Oceánicos de Madrid y de España and president of the Instituto de Ingeniería de España.</p>
<p>JUAN MANUEL GONZÁLEZ SERNA</p>	<p>Madrid, Spain, 1955</p> <p>He is the chairman of SIRO Group, a business group in the food sector, and a member of the Governing Board of the Spanish Commercial Coding Association (<i>Asociación Española de Codificación Comercial</i>) (AECOC).</p> <p>He is also a founding trustee and chairman of Fundación Grupo SIRO as well as a member of the Executive Committee and trustee of Fundación SERES, an honorary member of the General Assembly of the Spanish Paralympics Committee, a trustee of the Fundación Casa Ducal de Medinaceli, and honorary president of Empresa Familiar de Castilla y León.</p> <p>Academic training</p> <p>Degree in Law, Economics and Business Studies from the Instituto Católico de Administración y Dirección de Empresas (ICADE) of Universidad Pontificia Comillas (Madrid) and a Masters in Business Administration (MBA) from the Escuela de Dirección del Instituto de Estudios Superiores de la Empresa de la Universidad de Navarra (IESE Business School) in Barcelona.</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>He has been an independent director of Iberdrola España, S.A.U. and of Iberdrola Renovables, S.A., as well as chair of the Appointments and Remuneration Committee of the latter company.</p> <p>Noteworthy experience in other industries</p> <p>Apart from the food sector, he also has extensive experience in the finance, venture capital and health sectors: he is a member of the advisory board of Rabobank in Spain and Europe and has been a member of the board of Banco Urquijo Sabadell Banca Privada, S.A. and of Sociedad para el Desarrollo Industrial de Castilla y León, Sociedad de Capital Riesgo, S.A. (SODICAL, now Ade Capital Social, Sociedad de Capital Riesgo de Régimen Común, S.A.). He is also a member of the board of directors of the HM Hospitales Group.</p>

<b>Total number of independent directors</b>	10
<b>Total % of the board</b>	71.43

**State whether any director classified as independent receives from the company or its group any amount or benefit for items other than director remuneration, or maintains or has maintained during the last financial year a business relationship with the company or with any company of its group, whether in the director's own name or as a significant shareholder, director, or senior officer of an entity that maintains or has maintained such relationship. If applicable, include a reasoned statement of the director regarding the reasons for which it is believed that such director can carry out the duties thereof as an independent director.**

Not applicable.

### **OTHER EXTERNAL DIRECTORS**

Identify the other external directors and describe the reasons why they cannot be considered proprietary or independent directors as well as their ties, whether with the company, its management, or its shareholders:

Individual or company name of director	Reasons	Company, officer, or shareholder with which the director has ties
MR IÑIGO VÍCTOR DE ORIOL IBARRA	A company tied to the director billed the Iberdrola group for services during financial year 2016. The related-party transaction was fully reported in the Annual Corporate Governance Report for financial year 2015.	IBERDROLA
MR XABIER SAGREDO ORMAZA	He is chair of the Board of Trustees of Bilbao Bizkaia Kutxa Fundación Bancaria, the principal shareholder of Kutxabank, S.A. and until April 2017 an indirect holder of a significant interest in the capital of the Company.	KUTXABANK

<b>Total number of other external directors</b>	2
<b>Total % of the board</b>	14.29

State the changes, if any, in the class of each director during the period:

Individual or company name of director	Date of change	Former class	Current class

**C.1.4. Complete the following table with information regarding the number of female directors for the last 4 financial years, as well as the status of such directors:**

	Number of female directors				% of total directors of each class			
	Year t	Year t-1	Year t-2	Year t-3	Year t	Year t-1	Year t-2	Year t-3
<b>Executive</b>	-	-	-	-	-	-	-	-
<b>Proprietary</b>	-	-	-	-	-	-	-	-
<b>Independent</b>	5	5	5	5	50.00	50.00	50.00	50.00
<b>Other external</b>	-	-	-	-	-	-	-	-
<b>Total</b>	5	5	5	5	35.71	35.71	35.71	35.71

**C.1.5. Explain any measures adopted to include on the board of directors a number of women that allows for a balanced presence of men and women.**

Explanation of measures
<p>The Company's Corporate Governance System, and particularly the <i>Board of Directors Diversity and Director Candidate Selection Policy</i>, entrusts the Appointments Committee with the duty to ensure that when new vacancies are filled or new directors are appointed, the selection procedures are free from any implied bias entailing any kind of discrimination and, in particular, that such procedures do not hinder the selection of female directors. The goals thereof include ensuring that female directors continue to account for at least 30% of the Board of Directors by the year 2020.</p> <p>Five of the fourteen members of the Board of Directors are currently women.</p> <p>On 7 June 2006, the Board of Directors appointed Ms Inés Macho Stadler as independent director on an interim basis to fill a vacancy; such appointment was ratified by the shareholders at the General Shareholders' Meeting held on 29 March 2007, where the shareholders also approved her re-election for a five-year period. On 22 September 2009, Ms Inés Macho Stadler was appointed as lead independent director (<i>consejera coordinadora</i>), which position she has continuously held through the date hereof.</p> <p>At its meeting of 31 July 2008, the Board of Directors resolved to appoint Ms Samantha Barber as an independent director on an interim basis to fill a vacancy; such appointment was ratified by the shareholders at the General Shareholders' Meeting held on 20 March 2009. Ms Barber has also chaired the Corporate Social Responsibility Committee since 24 April 2012.</p> <p>The shareholders at the General Shareholders' Meeting held on 26 March 2010 approved the proposed appointment of Ms María Helena Antolín Raybaud, with the classification of external independent director.</p> <p>On 23 April 2013, Iberdrola's Board of Directors approved the interim appointment of Ms Georgina Kessel Martínez as an external independent director, which appointment was subsequently ratified by the shareholders at the General Shareholders' Meeting held on 28 March 2014. Furthermore, Ms Kessel Martínez was appointed chair of the Audit and Risk Supervision Committee on 17 February 2015.</p> <p>On 24 June 2014, the Board of Directors approved the interim appointment of Ms Denise Mary Holt as an external independent director. This appointment was ratified by the shareholders at the General Shareholders' Meeting held on 27 March 2015.</p> <p>Finally, the Appointments and Remuneration Committee was split into two separate committees on 27 March 2015. The appointment of Ms María Helena Antolín Raybaud and of Ms Inés Macho Stadler as chairs of the Appointments Committee and the Remuneration Committee, respectively, was approved for these purposes.</p> <p>As a result of the foregoing, all consultative committees of the Board of Directors are chaired by women.</p> <p>It should also be noted that the Board of Directors, at its meeting held on 19 December 2017, approved a <i>Board of Directors Diversity and Director Candidate Selection Policy</i>, the new name of the former <i>Director Candidate Selection Policy</i>, which is intended to cause the composition of the Board of Directors to reflect a maximum diversity of skills and viewpoints with special emphasis on issues such as age, gender, disability, training and professional experience. This Policy is available on the corporate website (<a href="http://www.iberdrola.com">www.iberdrola.com</a>) where the Activities Report of the Board and of the Committees thereof can also be found. Among other issues, this Report details the professional skills and experience of the directors and is a good example of the application of the Policy.</p>

**C.1.6. Explain any measures approved by the appointments committee in order for selection procedures to be free of any implied bias that hinders the selection of female directors, and in order for the company to deliberately search for women who meet the professional profile that is sought and include them among potential candidates:**

Explanation of measures
<p>The <i>Board of Directors Diversity and Director Candidate Selection Policy</i> ensures that the proposed appointments of directors are based on a prior analysis of the needs of the Board of Directors. In particular, the candidates must be respectable and qualified persons, widely recognised for their expertise, competence, experience, qualifications, training, availability and commitment to their duties.</p>

They must be irreproachable professionals, whose professional conduct and background is aligned with the principles set forth in the Directors' Code of Ethics and the corporate values contained in the Mission, Vision and Values of the Iberdrola group.

In the selection of candidates, it also endeavours to ensure a diverse and balanced composition of the Board of Directors overall, such that decision-making is enriched and multiple viewpoints are contributed to the discussion of the matters within its power. To this end, the selection process shall promote a search for candidates with knowledge and experience in the main countries and sectors in which the group does or will do business. The directors must also have sufficient knowledge of the Spanish and English languages to be able to perform their duties.

In turn, the Board has entrusted to the Appointments Committee the responsibility of ensuring that when new vacancies are filled or new directors are appointed, the selection procedures are free from any implied bias entailing any kind of discrimination and, in particular, from any bias that might hinder the selection of female directors.

**If there are few or no female directors despite any measures adopted, describe the reasons for such result:**

Explanation of reasons
Not applicable.

**C.1.6.bis Explain the conclusions of the appointments committee regarding verification of compliance with the director selection policy. Particularly explain how said policy is promoting the goal that the number of female directors represents at least 30% of all members of the board of directors by 2020.**

The *Board of Directors Diversity and Director Candidate Selection Policy* conforms to the most stringent domestic and international corporate governance practices regarding appointments, seeking diversity of knowledge, experience, origin, nationality and gender within the Board of Directors. The Policy specifies the Company's commitment to eliminate any implied bias that hinders the selection of female directors, who currently represent more than 35% of the members of the Board of Directors, having already exceeded the commitment set out in the policy stating that the number of female directors would represent at least thirty per cent of all members of the Board of Directors by 2020. Finally, the Policy promotes the inclusion within the Board of Directors of candidates with experience on boards of directors of subsidiaries of the Iberdrola group, who thus contribute their knowledge of the Company's business through such subsidiaries.

**C.1.7. Explain the form of representation on the board of shareholders with significant holdings.**

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**C.1.8. Explain, if applicable, the reasons why proprietary directors have been appointed at the proposal of shareholders whose shareholding interest is less than 3% of share capital.**

Individual or company name of the shareholder	Reason

**State whether there has been no answer to formal petitions for presence on the board received from shareholders whose shareholding interest is equal to or**

greater than that of others at whose proposal proprietary directors have been appointed. If so, describe the reasons why such petitions have not been answered:

Yes  No

Individual or company name of the shareholder	Explanation

**C.1.9. State whether any director has withdrawn from the position as such before the expiration of the director's term of office, whether the director has given reasons to the board and by what means, and in the event that the director gave reasons in writing, describe at least the reasons given thereby:**

Name of director	Reason for withdrawal
MR SANTIAGO MARTÍNEZ LAGE	Sole Transitional Provision of the Regulations of the Board of Directors.
MR JOSÉ LUIS SAN PEDRO GUERENABARRENA	Sole Transitional Provision of the Regulations of the Board of Directors.

**C.1.10. State any powers delegated to the CEO(s):**

Individual or company name of director	Brief description
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	The chairman & chief executive officer, as an individual decision-making body, has all the powers that may be delegated under the law and the <i>By-Laws</i> .

**C.1.11. Identify any members of the board who are directors or officers of companies within the listed company's group:**

Individual or company name of director	Name of entity within the group	Position	Does he/she have executive duties?
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	SCOTTISH POWER LTD.	Chairman	NO
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	AVANGRID, INC.	Chairman	NO
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	NEOENERGIA, S.A.	Chairman	NO
MR FRANCISCO MARTÍNEZ CÓRCOLES	IBERDROLA ESPAÑA, S.A.	Chairman	NO
MR FRANCISCO MARTÍNEZ CÓRCOLES	IBERDROLA MÉXICO, S.A. DE C.V.	Director	NO

**C.1.12. Identify the directors of your company, if any, who are members of the board of directors of other companies listed on official stock exchanges other than those of your group, which have been reported to your company:**

Individual or company name of the director	Name of listed company	Position
MR BRAULIO MEDEL CÁMARA	ACERINOX, S.A.	Director
MS GEORGINA KESSEL MARTÍNEZ	GRUPO FINANCIERO SCOTIABANK INVERLAT, S.A. DE C.V.	Director
MS DENISE MARY HOLT	HSBC BANK PLC.	Director
MR MANUEL MOREU MUNAIZ	TUBACEX, S.A.	Director

**C.1.13. State and, if applicable, explain whether the regulations of the board have established rules regarding the maximum number of boards of which its directors may be members:**

Yes  No

Explanation of rules
Pursuant to the Regulations of the Board of Directors, individuals or legal entities serving as directors in more than five companies, of which no more than three may have shares trading on domestic or foreign stock exchanges, may not be appointed as directors. Positions within holding companies are excluded from the calculation. Furthermore, companies belonging to the same group shall be deemed to be a single company.

**C.1.14. Section deleted.**

**C.1.15. State the overall remuneration of the board of directors:**

Remuneration of the board of directors (thousands of euros)	16,686
Amount of pension rights accumulated by the current directors (thousands of euros)	0
Amount of pension rights accumulated by former directors (thousands of euros)	0

**C.1.16. Identify the members of the company's senior management who are not executive directors and state the total remuneration accruing to them during the financial year:**

Individual or company name	Position(s)
MR JOSÉ SAINZ ARMADA	Chief Financial and Resources Officer (CFO)
MS SONSOLES RUBIO REINOSO	Director of Internal Audit
MR PEDRO AZAGRA BLÁZQUEZ	Director of Corporate Development

MR JUAN CARLOS REBOLLO LICEAGA	Director of Administration and Control
MR SANTIAGO MARTÍNEZ GARRIDO	Chief Legal Officer

<b>Total senior management remuneration (in thousands of euros)</b>	16,062
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**C.1.17. State the identity of the members of the board, if any, who are also members of the board of directors of significant shareholders and/or in entities of their group:**

Individual or company name of director	Company name of the significant shareholder	Position

**Describe any significant relationships, other than the ones contemplated in the prior item, of the members of the board of directors linking them to significant shareholders and/or companies within their group:**

Individual or company name of related director	Individual or company name of related significant shareholder	Description of relationship

**C.1.18. State whether the regulations of the board have been amended during the financial year:**

Yes  No

Description of amendments
<p>Set out below are the main amendments to the Regulations of the Board of Directors during financial year 2017:</p> <ul style="list-style-type: none"> <li>– The powers of the Board of Directors are updated to refer to its duties regarding the definition of the group’s organisational model and the supervision of compliance and development thereof, and those regarding the appointment, removal and establishment of the basic terms of the contracts with officers are clarified.</li> <li>– References to the <i>Activities Report of the Board of Directors and of the Committees thereof</i> are added, particularly including the powers of the consultative committees.</li> <li>– A provision is included to the effect that communications and forms that the directors must send to the Company are generally sent through the directors’ website, giving these communications the same effects as if signed copies were sent.</li> <li>– The definition of the position of senior officer (<i>alto directivo</i>) is homogenised with the one set out in other provisions of the Corporate Governance System.</li> <li>– The functions of the Office of the Secretary of the Board of Directors are strengthened regarding the coordination of the consultative committees as to the meeting schedules, agendas and appearances.</li> <li>– When there is an approval of minutes as a group at the next meeting, a portion of the minutes can be approved at the end of the meeting, provided that the text being approved has been published on the directors’ website prior to the meeting or has been read aloud prior to adjournment of the meeting.</li> <li>– There is an inclusion of the best practices contained in the <i>Technical Guide 3/2017 on Audit Committee at Public Interest Entities</i> published by the National Securities Market Commission on 27</li> </ul>

**C.1.19. State the procedures for the selection, appointment, re-election, evaluation, and removal of directors. Describe the competent bodies, the procedures to be followed, and the criteria applied in each of such procedures.**

**1. APPOINTMENT AND RE-ELECTION OF DIRECTORS**

The appointment, re-election, and removal of directors is within the purview of the shareholders at the General Shareholders' Meeting.

Vacancies that occur may be filled by the Board of Directors on an interim basis until the next General Shareholders' Meeting.

The Appointments Committee must advise the Board of Directors regarding the most appropriate configuration thereof and of its committees as regards size and equilibrium among the various classes of directors existing at any time. This is in any event based on the conditions that candidates for director must meet pursuant to the *Board of Directors Diversity and Director Candidate Selection Policy*.

The following may not be appointed as directors or as individuals representing a corporate director:

- a) Domestic or foreign companies competing with the Company in the energy industry or other industries, or the directors or senior officers thereof, or such persons, if any, as are proposed by them in their capacity as shareholders.
- b) Individuals or legal entities serving as directors in more than five companies, of which no more than three may have shares trading on domestic or foreign stock exchanges.
- c) For purposes of the provisions of the preceding paragraph, positions within holding companies are excluded from the calculation. Furthermore, companies belonging to the same group shall be deemed to be a single company.
- d) Persons who, during the two years prior to their appointment, have occupied high-level positions in Spanish government administrations that are incompatible with the simultaneous performance of the duties of a director of a listed company under Spanish national or autonomous community law, or positions of responsibility with entities regulating the energy industry, the securities markets, or other industries in which the Group operates.

Individuals or legal entities that are under any other circumstance of disqualification or prohibition governed by provisions of a general nature, including those that have interests in any way opposed to those of the Company or the Group.

The Board of Directors and the Appointments Committee, within the scope of their powers, shall endeavour to ensure that the candidates proposed are respectable and qualified persons, widely recognised for their expertise, competence, experience, qualifications, training, availability, and commitment to their duties.

It falls upon the Appointments Committee to propose the independent directors, as well as to report upon the proposals relating to the other classes of directors.

If the Board of Directors deviates from the proposals and reports of the Appointments Committee, it shall give reasons for so acting and shall record such reasons in the minutes.

**2. EVALUATION OF DIRECTORS**

The Board of Directors annually evaluates: (i) its operation and the quality of its work; (ii) the performance of their duties by the chairman of the Board of Directors, by the CEO and by the Business CEO, based on the report submitted thereto by the Appointments Committee; and (iii) the operation of its committees, in view of the report submitted thereto by such committees. For such purpose, the chairman of the Board of Directors shall organise and coordinate the aforementioned evaluation process with the chair of each committee. The following section reports on the evaluation process during financial year 2017.

**3. REMOVAL OF DIRECTORS**

Directors "shall serve in their position for a term of four (4) years, so long as the shareholders acting at the General Shareholders' Meeting do not resolve to remove them and they do not resign from their position".

The Appointments Committee shall inform the Board of Directors regarding proposed removals due to breach of the duties inherent to the position of director or due to a director becoming affected by



supervening circumstances of mandatory resignation or withdrawal. In addition, the Committee may propose the removal of directors in the event of disqualification, structural conflict of interest, or any other reason for resignation or withdrawal, pursuant to law or the Company's Corporate Governance System.

The Board of Directors may propose the removal of an independent director before the passage of the period provided for in the By-Laws only upon sufficient grounds, evaluated by the Board of Directors after a report from the Appointments Committee, or as a consequence of takeover bids, mergers, or other similar corporate transactions resulting in a significant change in the structure of the Company's share capital, as recommended by the Good Governance Code of Listed Companies.

**C.1.20 Explain the extent to which the self-evaluation of the board has given rise to significant changes in its internal organisation and regarding the procedures applicable to its activities:**

Description of amendments
<p>The Iberdrola group has an on-going commitment to the development of its corporate governance. In order to continue to permanently improve, Iberdrola evaluates the operation of its governance bodies on an annual basis, and based on the conclusions obtained, identifies the principal areas of work for the coming year.</p> <p>More than 95% of the work areas defined in the evaluation process from the prior year were met during 2017. Specifically, significant advancements were made in the following areas:</p> <ol style="list-style-type: none"> <li>1. Renewal of the composition of governance bodies: <ul style="list-style-type: none"> <li>- Strengthening of the checks-and-balances system with the appointment of Mr Francisco Martínez Córcoles as Business CEO (<i>consejero-director general de Negocios</i>).</li> <li>- Maintenance of a high percentage of independent directors (71%) after the appointment of Mr Juan Manuel González Serna as independent director.</li> <li>- Update and new name of the <i>Board of Directors Diversity and Director Candidate Selection Policy</i>.</li> </ul> </li> <li>2. Operation: <ul style="list-style-type: none"> <li>- Conformance of the Audit and Risk Supervision Committee and the Company's Corporate Governance System to the recommendations contained in Technical Guide 3/2017 on audit committees at public-interest entities published by the National Securities Market Commission.</li> <li>- Adaptation of the training programmes for the directors to their own needs and to critical areas of the market and improvement of the orientation programme for new directors.</li> <li>- Development and approval of an annual work plan for each of the consultative committees.</li> <li>- Expansion of the evaluation to include the opinion of the directors regarding the operation of the consultative committees.</li> <li>- Holding of several meetings of the Board of Directors in Scotland and of the Executive Committee in Mexico.</li> </ul> </li> <li>3. Remuneration: <ul style="list-style-type: none"> <li>- Publication of the weighting of each group of targets in the annual variable remuneration of the executive directors.</li> <li>- Inclusion of clawback clauses in the 2017-2019 Strategic Bonus.</li> </ul> </li> <li>4. Transparency and stakeholder engagement: <ul style="list-style-type: none"> <li>- Measurement of the group's social contribution through the <i>Iberdrola group's economic, social and environmental impact on the world</i> report, prepared by an external expert.</li> <li>- Update of the <i>Stakeholder Relations Policy</i> and of the <i>Policy on Respect for Human Rights</i>.</li> </ul> </li> </ol>

**C.1.20 bis Describe the process of self-evaluation and the areas evaluated by the board of directors, as it may be assisted by an external consultant, regarding diversity in its composition and powers, the operation and composition of its**

**committees, the performance of the chairman of the board and chief executive officer, and the performance and contribution of each director.**

The Board of Directors evaluates its performance on an annual basis, and on 24 October 2017 it approved the commencement of the process of evaluation of the Board of Directors itself, the Executive Committee, its consultative committees, the chairman & CEO, the Business CEO and the other directors. The evaluation of the chairman & CEO was led by the lead independent director. The process concluded at the meeting of the Board of Directors held on 20 February 2018, which approved the results of the evaluation of financial year 2017 and the Continuous Improvement Plan for financial year 2018.

In order to align the Company with best international practices, it was decided to hire PricewaterhouseCoopers Asesores de Negocios, S.L. ("PwC") as an external adviser in the evaluation process.

The evaluation process verifies compliance with legal provisions and the Company's Corporate Governance System. It also includes a comparative analysis with more than 20 domestic and international companies and monitors the most advanced corporate governance trends. In addition, it evaluates the achievement of the areas of work identified in the evaluation from the prior year.

The evaluation also serves as an instrument to perfect corporate governance practices, as it allows for identification of opportunities for improvement that are specified in the Continuous Improvement Plan.

The conclusions of the evaluation process reflect absolute compliance with the indicators relating to mandatory legal rules and regulations and an alignment of more than 90% with the latest international trends and with the application of the areas for improvement identified during prior years.

The Continuous Improvement Plan 2018 deriving from the evaluation process focuses on continuing to advance in four areas, principally:

1. Supervision of critical issues like risks arising from climate change and the group's actions having an impact on the Social Dividend.
2. Continued evolution in the composition of the Board of Directors, improving the rationale for the proposed appointments of new directors.
3. Progress in shareholder engagement and in the information published on issues discussed with the shareholders.
4. Continue the comparison of market trends on remuneration and transparency in remuneration.

**C.1.20 *ter* List any business relationships of the consultant or any company of its group with the company or any company of its group.**

The business relationships of the consultant and the companies of its group with the Company and the group in 2017 came to the aggregate amount of 10.7 million euros, and were mainly focused on the following:

- Support in the tax area.
- Advice on systems.
- Support to the Board and to the Secretary of the Board of Directors.
- Expert reports.
- Pensions.

**C.1.21. State the circumstances under which the resignation of directors is mandatory.**

Directors must submit their resignation from the position and formally resign from their position upon the occurrence of any of the instances of disqualification from or prohibition against performing the duties of director provided by law or by Iberdrola's Corporate Governance System.

In this connection, the Regulations of the Board of Directors provide that the directors must submit their resignation to the Board of Directors in the following cases:

- a) When, due to supervening circumstances, they are involved in any circumstance of disqualification or prohibition provided by law or the Corporate Governance System.
- b) When, as a result of any acts or conduct attributable to the director, serious damage is caused to the value or reputation of the Company or there is a risk of criminal liability for the Company or any of the companies of the group.
- c) When they cease to deserve the respectability or to have the capability, expertise, competence, availability or commitment to their duties required to be a director of the Company.  
  
In particular, when the activities carried out by the director, or the companies directly or indirectly controlled by the director, or the individuals or legal entities that are shareholders of or related to any of them, or the individual representing a corporate director, may compromise the competence of the director.
- d) When they are seriously reprimanded by the Board of Directors because they have breached any of their duties as directors, by resolution adopted by a two-thirds majority of the directors.
- e) When their continuance in office on the Board of Directors may for any reason, either directly, indirectly, or through persons related thereto, jeopardise the faithful and diligent performance of their duties in furtherance of the corporate interest.
- f) When the reasons why the director was appointed cease to exist and, in particular, in the case of proprietary directors, when the shareholder or shareholders who proposed, requested, or decided the appointment thereof totally or partially sell or transfer their equity interest, with the result that such equity interest ceases to be significant or sufficient to justify the appointment.
- g) When an independent director unexpectedly falls under supervening circumstances that prevent the director from being considered as such pursuant to the provisions of law.

The resignation provisions set forth under f) and g) above shall not apply when, after a report from the Appointments Committee, the Board of Directors believes that there are reasons that justify the director's continuance in office, without prejudice to the effect that the new supervening circumstances may have on the classification of the director.

**C.1.22. Section deleted.**

**C.1.23. Are qualified majorities, different from the statutory majorities, required to adopt any type of decision?**

Yes  No

**If so, describe the differences.**

Description of differences
<p>The Regulations of the Board of Directors require a majority of at least two-thirds of the directors present at the meeting in person or by proxy to approve the amendment thereof.</p> <p>The serious reprimand of a director for having breached any of the duties entrusted thereto as director under the Regulations of the Board of Directors requires a majority of two-thirds of the directors.</p>

**C.1.24. Explain whether there are specific requirements, other than the requirements relating to directors, to be appointed chairman of the board of directors.**

Yes  No

Description of requirements

**C.1.25. State whether the chair has a tie-breaking vote:**

Yes  No

Matters on which a tie-breaking vote may be cast
In the event of a tie, the chairman has a tie-breaking vote on any matter unless he becomes subject to a conflict of interest, in which case he must abstain from participating in the deliberation and voting stages of the respective resolution.

**C.1.26. State whether the by-laws or the regulations of the board set forth any age limit for directors:**

Yes  No

Age limit for the chair	-
Age limit for the CEO	-
Age limit for directors	-

**C.1.27. State whether the by-laws or the regulations of the Board establish any limit on the term of office for independent directors that is different than the term provided by regulatory provisions:**

Yes  No

Maximum number of terms	
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**C.1.28. State whether there are formal rules for proxy-voting at meetings of the board of directors, the manner of doing so, and especially the maximum number of proxies that a director may hold, as well as whether any restriction has been established regarding the categories of directors to whom proxies may be granted beyond the restrictions imposed by law. If so, briefly describe such rules.**

<p>Pursuant to the By-Laws, all of the directors may cast their vote and give their proxy in favour of another director, provided, however, that non-executive directors may only do so in favour of another non-executive director. The Regulations of the Board of Directors require that directors attend the meetings of the Board of Directors. When directors are unable to attend in person for well-founded reasons, they shall endeavour to give a proxy to another director, to whom they shall give any appropriate instructions, but may not grant a proxy in connection with matters in respect of which they are involved in a conflict of interest.</p> <p>The proxy granted shall be a special proxy for the Board meeting in question and may be communicated by any means allowing for the receipt thereof.</p> <p>There is no maximum number of proxies provided per director.</p>
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**C.1.29. State the number of meetings that the board of directors has held during the financial year. In addition, specify the number of times the board has met, if any, at which the chair was not in attendance. Proxies granted with specific instructions shall be counted as attendance**

Number of meetings of the board	9
---------------------------------	---

Number of meetings of the board at which the chair was not in attendance	0
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If the chair is an executive director, state the number of meetings held without the presence in person or by proxy of any executive director and chaired by the lead independent director.

Number of meetings	0
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State the number of meetings held by the different committees of the board of directors during the financial year:

Number of meetings of the Executive Committee	14
Number of meetings of the Audit and Risk Supervision Committee	11
Number of meetings of the Appointments Committee	7
Number of meetings of the Remuneration Committee	8
Number of meetings of the Corporate Social Responsibility Committee	8

C.1.30. State the number of meetings that the board of directors has held during the financial year with the attendance of all of its members. Proxies granted with specific instructions shall be counted as attendance:

Number of meetings with the attendance of the directors	9
% in attendance of total votes during the financial year	100%

C.1.31. State whether the annual individual accounts and the annual consolidated accounts that are submitted to the board for approval are previously certified:

Yes  No

Identify, if applicable, the person/persons that has/have certified the annual individual and consolidated accounts of the company for preparation by the board:

Name	Position
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	Chairman & CEO
MR JUAN CARLOS REBOLLO LICEAGA	Director of Administration and Control

C.1.32. Explain the mechanisms, if any, adopted by the board of directors to avoid any qualifications in the audit report on the annual individual and consolidated accounts prepared by the board of directors and submitted to the shareholders at the general shareholders' meeting.

Articles 3 and 6 of the *Regulations of the Audit and Risk Supervision Committee* provide that it shall have the following duties, among others:

- Supervise the process of preparing and presenting regulated financial information relating to the Company, both individual and consolidated with its subsidiaries, reviewing compliance with legal requirements, the proper delimitation of the scope of consolidation and the correct application of accounting standards, and submit recommendations or proposals to the Board of Directors to safeguard the integrity thereof.

- Establish appropriate relationships with the auditor to receive information regarding matters that might entail a threat to the independence thereof, for examination by the Committee, and any other information related to the development of the audit procedure, as well as such other communications as are provided for in the laws on auditing of accounts and in other legal provisions on auditing. The Committee must receive written confirmation from the statutory auditors on an annual basis of their independence in relation to the Company or entities directly or indirectly related thereto, as well as a detailed breakdown of information on additional services of any kind provided to and the corresponding fees received from such entities by such statutory auditors or by persons or entities related thereto, pursuant to the legal provisions governing the auditing of accounts.
- On an annual basis, prior to the audit report, issue a report that will express an opinion on whether the independence of the statutory auditors is compromised, which shall be made available to the shareholders upon the terms set forth in the Regulations for the General Shareholders' Meeting. This report shall contain a reasoned assessment of the provision of each and every one of the additional services other than the legal audit referred to in the preceding point, considered individually and as a whole, and in relation to the rules on independence or the legal provisions regarding the auditing of accounts.
- Report in advance to the Board of Directors regarding the financial information that the Company must disclose on a regular basis because of its status as a listed company; the Committee shall make sure that the interim accounts are prepared in accordance with the same accounting standards as the annual accounts and, for such purpose, it shall consider the appropriateness of a limited review by the auditor.
- Review the contents of the audit reports on the accounts and of the reports on the limited review of interim accounts, if any, as well as other mandatory reports to be prepared by the auditor, prior to the issuance thereof, in order to avoid qualified reports.
- Evaluate the results of each audit of accounts and supervise the responses of the senior officers to the recommendations thereof.
- Act as a channel of communication between the Board of Directors and the auditors, causing them to hold an annual meeting with the Board of Directors to report thereto on the work performed and the accounting status and risks of the Company.

Article 51 of the *Regulations of the Board of Directors* provides, among other things, that:

- The Board of Directors shall meet with the auditors at least once per year in order to receive information regarding the work performed and regarding the accounting status and risks of the Company.
- The Board of Directors shall use its best efforts to definitively prepare the accounts such that there is no room for qualifications by the auditors. However, when the Board of Directors believes that its opinion must prevail, it shall provide a public explanation of the content and scope of the discrepancy.

Pursuant to the above-cited articles, the Audit and Risk Supervision Committee reports on the financial information of the Company throughout the financial year and prior to the approval thereof by the Board of Directors and its submission to the National Securities Market Commission (*Comisión Nacional del Mercado de Valores*). The reports of the Committee, which the chair thereof presents to the full Board of Directors, are mainly intended to disclose such aspects, if any, as may give rise to qualifications in the audit report of Iberdrola and its consolidated group, making the appropriate recommendations to avoid any such qualifications.

Accordingly, the Committee submitted to the Board of Directors the following reports regarding the annual and half-yearly financial reports and the interim management statements of the Company for financial year 2017:

- Report dated 24 April 2017 on the interim management statement for the first quarter of 2017.
- Report dated 17 July 2017 on the economic/financial report for the first half of 2017.
- Report dated 3 November 2017 on the interim management statement for the third quarter of 2017.
- Report dated 19 February 2018 regarding the annual accounts of Iberdrola and its consolidated group for financial year 2017.

As disclosed in the information about Iberdrola posted on the website of the National Securities Market Commission ([www.cnmv.es](http://www.cnmv.es)), the audit reports on the individual and consolidated annual accounts prepared by the Board of Directors have historically been issued without qualifications.

**C.1.33. Is the secretary of the board a director?**

Yes  No

**If the secretary is not a director, complete the following table.**

Individual or company name of the secretary	Representative
MR JULIÁN MARTÍNEZ-SIMANCAS SÁNCHEZ	-

**C.1.34. Section deleted.**

**C.1.35. State the mechanisms, if any, used by the company to preserve the independence of auditors, financial analysts, investment banks, and rating agencies.**

**1. MECHANISMS TO PRESERVE THE INDEPENDENCE OF THE AUDITOR**

The *Regulations of the Audit and Risk Supervision Committee* and the *Auditor Contracting and Relations Policy*, contained within the Company's Corporate Governance System, provide that:

- The relations of the Committee with the statutory auditor of the Company shall respect the independence thereof, in accordance with the provisions of the Corporate Governance System.
- The Audit and Risk Supervision Committee shall receive information from the auditor regarding matters that might entail risks to the independence thereof.
- The Committee shall request of the auditor, on an annual basis, a certificate of independence of the firm as a whole and of the team members participating in the process of auditing the annual accounts of the Group, as well as information regarding additional services of any kind provided by the auditors or by persons related thereto pursuant to the provisions of the laws on auditing of accounts. In addition, the auditor shall include in the annual certification that it sends to the Committee a statement in which it reports on compliance with the application of the internal procedures of quality assurance and protection of independence that have been implemented.
- The auditor shall provide to the Committee annual information regarding the profiles and the track record of the persons making up the audit teams of the Company and of the Iberdrola Group, stating the changes in the composition of such teams compared to the preceding financial year.
- The Committee shall issue, on an annual basis and prior to the issuance of the audit report, a report setting forth an opinion on the independence of the auditor. This report shall in any case pass upon the impact on the independence of the auditor of the provision of services additional to auditing and shall attach a reasoned assessment thereof.
- The Committee shall monitor the quality assurance and independence safeguarding internal procedures implemented by the auditor.
- The Committee shall not submit a proposal to the Board of Directors, which in turn shall not submit a proposal to the shareholders at a General Shareholders' Meeting, for appointment of firms as auditor when it has evidence that they are affected by a lack of independence, a prohibition, or pursuant to the law on auditing. In particular, if the fees accrued from the provision of audit services and services other than audit that the Company and any other entity of the Iberdrola Group expect to pay the auditor or audit firm or a member of its network during each of the last three consecutive financial years represent more than fifteen per cent of the total annual income of the auditor or audit firm and of said network.

The Audit and Risk Supervision Committee has also established a restrictive policy on the services provided by the statutory auditor to the Iberdrola group that are susceptible to being authorised.

As regards 2017:

- Iberdrola's statutory auditor appeared on nine occasions before the Audit and Risk Supervision Committee (three by "Ernst & Young" ("EY") and six by "KPMG Auditores, S.L." ("KPMG")) and EY on one occasion before the Board of Directors to report on various matters relating to the audit process. During these appearances, the auditor did not report issues that might put its independence at risk.

- On 15 February 2017 EY sent written confirmation of its independence with regard to the audit of financial information for financial year 2016.
- On 17 July 2017 KPMG sent written confirmation of its independence with regard to the limited review of financial information through 30 June 2017.
- On 19 February 2018 KPMG sent written confirmation of its independence with regard to the audit of financial information for financial year 2016.
- In the aforementioned letters, the corresponding auditor represents that it has implemented the internal procedures necessary to ensure its independence.
- The hiring of the auditor for services other than auditing is authorised in advance by the Committee. The hiring is supported by the respective letters of the partner responsible for the audit confirming the non-existence of restrictions on independence to perform this work.
- In its written confirmation of 19 February 2018, KPMG reported that it had no evidence that any member of the teams participating in the audit of the financial statements at 31 December 2017 of the significant components of the Iberdrola group had joined as an employee of the Company or of its related companies. The Audit and Risk Supervision Committee believes that these hirings do not affect the independence of the auditor, as they involve professionals with short-term professional experience and who held positions of medium/low responsibility at the audit firm.
- On 19 February 2018 the Committee issued its report to the Board of Directors regarding the independence of the Company's statutory auditor. The Committee concluded that the auditor performed its audit work with independence from the Company or entities related thereto.

**2. MECHANISMS TO PRESERVE THE INDEPENDENCE OF FINANCIAL ANALYSTS, INVESTMENT BANKS, AND RATING AGENCIES**

The principles which form the basis of the relations of the Company with financial analysts, investment banks, and rating agencies are contained in the Policy regarding Communication and Contacts with Shareholders, Institutional Investors, and Proxy Advisors and are transparency, non-discrimination, truthfulness, and trustworthiness of the information supplied. The Finance and Resource Division, through the Investor Relations Division, manages their requests for information and requests submitted by institutional or retail investors (in the case of retail investors, through the Office of the Shareholder). The Finance and Resource Division gives mandates to investment banks. The Development Division gives the appropriate advisory mandates to investment banks within the scope of its activities, in coordination with the Finance and Resource Division.

The independence of financial analysts is protected by the Investor Relations Division, which ensures the objective, fair, and non-discriminatory treatment thereof.

To actualise the principles of transparency and non-discrimination, always in strict compliance with regulations regarding the Securities Market, the Company has a number of communication channels:

- Personalised assistance for analysts, investors, and rating agencies.
- Publication of the information relating to quarterly results and other specific events, such as those relating to the submission of the Business Prospects or to corporate transactions.
- E-mail through the corporate website ([accionistas@iberdrola.com](mailto:accionistas@iberdrola.com)) and a toll-free line for shareholders (+34 900 100 019).
- In-person and broadcasted presentations.
- Release of announcements and news.
- Visits to Company facilities.

**C.1.36. State whether the Company has changed the external auditor during the financial year. If so, identify the incoming and the outgoing auditor:**

Yes  No

Outgoing auditor	Incoming auditor
Ernst & Young, S.A.	KPMG Auditores, S.L.



If there has been any disagreement with the outgoing auditor, provide an explanation thereof:

Yes  No

Description of the disagreement

C.1.37. State whether the audit firm performs other non-audit work for the company and/or its group. If so, state the amount of the fees paid for such work and the percentage they represent of the aggregate fees charged to the company and/or its group:

Yes  No

C.1.38. State whether the audit report on the annual accounts for the prior financial year has observations or qualifications. If so, state the reasons given by the chair of the audit committee to explain the content and scope of such observations or qualifications.

Yes  No

Explanation of reasons

C.1.39. State the consecutive number of years for which the current audit firm has been auditing the annual accounts of the company and/or its group. In addition, state the percentage represented by such number of financial years audited by the current audit firm with respect to the total number of financial years in which the annual accounts have been audited:

	Company	Group
Number of continuous financial years	1	1

	Company	Group
Number of years audited by the current audit firm / Number of years in which the company has been audited (%)	4.00	4.00

C.1.40. State whether there is any procedure for directors to hire external advisory services, and if so, describe it:

Yes  No

Describe the procedure
Pursuant to the Regulations of the Board of Directors, in order to be assisted in the performance of the duties entrusted thereto, any director may request the hiring of legal, accounting, technical, financial,

commercial or other expert advisers, whose services shall be paid for by the Company.

The assignment must deal with specific issues of certain significance and complexity arising during the performance of the director's duties.

The request for an expert to be hired shall be channelled through the secretary of the Board of Directors, who may subject it to the prior approval of the Board of Directors; such approval may be denied in well-founded instances, including the following circumstances:

- a) That it is not necessary for the proper performance of the duties entrusted to the directors.
- b) That the cost thereof is not reasonable in light of the significance of the issues and the assets and income of the Company.
- c) That the technical assistance sought may be adequately provided by the Company's own experts and technical personnel.
- d) That it may entail a risk to the confidentiality of the information that must be made available to the expert.

Furthermore, the Regulations of the Audit and Risk Supervision Committee, the Regulations of the Appointments Committee, the Regulations of the Remuneration Committee and the Regulations of the Corporate Social Responsibility Committee provide that such committees may seek advice from outside professionals, who shall submit their reports directly to the chair of the relevant committee. It shall also be ensured that conflicts of interest do not undermine the independence of any external advice received.

**C.1.41. State whether there is any procedure for directors to obtain sufficiently in advance the information required to prepare for meetings of management-level decision-making bodies and, if so, describe it:**

Yes  No

**Describe the procedure**

Section 16 of the General Corporate Governance Policy provides that "the Company has a programme to provide directors with information and updates in response to the need for professionalisation, diversification and qualification of the Board of Directors.

In order to improve their knowledge of the group, presentations are made to the directors regarding the businesses thereof. In addition, a portion of each meeting of the Board of Directors tends to be dedicated to a presentation on economic, legal or political/social issues of importance to the group.

The directors have access to a specific application, the directors' website, that facilitates performance of their duties and the exercise of their right to receive information. This website includes information deemed appropriate for preparation of the meetings of the Board of Directors and the committees thereof in accordance with the agenda, as well as training materials intended for the directors and presentations made to the Board of Directors.

In addition, the directors shall be given access through the directors' website to the minutes of the meetings of the Board of Directors and the committees thereof, as well as to any other information that the Board of Directors decides to include".

Pursuant to the Regulations of the Board of Directors, there shall be an inclusion on the directors' website of such information as is deemed appropriate for preparation of the meetings of the Board of Directors and the committees thereof, in accordance with the agenda included in the calls to meeting, as well as access to materials relating to director training programmes.

In addition, the Regulations of the Board of Directors provide that a director is specifically required to "properly prepare the meetings of the Board of Directors and, if applicable, the meetings of the Executive Committee or of the committees of which the director is a member, for which purposes the director must diligently become apprised of the running of the Company and the matters to be discussed at such meetings".

**C.1.42. State whether the company has established any rules requiring directors to inform the company —and, if applicable, resign from their position— in cases in**

**which the credit and reputation of the company may be damaged, and if so provide a detailed description:**

Yes  No

**Explain the rules**

The General Corporate Governance Policy sets out the obligations and duties of the directors, including, as a statement of the duty of loyalty, the duty to submit their resignation to the Board of Directors in the event of supervening disqualification, lack of competence, prohibition against holding office as a director, and other instances provided for in the Company's Corporate Governance System.

As provided by the Regulations of the Board of Directors, the director must inform the Company of any judicial, administrative or other proceedings instituted against the director which, because of their significance or characteristics, may seriously reflect upon the reputation of the Company. In particular, if a director is subject to investigation or an order for further criminal prosecution upon indictment, or if an order for the commencement of an oral trial is issued against the director for the commission of any of the crimes contemplated in section 213 of the Companies Act, such director shall give notice thereof to the Company, through the chairman of the Board of Directors. In such instance, the Board of Directors shall review this circumstance as soon as practicable and, following a report of the Appointments Committee, shall adopt the decisions it deems fit taking into account the interests of the Company.

In addition, the director must inform the Company of any fact or event that may be relevant to the holding of office as a director.

Directors must also submit their resignation to the Board of Directors and formally resign from their position in the events set forth in the Regulations of this body, particularly:

- a) When, due to supervening circumstances, they are involved in any circumstance of disqualification or prohibition provided by law or the Corporate Governance System.
- b) When, as a result of any acts or conduct attributable to the director, serious damage is caused to the value or reputation of the Company or there is a risk of criminal liability for the Company or any of the companies of the Group.
- c) When they cease to deserve the respectability or to have the capability, expertise, competence, availability, or commitment to their duties required to be a director of the Company.  

In particular, when the activities carried out by the director, or the companies directly or indirectly controlled by the director, or the individuals or legal entities that are shareholders of or related to any of them, or the individual representing a corporate director, may compromise the competence of the director.
- d) When they are seriously reprimanded by the Board of Directors because they have breached any of their duties as directors, by resolution adopted by a two-thirds majority of the directors.
- e) When their continuance in office on the Board of Directors may for any reason, either directly, indirectly, or through persons related thereto, jeopardise the faithful and diligent performance of their duties in furtherance of the corporate interest.
- f) When the reasons why the director was appointed cease to exist and, in particular, in the case of proprietary directors, when the shareholder or shareholders who proposed, requested, or decided the appointment thereof totally or partially sell or transfer their equity interest, with the result that such equity interest ceases to be significant or sufficient to justify the appointment.
- g) When an independent director unexpectedly falls under supervening circumstances that prevent the director from being considered as such pursuant to the provisions of law.

In any of the aforementioned instances, the Board of Directors shall request the director to resign from such position and, if applicable, shall propose the director's removal from office to the shareholders at the General Shareholders' Meeting.

By way of exception, the resignation provisions set forth in letters f) and g) above shall not apply if the Board of Directors believes that there are reasons that justify the director's continuance in office, after a report of the Appointments Committee, without prejudice to the effect that the new supervening circumstances may have on the classification of the director.

**C.1.43. State whether any member of the board of directors has informed the company that such member has become subject to an order for further criminal**

prosecution upon indictment or that an order for the commencement of an oral trial has been issued against such member for the commission of any of the crimes contemplated in section 213 of the Companies Act:

Yes  No

Name of director	Criminal case	Comments
ÁNGEL JESÚS ACEBES PANIAGUA	Alleged crime of false accounting as an independent director of Bankia, S.A.	Commencement of oral criminal trial ordered against various directors of Bankia, S.A., including Mr Acebes Paniagua, on 17 November 2017 by Central Investigative Court (Juzgado Central de Instrucción) number 4 of the National High Court (Audiencia Nacional).

State whether the board of directors has analysed the case. If so, provide a duly substantiated explanation of the decision adopted regarding whether or not the director should remain in office or, if applicable, describe the actions taken by the board of directors through the date of this report or that it plans to take.

Yes  No

Decision made / action taken	Duly substantiated explanation
It is considered that Mr Ángel Acebes meets the criteria set out in the Regulations of the Board of Directors to continue holding the position of director.	Both the Office of the Public Prosecutor ( <i>Ministerio Fiscal</i> ) and the Fund for the Orderly Restructuring of the Banking Sector ( <i>Fondo de Reestructuración Ordenada Bancaria</i> ) (FROB) requested dismissal of the case against him.

**C.1.44. Describe the significant agreements entered into by the company that go into effect, are amended or terminate in the event of a change in control at the company as a result of a takeover bid, and effects thereof.**

Not applicable.

**C.1.45. Identify on an aggregate basis and provide a detailed description of the agreements between the company and its management level and decision-making positions or employees that provide for indemnities, guarantee or “golden parachute” clauses upon resignation or termination without cause, or if the contractual relationship is terminated as a result of a takeover bid or other type of transaction.**

Number of beneficiaries	34
Type of beneficiary	Executive directors, officers, and employees

Description of agreement
1. EXECUTIVE DIRECTORS

Pursuant to the provisions of his contract, the chairman & chief executive officer has the right to receive a severance payment in the event of termination of his relationship with the Company, provided that such termination is not the consequence of a breach attributable thereto or exclusively due to his own decision to withdraw. The amount of the severance payment is three times annual salary. In the case of the Business CEO, the severance is two times annual salary.

Furthermore, in consideration for the executive directors' non-compete commitment for a period of between one and two years, they shall be entitled to severance equal to the remuneration for such period.

## 2. OFFICERS

Some employment contracts with officers of Iberdrola include specific severance clauses. The purpose of such clauses is to obtain an effective and sufficient level of loyalty for the management of the Company and thus avoid a loss of experience and knowledge that might jeopardise the achievement of strategic objectives, more so for positions deemed to decisively contribute to the creation of value due to the responsibilities thereof. The amount of the severance is determined based on length of service and the reasons for the officer's withdrawal from office, up to a maximum of five times annual salary.

Notwithstanding the foregoing, the Senior Officer Remuneration Policy provides since 2011 that the limit on the amount of the severance under new contracts with senior officers shall be two times their annual salary.

## 3. EMPLOYEES

The contracts of employees linked to Iberdrola by an ordinary employment relationship do not generally include specific severance clauses and, accordingly, the general provisions of labour law shall apply in the event of termination of the employment relationship.

**State whether such agreements must be reported to and/or approved by the decision-making bodies of the company or its group:**

	Board of directors	General Shareholders' Meeting
Decision-making body approving the provisions	X	

	Yes	No
Is information about these provisions provided to the shareholders at the general shareholders' meeting?	x	

## C.2. Committees of the board of directors

**C.2.1. Describe all of the committees of the board of directors, the members thereof, and the proportion of executive, proprietary, independent, and other external directors of which they are comprised:**

### EXECUTIVE COMMITTEE

Name	Position	Class
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	CHAIRMAN	Executive director
MS INÉS MACHO STADLER	MEMBER	Independent director
MR ÁNGEL JESÚS ACEBES PANIAGUA	MEMBER	Independent director
MR MANUEL MOREU MUNAIZ	MEMBER	Independent director

MS SAMANTHA BARBER	MEMBER	Independent director
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<b>% executive directors</b>	20.00
<b>% proprietary directors</b>	0
<b>% independent directors</b>	80.00
<b>% other external</b>	0

**Explain the duties assigned to this committee, describe the procedures and rules of organisation and operation thereof, and summarise the most significant activities thereof during the year.**

<p>The Executive Committee is assigned all the powers of the Board of Directors, except for those powers that may not be delegated pursuant to legal or by-law restrictions. The chairman of the Board of Directors and the chief executive officer, if any, are members in all cases. The secretary of the Board of Directors acts as secretary of the Committee.</p> <p>The Executive Committee shall meet as many times as deemed necessary by the chair thereof. It shall also meet when so requested by a minimum of two of the directors forming part thereof.</p> <p>Resolutions of the Committee shall be adopted by absolute majority of its members who are present at the meeting in person or by proxy.</p> <p>The duties of this Committee consist of making proposals to the Board of Directors regarding strategic decisions, investments and divestitures that are significant for the Company or the group, assessing their conformity to the budget and the strategic plans and analysing and monitoring business risks. It also provides assistance to the Board of Directors in the ongoing supervision of compliance with the principles governing the organisation and coordination of the group and the strategic goals thereof.</p> <p>The duties of the Committee are provided in article 38 of the By-Laws and are further developed in article 25 of the Regulations of the Board of Directors.</p>
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**State whether the composition of the executive committee reflects the participation of the different directors within the board based on their class.**

Yes  No

<b>If no, explain the composition of your executive committee</b>

#### **AUDIT AND RISK SUPERVISION COMMITTEE**

<b>Name</b>	<b>Position</b>	<b>Class</b>
MS GEORGINA KESSEL MARTÍNEZ	CHAIR	Independent director
MS DENISE MARY HOLT	MEMBER	Independent director
MR JOSÉ WALFREDO FERNÁNDEZ	MEMBER	Independent director
MR XABIER SAGREDO ORMAZA	MEMBER	Other external director

<b>% executive directors</b>	0
<b>% proprietary directors</b>	0
<b>% independent directors</b>	75.00
<b>% other external</b>	25.00

**Explain the duties assigned to this committee, describe the procedures and rules of organisation and operation thereof, and summarise the most significant activities thereof during the year.**

<p>The Audit and Risk Supervision Committee is an internal informational and consultative body.</p> <p>A majority of its members shall be independent, and at least one of them shall be appointed taking into account the knowledge and experience thereof in the areas of accounting, audit, and risk management.</p> <p>The Board of Directors shall appoint a chair of the Committee from among the independent directors forming part thereof, as well as its secretary, who need not be a director.</p> <p>The members of the Audit and Risk Supervision Committee shall be appointed for a maximum term of four years and may be re-elected on one or more occasions for terms of the same maximum length. The chair shall hold office for a maximum period of four years, after which period the director who has held office as such may not be re-elected until the passage of at least one year from ceasing to act as such.</p> <p>A valid quorum shall be established with the attendance at the meeting, in person or by proxy, of a majority of its members, and resolutions shall be adopted by an absolute majority of votes of the members present at the meeting in person or by proxy.</p> <p>The duties of the Committee are provided in article 39 of the By-Laws and are further developed in article 26 of the Regulations of the Board of Directors, as well as in the Regulations of the Audit and Risk Supervision Committee.</p>
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**Identify the director who is a member of the audit committee and who has been appointed taking into account the director's knowledge and experience in the areas of accounting, audit, or both, and report the number of years that the chair of this committee has held office.**

<b>Name of director with experience</b>	MS GEORGINA KESSEL MARTÍNEZ
<b>Number of years during which chair has held the position</b>	3

#### **APPOINTMENTS COMMITTEE**

<b>Name</b>	<b>Position</b>	<b>Class</b>
MS MARÍA HELENA ANTOLÍN RAYBAUD	CHAIR	Independent director
MR IÑIGO VÍCTOR DE ORIOL IBARRA	MEMBER	Other external director
MR ÁNGEL JESÚS ACEBES PANIAGUA	MEMBER	Independent director

<b>% executive directors</b>	0
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<b>% proprietary directors</b>	0
<b>% independent directors</b>	66.67
<b>% other external</b>	33.33

**Explain the duties assigned to this committee, describe the procedures and rules of organisation and operation thereof, and summarise the most significant activities thereof during the year.**

<p>The Appointments Committee is an internal informational and consultative body.</p> <p>A majority of the members of the Appointments Committee must be classified as independent. The Board also appoints the chair thereof from among the independent directors forming part thereof, as well as its secretary, who need not be a director.</p> <p>The members of the Appointments Committee shall be appointed for a maximum term of four years and may be re-elected on one or more occasions for terms of the same maximum length.</p> <p>A valid quorum shall be established with the attendance at the meeting, in person or by proxy, of a majority of its members, and resolutions shall be adopted by an absolute majority of votes of the members present at the meeting in person or by proxy.</p> <p>The duties of the Committee are set out in article 27 of the Regulations of the Board of Directors, as well as in the Regulations of the Appointments Committee.</p>
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#### **REMUNERATION COMMITTEE**

<b>Name</b>	<b>Position</b>	<b>Class</b>
MS INÉS MACHO STADLER	CHAIR	Independent director
MR IÑIGO VÍCTOR DE ORIOL IBARRA	MEMBER	Other external director
MR JUAN MANUEL GONZÁLEZ SERNA	MEMBER	Independent director

<b>% executive directors</b>	0
<b>% proprietary directors</b>	0
<b>% independent directors</b>	66.67
<b>% other external</b>	33.33

**Explain the duties assigned to this committee, describe the procedures and rules of organisation and operation thereof, and summarise the most significant activities thereof during the year.**

<p>The Remuneration Committee is an internal informational and consultative body.</p> <p>A majority of the members of the Remuneration Committee must be classified as independent. The Board also appoints the chair thereof from among the independent directors forming part thereof, as well as its secretary, who need not be a director.</p> <p>The members of the Remuneration Committee shall be appointed for a maximum term of four years and may be re-elected on one or more occasions for terms of the same maximum length.</p>
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A valid quorum shall be established with the attendance at the meeting, in person or by proxy, of a majority of its members, and resolutions shall be adopted by an absolute majority of votes of the members present at the meeting in person or by proxy.

The duties of the Committee are set out in article 28 of the Regulations of the Board of Directors, as well as in the Regulations of the Remuneration Committee.

### CORPORATE SOCIAL RESPONSIBILITY COMMITTEE

Name	Position	Class
MS SAMANTHA BARBER	CHAIR	Independent director
MR BRAULIO MEDEL CÁMARA	MEMBER	Independent director
MR MANUEL MOREU MUNAIZ	MEMBER	Independent director

% executive directors	0
% proprietary directors	0
% independent directors	100.00
% other external	0

**Explain the duties assigned to this committee, describe the procedures and rules of organisation and operation thereof, and summarise the most significant activities thereof during the year.**

The Corporate Social Responsibility Committee is an internal informational and consultative body.

A majority of the members of the Corporate Social Responsibility Committee must be classified as independent. The Board of Directors shall appoint a chair of the Committee from among the members forming part thereof, as well as its secretary, who need not be a director.

The members of the Corporate Social Responsibility Committee shall be appointed for a maximum term of four years and may be re-elected on one or more occasions for terms of the same maximum length.

A valid quorum shall be established with the attendance at the meeting, in person or by proxy, of a majority of its members, and resolutions shall be adopted by an absolute majority of votes of the members present at the meeting in person or by proxy.

The duties of the Committee are provided in article 41 of the By-Laws and are further developed in article 29 of the Regulations of the Board of Directors, as well as in the Regulations of the Corporate Social Responsibility Committee.

**C.2.2. Complete the following table with information regarding the number of female directors comprising the committees of the board of directors for the last four financial years:**

	Number of female directors							
	Financial Year 2017		Financial Year 2016		Financial Year 2015		Financial Year 2014	
	Number	%	Number	%	Number	%	Number	%
<b>Executive Committee</b>	2	40.00	1	20.00	1	20.00	1	20.00

<b>Audit and Risk Supervision Committee</b>	2	66.66	2	66.66	2	66.66	2	50.00
<b>Appointments Committee</b>	1	33.33	1	33.33	1	33.33	1	33.33
<b>Remuneration Committee</b>	1	33.33	1	33.33	1	33.33	1	33.33
<b>Corporate Social Responsibility Committee</b>	1	33.33	1	33.33	1	33.33	2	66.66

**C.2.3. Section deleted.**

**C.2.4. Section deleted.**

**C.2.5. State, if applicable, the existence of regulations of the board committees, where such regulations may be consulted, and the amendments made during the financial year. Also state if any annual report of the activities performed by each committee has been voluntarily prepared.**

**1. AUDIT AND RISK SUPERVISION COMMITTEE**

The Audit and Risk Supervision Committee has its own Regulations, which may be viewed by interested parties on the Company's website ([www.iberdrola.com](http://www.iberdrola.com)).

Article 23 of the *Regulations of the Audit and Risk Supervision Committee* provides that, pursuant to the provisions of the *Regulations of the Board of Directors*, the *Activities Report of the Board of Directors and of the Committees thereof*, which shall include information regarding the operation and the activities of the Committee during the preceding financial year, shall be made available to the shareholders and the other stakeholders for purposes of the call to the General Shareholders' Meeting. In particular, the section of the *Activities Report of the Board of Directors and of the Committees thereof* regarding the Committee must allow the shareholders and other interested parties to understand the activities performed by the Committee during the financial year in question.

As to financial year 2017, the Audit and Risk Supervision Committee approved the section corresponding to its report for inclusion in the *Activities Report of the Board of Directors and of the Committees thereof*.

**2. APPOINTMENTS COMMITTEE**

The Appointments Committee has its own Regulations, which may be viewed by interested parties on the Company's corporate website ([www.iberdrola.com](http://www.iberdrola.com)).

Article 26 of the *Regulations of the Appointments Committee* provides that, pursuant to the provisions of the *Regulations of the Board of Directors*, the *Activities Report of the Board of Directors and of the Committees thereof*, which shall include information regarding the operation and the activities of the Committee during the preceding financial year, shall be made available to the shareholders and the other stakeholders for purposes of the call to the General Shareholders' Meeting. In particular, the section of the *Activities Report of the Board of Directors and of the Committees thereof* regarding the Committee must allow the shareholders and other interested parties to understand the activities performed by the Committee during the financial year in question.

As to financial year 2017, the Appointments Committee approved the section corresponding to its report for inclusion in the *Activities Report of the Board of Directors and of the Committees thereof*.

**3. REMUNERATION COMMITTEE**

The Remuneration Committee has its own Regulations, which may be viewed by interested parties on the Company's corporate website ([www.iberdrola.com](http://www.iberdrola.com)).

Article 22 of the *Regulations of the Remuneration Committee* provides that within three months following the end of the Company's financial year, the Committee shall submit to the Board of Directors for

approval a report detailing its work for the financial year covered by the report.

As to financial year 2017, the Remuneration Committee approved the section corresponding to its report for inclusion in the *Activities Report of the Board of Directors and of the Committees thereof*.

#### 4. CORPORATE SOCIAL RESPONSIBILITY COMMITTEE

The Corporate Social Responsibility Committee has its own Regulations, which may be viewed by interested parties on the Company's corporate website ([www.iberdrola.com](http://www.iberdrola.com)).

Article 22 of the *Regulations of the Corporate Social Responsibility Committee* provides that, pursuant to the provisions of the *Regulations of the Board of Directors*, the *Activities Report of the Board of Directors and of the Committees thereof*, which shall include information regarding the operation and the activities of the Committee during the preceding financial year, shall be made available to the shareholders and the other stakeholders for purposes of the call to the General Shareholders' Meeting. In particular, the section of the *Activities Report of the Board of Directors and of the Committees thereof* regarding the Committee must allow the shareholders and other interested parties to understand the activities performed by the Committee during the financial year in question.

As to financial year 2017, the Corporate Social Responsibility Committee approved the section corresponding to its report for inclusion in the *Activities Report of the Board of Directors and of the Committees thereof*.

An Activities Report of the Board of Directors and of the Committees thereof for financial year 2017 is published for purposes of the call to the General Shareholders' Meeting.

This innovation is based on the Company's commitment to good corporate governance practices and transparency and to the growing demand by shareholders and proxy advisors for companies to report on the activities of their governance bodies.

#### C.2.6. Section deleted.

### D. RELATED-PARTY TRANSACTIONS AND INTRAGROUP TRANSACTIONS

#### D.1. Explain any procedures for approving related-party and intragroup transactions.

##### Procedure for the approval of related-party transactions

The Regulations of the Board of Directors provide that:

1. Any transaction by the Company or the companies forming part of its Group with directors, with shareholders that directly or indirectly own a shareholding interest that is equal to or greater than that legally regarded as significant at any time or that have proposed or caused the appointment of any of the directors of the Company, or with the respective related persons ("Related-Party Transactions"), shall be subject to the approval of the Board of Directors, or in urgent cases, of the Executive Committee, following a report from the Appointments Committee.
2. In the event that authorisation has been granted by the Executive Committee due to the urgency of the matter, the Executive Committee shall give notice thereof to the Board of Directors at its next meeting in order for it to be ratified.
3. The authorisation of Related-Party Transactions must be approved by the shareholders at the General Shareholders' Meeting in the instances provided by law, and particularly if it relates to a transaction having a value of more than ten per cent of the corporate assets.
4. As an exception, Related-Party Transactions with any of the listed companies of the Group (as is the case of Avangrid, Inc.) or with the subsidiaries thereof shall not be subject to the provisions of article 43, provided that they have corporate governance rules similar to those of the Company.
5. The execution of a Related-Party Transaction puts the director engaging in said transaction or who is related to the person engaging in the transaction in a conflict of interest, for which reason the

provisions of article 39 of the Regulations of the Board of Directors shall apply, to the extent applicable.

6. The Board of Directors, through the Appointments Committee, shall ensure that Related-Party Transactions are carried out under arm's length conditions and with due observance of the principle of equal treatment of shareholders in the same situation. In the case of transactions to be carried out by companies of the Group, the scope of authorisation of the Board of Directors, or that of the Executive Committee, if applicable, referred to in the preceding sections, shall be circumscribed to the verification of compliance with such particulars.
7. In the case of customary and recurring Related-Party Transactions in the ordinary course of business, it shall be sufficient for the Board of Directors to give prior generic approval of the kind of transaction and of the conditions for performance thereof, following a report from the Appointments Committee.
8. If a Related-Party Transaction entails the successive performance of different transactions, of which the second and subsequent transactions are mere acts of execution of the first transaction, the provisions of article 43 shall only apply to the first transaction carried out.
9. The authorisation shall not be required in connection with transactions that simultaneously satisfy the following three conditions: that they are conducted under contracts whose terms and conditions are standardised and apply on an across-the-board basis to a large number of customers; that they are conducted at prices or rates established generally by the party acting as supplier of the goods or services in question, and that the amount thereof does not exceed one per cent of the consolidated annual income of the Group.
10. The Company shall report Related-Party Transactions in the Half-Yearly Financial Report and in the Annual Corporate Governance Report, in the cases and to the extent provided by law. Likewise, the Company shall include in the notes accompanying the annual accounts information regarding the transactions by the Company or by the companies of the Group with the directors and with those persons who act for the account of the latter when such transactions are conducted other than in the ordinary course of the Company's business or other than under normal arm's length conditions.  
  
To this end, the directors must give written notice to the secretary of the Board of Directors, on a semi-annual basis, within the first week of January and July of each year, regarding the Related-Party Transactions that they have engaged in. If they are not carried out, the directors shall so report. The secretary of the Board of Directors shall send a notice to the directors on a semi-annual basis requesting the appropriate information that must be sent to the Company.
11. The notice must include the following information: the nature of the transaction; the date on which the transaction originated; the conditions and periods for payment; the name of the person who carried out the transaction and the relationship, if any, with the director; the amount of the transaction; and other aspects, such as pricing policies, guarantees given and received, and any other feature of the transactions that allows for a proper assessment thereof, particularly such information as allows for verification that it has been carried out on arm's length conditions and in compliance with the principle of equal treatment.
12. The secretary of the Board of Directors shall prepare a register of Related-Party Transactions. The information set forth in such register shall be made available to the Compliance Unit when it so requests, and shall also periodically be made available to the Audit and Risk Supervision Committee through the Internal Audit Area Division.

**D.2. Describe those transactions that are significant due to the amount or subject-matter thereof between the company or entities of its group and the company's significant shareholders:**

Individual or company name of the significant shareholder	Individual or company name of the company or entity within its group	Nature of the relationship	Type of transaction	Amount (thousands of euros)
QATAR INVESTMENT AUTHORITY	IBERDROLA, S.A.	Corporate	Dividends and other distributed benefits	18,948

**D.3. Describe those transactions that are significant due to the amount or subject-matter thereof between the company or entities of its group and the company's directors or officers:**

Individual or company name of directors or officers	Individual or company name of related party	Relation	Nature of the relationship	Amount (thousands of euros)

**D.4. Report the significant transactions made by the company with other entities belonging to the same group, provided they are not eliminated in the preparation of the consolidated accounts and they are not part of the ordinary course of business of the company as to their purpose and conditions. In any case, report any intragroup transaction with entities established in countries or territories considered to be tax havens:**

Name of the entity within the group	Brief description of the transaction	Amount (thousands of euros)
SIEMENS GAMESA RENEWABLE ENERGY GROUP	Purchase of material assets	365,038
SIEMENS GAMESA RENEWABLE ENERGY GROUP	Receipt of services	55,445
SIEMENS GAMESA RENEWABLE ENERGY GROUP	Purchase of goods (finished or in progress)	1,836

**D.5. State the amount of transactions with other related parties.**

Amount (thousands of euros)	0
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**D.6. Describe the mechanisms used to detect, determine, and resolve potential conflicts of interest between the company and/or its group, and its directors, officers, or significant shareholders.**

**1. CONFLICTS OF INTEREST BETWEEN THE COMPANY AND THE DIRECTORS**

Pursuant to the Regulations of the Board of Directors, a conflict of interest shall be deemed to exist in those situations provided by law, particularly when the interests of the director, either for their own or another's account, directly or indirectly conflict with the interest of the Company or of companies within the Group and their duties to the Company. An interest of a director shall exist when a matter affects the director or a person related thereto or, in the case of a proprietary director, when it also affects the shareholder or shareholders that proposed or caused the appointment thereof or persons directly or indirectly related thereto.

Such article contains a list of persons deemed to be related for such purposes, distinguishing between an individual and a corporate director.

Conflicts of interest shall be governed by the following rules:

- a) Communication: once a director becomes aware of being in a situation of conflict of interest, the director must give written notice of the conflict to the Board of Directors, in the person of the secretary thereof. The secretary shall periodically submit a copy of the notices received to the Appointments Committee, in the person of the secretary thereof.

The notice shall contain a description of the situation giving rise to the conflict of interest, with a statement as to whether it is a direct conflict or an indirect conflict through a related person, in which case the latter person must be identified.

The description of the situation must describe, as applicable, the subject matter and the principal terms of the transaction or the planned decision, including the amount thereof or an approximate financial assessment thereof. If the situation giving rise to the conflict of interest is a Related-Party Transaction (as this term is defined in article 43), the notice shall also identify the department or person of the Company or of any of the companies of the Group with which the respective contacts were made.

Any question as to whether a director might be involved in a conflict of interest must be forwarded to the secretary of the Board of Directors, and the director must refrain from taking any action until it is resolved.

- b) Abstention: if the conflict arises from an operation, transaction, or circumstance that requires any kind of operation, report, decision, or acceptance, the director must refrain from taking any action until the Board of Directors studies the case and adopts and informs the director of the appropriate decision.

To this end, the director shall leave the meeting during the deliberation and voting on those matters in which the director is affected by a conflict of interest, and shall not be counted in the number of members attending for purposes of the calculation of a quorum and majorities.

At each meeting of the Board of Directors and of the committees thereof, the secretary reminds the directors, before dealing with the agenda, of the abstention rule established in this article.

- c) Transparency: whenever required by law, the Company shall report any cases of conflict of interest in which the directors have been involved during the financial year in question and of which the Company is aware by reason of notice given thereto by the director affected by such conflict or by any other means.

However, if the conflict of interest situation is, or may reasonably be expected to be, of a structural and permanent nature, it shall be deemed that there is a loss of the competence required to hold office. In this regard, the Regulations of the Board of Directors provide that a loss of competence is an event of resignation, removal and cessation of the director.

## 2. CONFLICTS OF INTEREST BETWEEN THE COMPANY AND THE SENIOR OFFICERS AND OTHER PERSONS SUBJECT TO CONFLICT OF INTEREST RULES

The Procedure for Conflicts of Interest and Related-Party Transactions with Senior Officers subjects these kinds of conflicts to the same rules of communication, abstention, and transparency.

## 3. CONFLICTS OF INTEREST BETWEEN THE COMPANY AND SIGNIFICANT SHAREHOLDERS

Transactions between companies forming part of the group with significant shareholders or shareholders that have proposed the appointment of any of the directors and their respective related persons are also dealt with in the Regulations of the Board of Directors mentioned in section D.1. They must be carried out on arm's-length conditions and be previously approved by the Board of Directors. Thus, approval by the shareholders at a General Shareholders' Meeting shall be required if the value of the transaction exceeds 10% of the corporate assets, and all transactions shall be reported in the Annual Corporate Governance Report and in the Annual Financial Report.

## 4. CONFLICTS OF INTEREST WITH OTHER EMPLOYEES

The Code of Ethics, which dedicates a specific section to conflicts of interest, applies to all professionals within the group, regardless of rank.

### D.7. Is more than one company of the group listed in Spain?

Yes  No

Identify the subsidiaries listed in Spain:

Listed subsidiaries

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**State whether they have publicly and accurately defined their respective areas of activity and any possible business relationships among them, as well as those between the listed dependent company and the other companies within the group:**

Yes  No

<b>Describe the possible business relationships between the parent company and the listed subsidiary, and between the subsidiary and the other companies within the group</b>

**Identify the mechanisms established to resolve possible conflicts of interest between the listed subsidiary and the other companies within the group:**

<b>Mechanisms for the resolution of possible conflicts of interest</b>

## E. RISK CONTROL AND MANAGEMENT SYSTEMS

### E.1. Explain the scope of the company's Risk Management System, including the system for managing tax risks.

The General Risk Control and Management Policy and the Risk Policies that further develop such risks apply to all companies over which the Company has effective control, within the limits established by the laws applicable to the regulated activities carried out by the group in the various countries in which it operates.

The *General Risk Control and Management Policy* and the basic principles underpinning it are implemented by means of a comprehensive risk control and management system, supported by a Corporate Risk Committee and based upon a proper definition and allocation of duties and responsibilities at the operating level and upon supporting procedures, methodologies, and tools, suitable for the various stages and activities within the system, including:

- a) The ongoing identification of significant risks and threats based on their possible impact on key management objectives and the accounts (including contingent liabilities and other off-balance sheet risks).
- b) The analysis of such risks, both at each corporate business or function and taking into account their combined effect on the Group as a whole.
- c) The establishment of a structure of policies, guidelines and limits, and risk indicators, as well as of the corresponding mechanisms for the approval and implementation thereof, which effectively contribute to risk management being performed in accordance with the Company's risk appetite.
- d) The measurement and monitoring of risks, by following consistent procedures and standards that are common to the Group as a whole
- e) The analysis of risks associated with new investments, as an essential element of decision-making based upon profitability/risk.
- f) The maintenance of an internal system for monitoring compliance with policies, guidelines, and limits, by means of appropriate procedures and systems, including the contingency plans needed to mitigate the impact of the materialisation of risks.
- g) The periodic monitoring and control of profit-and-loss account risks in order to control the volatility of the annual income of the Group.
- h) The ongoing evaluation of the suitability and efficiency of applying the system and the best practices and recommendations in the area of risks for eventual inclusion thereof in the model.
- i) The audit of the system by the Internal Audit Division.

Developed in accordance with the following basic action principles:

- a) Integrate the risk/opportunity vision into the Company's management, through a definition of the strategy and the risk appetite and the incorporation of this variable into strategic and operating decisions.
- b) Segregate functions, at the operating level, between risk-taking areas and areas responsible for the analysis, control, and monitoring of such risks, ensuring an appropriate level of independence.
- c) Guarantee the proper use of risk-hedging instruments and the maintenance of records thereof as required by applicable law.
- d) Inform regulatory agencies and the principal external players, in a transparent fashion, regarding the risks facing the Group and the operation of the systems developed to monitor such risks, maintaining suitable channels that favour communication.
- e) Ensure appropriate compliance with the corporate governance rules established by the Company through its Corporate Governance System and the update and continuous improvement of such system within the framework of the best international practices as to transparency and good governance, and implement the monitoring and measurement thereof.
- f) Act at all times in compliance with the law and the Company's Corporate Governance System and, specifically, with due observance of the values and standards of conduct reflected in the Code of Ethics and the principles and good practices reflected in the *Corporate Tax Policy*, under the principle of zero tolerance towards the commission of unlawful acts and situations of fraud set forth in the *Crime Prevention Policy* and in the *Anti-Corruption and Anti-Fraud Policy*.

Excluded from the scope of this policy are listed country subholding companies and the subsidiaries



thereof which, pursuant to their own special framework of strengthened autonomy, have their own risk policies approved by their competent bodies. In any event, said risk policies must be in accord with the principles set forth in this *General Risk Control and Management Policy* and in the other *Risk Policies* of the Company.

At those companies in which the Company has an interest but which do not belong to the Group, the Company shall promote principles, guidelines and risk limits consistent with those established in the *General Risk Control and Management Policy* and in its supplemental *Risk Policies* and shall maintain appropriate channels of information to ensure a proper understanding of risks.

## **E.2. Identify the decision-making bodies of the company responsible for preparing and implementing the Risk Management System, including the system for managing tax risks.**

### **1. BOARD OF DIRECTORS**

Within the scope of its powers, and with the support of the Audit and Risk Supervision Committee, the Board of Directors undertakes to develop all of its capabilities in order for the significant risks to all the activities and businesses of the Group to be adequately identified, measured, managed and controlled, and to establish through the *General Risk Control and Management Policy* the mechanisms and basic principles for appropriate management of the risk/opportunity ratio. By virtue thereof, it defines the risk strategy and profile and approves the Group's *Risk Policies*.

### **2. EXECUTIVE COMMITTEE**

In order to align the risk impact with the established risk appetite, the Executive Committee of the Board of Directors, acting at the proposal of the business or corporate divisions involved and upon a prior report from the Group's Risk Committee, annually reviews and approves specific guidelines regarding the risk limits from the *Corporate Risk Policies*.

### **3. AUDIT AND RISK SUPERVISION COMMITTEE**

As a consultative body of the Board of Directors, it is vested with the following powers, among others, regarding the internal control and risk management systems:

- Directly supervise the Risk Division and maintain an appropriate relationship therewith and with the audit and compliance committees of the other companies of the Group.
- Continuously review the internal control and risk management systems, such that the principal risks are properly identified, managed, and reported.
- Supervise the effectiveness of the internal control and risk management systems, making proposals for improvement.
- Obtain information regarding any significant deficiency in internal control that the auditor detects while carrying out its audit work.
- Ensure that the Group's risk control and management system identifies at least:
  - The various risk factors to which the Company is exposed.
  - The establishment and review of the risk map and the risk levels deemed acceptable.
  - The measures in place to mitigate the potential impact of identified risks.
  - The internal control and reporting systems to be used to control and manage such risks.
- Promote (within the limits of its powers) a culture in which risk is a factor that is taken into account in the decisions of the Company.
- Identify and evaluate emerging risks, like those arising from technological, climactic, social and regulatory risks, as well as existing alert mechanisms, periodically evaluating the effectiveness thereof.
- Obtain credible information as to whether the most significant risks are managed and maintained within the tolerance figures that have been established, and evaluate the various risk tolerance levels established in the *Risk Policies*, proposing the adjustment thereof based on information received from the various divisions and areas.
- Annually receive the heads of the businesses of the Group for them to report on the trends of

their respective businesses and the risks associated therewith.

- Report in advance on the risks of the Group to be included in the Company's *Annual Corporate Governance Report*.
- (Specifically in the tax area) Receive from the Company's tax director information on the tax guidelines used by the Company during the financial year and, in particular, on the level of compliance with the *Corporate Tax Policy*, and report to the Board of Directors on the tax policies applied and, in the case of transactions or matters that must be submitted to the Board of Directors for approval, regarding the tax consequences thereof when such consequences represent a significant issue.

#### 4. BOARDS OF DIRECTORS OF COUNTRY SUBHOLDING COMPANIES OF THE PRINCIPAL COUNTRIES IN WHICH THE GROUP OPERATES

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 management decision-making bodies of the head of business companies of each country must approve the specific risk limits applicable to each of them and implement the control systems required to ensure compliance therewith.

Pursuant to their framework of strengthened autonomy, Avangrid and Neoenergia have their own risk policies.

#### 5. CORPORATE RISK COMMITTEE

The Risk Committee of the Iberdrola Group is a technical body chaired by the chief financial officer, and which performs executive duties in connection with customary risk management and gives advice to the Group's governance bodies.

The Committee meets at least once per month, with the participation of the Group's Director of Risk Management, those responsible for risks at the corporate businesses and areas that have a Risk Management function, the Internal Audit Division and the Administration and Control Division.

The Group's Risk Committee is complemented with the Corporate Credit Risk and Market Risk Committees, which report to said Risk Committee and which meet on a fortnightly and monthly basis, respectively, to discuss and decide on credit and market (financial and commodities) risk issues.

This Committee reviews the various risks and issues a *Group Quarterly Risk Report*, which includes the main risk positions, a report on compliance with limits and indicators, and an update of the key risk maps.

### E.3. Point out the principal risks, including tax risks, that could affect the achievement of business goals.

The group is subject to various risks inherent in the different countries, industries and markets in which it does business and in the activities it carries out, which may prevent it from achieving its objectives and successfully implementing its strategies.

The section entitled "Main risks and uncertainties" of the *Management Report* within the *Annual Report for financial year 2017* provides a detailed description of the principal risks associated with the activities carried out by the main businesses of the group, as well as the risks of the corporation.

Owing to its universal and dynamic nature, the comprehensive risk system allows for the consideration of new risks that may affect the group following changes in its operating environment or revisions of objectives and strategies, as well as adjustments resulting from ongoing monitoring, verification, review and supervision activities.

Pursuant to the definitions established by the *General Risk Control and Management Policy*, at the group level, risks are classified as follows:

- a) Corporate Governance Risks: the Company accepts the need to achieve the fulfilment of the corporate interest and the sustained maximisation of the economic value of the Company and its long-term success, in accordance with the Group's corporate interest, culture and corporate vision, taking into account the legitimate public and private interests that converge in the conduct of all business activities, particularly those of the various stakeholders and the communities and regions in which the Company and its employees act. A fundamental requirement for the foregoing is compliance with the Company's Corporate Governance System, made up of the *By-Laws*, the *Mission, Vision and Values of the Iberdrola group*, the *Corporate Policies*, the internal corporate

governance rules and the other internal codes and procedures approved by the competent decision-making bodies of the Company and inspired by the good governance recommendations generally recognised in international markets.

- b) **Market Risks:** understood as the exposure of the Group's results and assets to changes in market prices and other variables, such as exchange rates, interest rates, commodity prices (electricity, gas, CO2 emission allowances, other fuel, etc.), prices of financial assets and others.
- c) **Credit Risks:** defined as the possibility that a counterparty fails to perform its contractual obligations, thus causing an economic or financial loss to the Group. Counterparties can be end customers, counterparties in financial or energy markets, partners, suppliers or contractors.
- d) **Business Risks:** defined as the uncertainty regarding the performance of key variables inherent in the different activities of the Group through its businesses, such as the characteristics of demand, weather conditions and the strategies of different players.
- e) **Regulatory and Political Risks:** are those arising from regulatory changes made by the various regulators, such as changes in compensation of regulated activities or in the required conditions of supply, or in environmental or tax regulations, including risks relating to political changes that might affect legal security and the legal framework applicable to the businesses of the Group in each jurisdiction, nationalisation or expropriation of assets, the cancellation of operating licences and the early termination of government contracts.
- f) **Operational, Technological, Environmental, Social and Legal Risks:** are those related to direct or indirect economic losses resulting from external events, inadequate internal procedures, technical failures, human error and/or fraud, including those relating to climate change, information technology, cybersecurity and the risk of technological obsolescence.
- g) **Reputational Risks:** potential negative impact on the value of the Company resulting from conduct on the part of the Company that is below the expectations created among various stakeholders, as defined in the *Stakeholder Relations Policy*.

#### **E.4. Identify whether the entity has a risk tolerance level, including one for tax risk.**

The Company's Board of Directors annually reviews and approves the acceptable risk tolerance levels for the group. The *General Risk Control and Management Policy*, together with the policies that develop and complement it, qualitatively and quantitatively establish, in sufficiently detailed form, the risk appetite that is annually accepted both at the Group level and at the level of each of its main businesses and corporate functions.

By way of supplement, once such limits and guidelines are considered in order to verify the risk assumed globally in the annual profit and loss account, the Administration and Control Division engages in a comprehensive probability analysis of the remaining global risk for the year at the time of approving the annual budget.

In addition, all new multi-year plans are accompanied by their associated risk analysis.

The *General Risk Control and Management Policy* is developed and supplemented through the following policies, which are also approved by the Company's Board of Directors:

Corporate risk policies and limits:

- *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*

Risk policies for the various businesses of the Group:

- *Risk Policy for the Networks Businesses of the Iberdrola Group*
- *Risk Policy for the Renewable Energy Businesses of the Iberdrola Group*
- *Risk Policy for the Liberalised Businesses of the Iberdrola Group*
- *Risk Policy for the Real Estate Business*

The limits and indicators of the risk policies must be consistent with the annual Budget and the objectives established in the multi-annual investment plans. The numeric values of the limits and indicators set out in the various policies are based on probabilities or of a deterministic nature (like VaR or at-risk EBITDA) and are expressed in monetary units, indices or references upon which volumetric risk and/or figures are based, including:

- Limits on maximum global credit risk exposure by type of counterparty
- Limits to market risk proportional to the volume of activity of each business
- Strict global limit on discretionary energy trading
- Limits on operational risk through preventive maintenance programmes and insurance programmes
- Strict limits on activities not associated with the main energy business

The *Corporate Tax Policy* establishes the limits on tax risk by setting the tax strategy, principles of conduct and good tax practices assumed by the Company.

The *General Risk Control and Management Policy*, as well as a summary of the supplementary risk policies, are available on the corporate website (<https://www.iberdrola.com/corporate-governance/corporate-governance-system/corporate-policies>).

#### **E.5. State what risks, including tax risks, have materialised during the financial year.**

The group has been negatively affected during the year by events described further below, although these events have been offset at the net profit level by the following positive events:

- The merger of Gamesa Corporación Tecnológica with Siemens Wind Power, which contributed 255 million euros to net profit, including 198 million euros for the extraordinary merger dividend. As a result of this merger, the Company holds an 8.071% interest in the merged entity.
- The positive impact on the consolidated accounts of the group of 1,284 million euros after taxes as a result of the tax reform approved in the United States of America at the end of 2017.

Risks that have materialised include:

- The major drought that affected Spain during 2017, with the decrease in the Group's hydroelectric production to 7.9 TWh, compared to 18.3 TWh produced in 2016 (an exceptionally good year) and the steep drop in the Group's hydrological reserves, which were at historical minimums as at 31 December 2017.
- The adverse regulatory and market environment faced by the retail electricity and gas business in the United Kingdom.
- The recording in financial year 2017 results of extraordinary expenses in the amount of 129 million euros with respect to EBITDA as a result of the major storms affecting the networks businesses in the United States of America during the year (which expenses should be recovered in subsequent years, according to the applicable regulatory frameworks).
- The writeoff of 512 million euros after taxes for the gas storage and transport businesses in the United States of America and in Canada.
- The adverse performance of some of the projects of Iberdrola Engineering & Construction, the activities of which are now classified as discontinued operations, with a negative contribution to the

consolidated net profit of the group in 2017 of 253 million euros after taxes.

- The required tax payment communicated in November 2017 by the Spanish Tax Agency in the amount of 665 million euros in enforcement of the obligation established in Commission Decision (EU) 2015/314 on the recovery of aid declared to be incompatible with the internal market (tax amortisation of goodwill generated by the acquisitions of Scottish Power, Energy East and Rokas). The payment of this amount is provisionally suspended by decision of the General Court of the European Union after the appeal of said Decision by Iberdrola. Most of this amount is covered by passive deferred taxes recorded in accordance with accounting rules, as the tax incentive is considered to be a temporary difference. It need not be provisioned to the extent that the Company, its tax advisors and its external auditors find the arguments used to be sound, which gives confidence in the future favourable resolution of the appeal that was filed.
- The international ransomware cyberattack that occurred on 12 May 2017, which only partially affected some of the Iberdrola group's activities in Spain. The cybersecurity measures implemented at all businesses and corporate functions and the current action protocols ensured that no critical service, operation or customers were at any time significantly affected.

Finally, it should be noted that activities in financial year 2018 will be subject to the following risk factors:

- Possible acceleration of the withdrawal of the monetary stimulus scheme of the European Central Bank, with the resulting risk of increases in interest rates, and thus in financial expenses.
- The process of negotiation of the exit of the United Kingdom from the European Union and the impact thereof on macroeconomic conditions in that country and on the pound/euro exchange rate.
- In Mexico, developments in the NAFTA negotiations among Mexico, the United States of America and Canada, and the potential impact thereof on the Mexican economy.
- In Brazil, the general elections to be held in October 2018 and the potential impact thereof on the strengthening of the economic recovery that began in 2017.
- A possible prolongation of the period for recovering the group's dam levels in Spain after the major drought in 2017, with the resulting impact on hydroelectric production capacity forecast for financial year 2018.
- The difficult regulatory and market environment that the retail electricity and gas business will continue to face in the United Kingdom after the announcement of the imposition of a future maximum value on "standard variable tariff" contracts.
- Growing competition in renewables auctions in various jurisdictions, due to the entry of new players that submit aggressive offers, which can make it difficult to obtain the award of new projects that are attractive in terms of profitability.
- Changes in the prices of electricity and commodities in the various countries in which it operates.

#### **E.6. Explain the plans for responding to and supervising the entity's main risks, including tax risks.**

The Comprehensive Risk System, together with the Company's control and management policies and systems that develop it, including the Group's Risk Committee and the Company's Operating Committee, have allowed for the identification of new risks and threats sufficiently in advance, and to establish appropriate mitigation plans.

The Company's Operating Committee meets on close to a weekly basis.

The Group's Risk Committee meets on a monthly basis, reviews the various risks, and on a quarterly basis approves a Quarterly Risk Report of the Group, which includes the main risk positions, a report on compliance with policies and limits, and an update of the key risk maps.

The Audit and Risk Supervision Committee of the Board of Directors periodically monitors the evolution of the Company's risks at least on a quarterly basis:

- It reviews the Quarterly Risk Reports of the Group, which include monitoring compliance with risk

limits and indicators and updated key risk maps, submitted by the Group's director of Corporate Risks.

- It coordinates and reviews Risk Reports sent periodically (at least half-yearly) by the audit and compliance committees of the country subholding companies and head of business companies of the Group.
- It prepares a Risk Report for the Board of Directors at least half-yearly.

## **F. INTERNAL RISK CONTROL AND MANAGEMENT SYSTEMS IN CONNECTION WITH THE PROCESS OF ISSUING FINANCIAL INFORMATION (ICFRS)**

**Describe the mechanisms making up the risk control and management systems with respect to the process of issuing the entity's financial information (ICFRS)**

### **F.1. Control environment at the entity**

**Indicate at least the following, specifying the main features thereof:**

**F.1.1. What bodies and/or functions are responsible for: (i) the existence and maintenance of an adequate and effective internal control over financial reporting system (ICFRS); (ii) the implementation thereof; and (iii) oversight thereof.**

The Board of Directors has the ultimate responsibility for the existence of an adequate and effective internal control over financial reporting system (ICFRS) lies with the Board of Directors of Iberdrola. The Boards of Directors of the country subholding companies and the head of business companies also have this responsibility within their various purviews.

The persons in charge of the country subholding companies and the head of business companies, together with the respective control officers, as well as the directors of the global corporate areas, are responsible for the design and implementation of the ICFRS. Such responsibility is expressly set forth in the certifications signed by such persons on a half-yearly basis in connection with the financial information for their respective areas of responsibility.

Pursuant to article 26.6.d of the *Regulations of the Board of Directors*, the Audit and Risk Supervision Committee has the power to monitor the effectiveness of the internal control of the Company and its Group. The Committee draws on the support of the Internal Audit Area Division to discharge such responsibility. Any audit and compliance committees at the country subholding and head of business companies have this power within their respective purviews.

**F.1.2. Whether any of the following are in place, particularly as regards the financial information preparation process:**

- **Departments and/or mechanisms in charge of: (i) the design and revision of the organisational structure; (ii) clearly defining the lines of responsibility and authority, with an appropriate distribution of work and duties; and (iii) ensuring that there are sufficient procedures for the proper dissemination thereof at the entity.**

The Board of Directors of Iberdrola defines the top-level organisational structure. The heads of such top-level organisations, together with the Human Resources Division, are responsible for deployment within their respective areas.

Each top-level division prepares a proposed organisation structure, including a description of the mission, duties and responsibilities of the various organisations deployed, which must then be validated by the Human Resources and General Services Division, as well as by the Finance and Resources Division.

Primary responsibility for the preparation of financial information lies with the corporate Administration and Control Division. This division proposes the structure of those responsible for Control at the country subholding and head of business companies and is in charge of coordinating and supervising their activities.

- **Code of conduct, body that approves it, degree of dissemination and instruction, principles and values included (indicating whether the recording of transactions and the preparation of financial information are**

**specifically mentioned), body in charge of reviewing breaches and of proposing corrective actions and penalties.**

The Iberdrola Group has a Code of Ethics, approved by the Board of Directors.

According to article 2.1 thereof, “the principles and guidelines for conduct contained in the Code of Ethics apply to all of the Group’s professionals, regardless of seniority, geographic or functional location, or the company of the Group for which they provide their services”. The Code of Ethics is communicated to and disseminated among the professionals of the Iberdrola Group in accordance with the plan approved for such purpose by the Compliance Unit.

Article 31 of the *Code of Ethics* expressly provides as follows:

“The Group shall provide true, proper, useful and consistent information regarding its programmes and actions. The transparency of the information required to be disclosed is a basic principle that must govern the actions of Group professionals.

The economic/financial information of the Group (especially the annual accounts) shall faithfully reflect its economic and financial position and its net worth, in accordance with generally accepted accounting principles and applicable international financial reporting standards. For such purposes, no professional shall conceal or distort the information set forth in the accounting records and reports of the Group, which shall be complete, accurate and truthful.

A lack of honesty in the communication of information, whether internally within the Group (to employees, subsidiaries, departments, internal bodies, management decision-making bodies, etc.) or outside the Group (to auditors, shareholders and investors, regulatory entities, the media, etc.) is a breach of the *Code of Ethics*. This includes delivering incorrect information, organising it in an incorrect manner or seeking to confuse those who receive it”.

Control of the application of the Company’s Compliance System is a duty of the Compliance Unit, a body linked to the Corporate Social Responsibility Committee of the Company’s Board of Directors, with duties in the area of regulatory compliance and the Company’s Corporate Governance System. This Unit approves the *General Compliance System Framework of the Iberdrola group*, which contains the basic principles of structure and operation of the Group’s Compliance System as well as the duties and responsibilities of the various bodies involved. The Unit also evaluates and prepares an annual report on the effectiveness of the Compliance System of the Company and of the other companies of the Group. The report is submitted to the Corporate Social Responsibility Committee, which renders its opinion and forwards it to the Board of Directors.

The Compliance Unit also has the duty to determine whether a Group professional has conducted activities in violation of the law or of the *Code of Ethics* and, if applicable, to direct the Human Resources Division, or the Division responsible for the human resources function at the relevant group company, to apply disciplinary measures in accordance with the rules on breach of duties and penalties contained in the collective bargaining agreement to which the professional belongs or in applicable labour law provisions.

Pursuant to article 41.1 thereof, the professionals of the Group expressly accept the rules of conduct established in the *Code of Ethics*.

In addition, pursuant to article 41.2, professionals who join or become part of the Group in the future shall expressly accept the principles and rules of conduct set forth in the *Code of Ethics*, which document shall be attached to their respective employment contracts.

- **Reporting channel that makes it possible to report any irregularities of a financial or accounting nature to the audit committee, as well as any possible breach of the code of conduct and irregular activities at the organisation, specifying, if appropriate, whether it is confidential.**

Iberdrola has a procedure in place that must be followed by all employees of the Group who wish to report potentially significant irregularities of a financial and accounting nature and that allows them to report such irregularities, by e-mail or regular mail, to the chair of the Audit and Risk Supervision Committee.

As established in the procedure itself, the Company’s Board of Directors guarantees that the name of the reporting person and the irregularity reported shall be treated in the strictest confidence, both in the reporting process and in any process for the assessment and clarification of the facts conducted by the Audit and Risk Supervision Committee and the organisations of the Company or third parties participating



at the request of such Committee.

In accordance with the above-mentioned procedure, the chair of the Audit and Risk Supervision Committee receives and admits the report for further processing. Such admission is made on the basis of the requirements established in the procedure (name of the sender, sufficiently detailed information on the situation reported, need for the report to fall within the scope of the channel, confidentiality guarantee, personal data protection, etc.).

No reports were received during financial year 2017.

- **Regular training and update programmes for personnel involved in the preparation and review of financial information, as well as in the evaluation of the internal control over financial reporting system, covering at least accounting standards, auditing, internal control and risk management.**

Personnel involved in the preparation and review of financial information, as well as in the evaluation of the internal control over financial reporting system, receives regular training on accounting standards, auditing, internal control, and risk management, according to its specific responsibilities.

In accordance with the organisational structure of the Iberdrola Group, the divisions that have a direct relationship with these types of duties are the Internal Audit Division, the Administration and Control Division and the Finance and Resources Division.

During financial year 2017, the personnel involved in these duties received 8,013 hours of training in these areas, which are further described below:

	<b>Training Sessions</b>	<b>Participants</b>	<b>Total Hours</b>
<b>Brazil</b>	18	88	739
<b>United States</b>	24	801	1,094
<b>Spain</b>	82	472	3,617
<b>Mexico</b>	20	248	547
<b>United Kingdom</b>	34	815	2,017
<b>Total</b>	<b>178</b>	<b>2,424</b>	<b>8,013</b>

Most of these courses are provided by external entities: business schools, universities or consulting firms specialising in economic/financial issues.

The technical training activities in which these professionals engaged include:

- Payroll Issues for Multi-State Employers
- Income & Sales tax School
- NAMS-PPM training
- UK VAT & International Trade
- VAT & Custom duty control import cost
- Corporate accounts payable model
- Electronic billing
- Audit techniques

- Procurement procedure
- FIDIC Rules (Mexico)

Also noteworthy is attendance at various conferences, symposia and seminars in the areas of accounting, tax and internal audit, at both the local and international levels.

Generally, these professionals have taken various courses to improve their qualifications in the use of the office automation tools required to perform their duties, mainly Excel and the management of databases.

It should be noted that several international meetings were organised during 2017 among the professionals in these areas, like the "XI Global Internal Audit Days", "V-Global Tax Meeting" and "Finance & Treasury Global Meeting".

## F.2 Risk assessment of financial information

Indicate at least the following:

### F.2.1. What are the main features of the risk identification process, including the process of identifying the risks of error or fraud, with respect to:

- **Whether the process exists and is documented.**

The process for the identification of risks of error in financial information is one of the most important steps in the method for the development of internal control of the financial information of Iberdrola, and the goals, implementation and results thereof are documented.

The method starts with a review of the consolidated financial information of the Iberdrola Group and of the various country subholding companies in order to select the most significant accounts and notes to the accounts, in accordance with both quantitative (materiality) and qualitative (business risk and visibility to third parties) standards. The selected accounts and notes are grouped into management cycles or large processes in which the selected information is generated. The cycles are analysed and a description of each is prepared, as a way of identifying possible risks of error in the financial information, in connection with attributes such as completeness, presentation, assessment, cut-off, recording, and validity. The identified risks are submitted to a process of prioritisation, such that the most significant ones are selected by applying professional judgement on a number of indicators (existence of documented processes and controls, existence of systems that automate the processes, whether there have been any incidents in the past, whether the process is known and mature, or whether judgements need to be made to make estimates). The risks of fraud are not explicitly identified, although they are taken into account to the extent that they might generate material errors in financial information.

Once the most significant risks have been selected, the controls needed to mitigate or manage them are selected and designed; such controls are monitored, documented, and systematically reviewed by the Internal Audit Area.

The risks selected are reviewed at least on an annual basis, within the framework of the assessment of the effectiveness of internal control carried out by the persons or divisions responsible therefor. The purpose of such review is to adjust the risks to the changing circumstances in which the Company operates, particularly in the event of changes in the organisation, information technology systems, regulations, products, or the situation of the markets.

- **Whether the process covers all the objectives of financial information (existence and occurrence; completeness; assessment; presentation, breakdown and comparability, and rights and obligations), whether it is updated, and how often.**

As mentioned above, the cycles or large processes in which financial information is generated are reviewed at least on an annual basis in order to identify possible risks of error, in connection with attributes such as validity (existence and authorisation), completeness, assessment, presentation, cut-off, and recording.

- **The existence of a process for the identification of the scope of consolidation, taking into account, among other matters, the possible existence of complex corporate structures, holding entities, or special purpose entities.**

The scope of consolidation is identified on a monthly basis, and the result thereof is the updated corporate map, which expressly identifies the changes that occurred in each period.

This review covers all companies in which Iberdrola or any of its subsidiaries has an interest, no matter how small.

In accordance with the provisions of section 529 of the *Companies Act*, the *Regulations of the Board of Directors* provide that the Board of Directors has the power to, among other things, approve the creation or acquisition of equity interests in special purpose entities (“SPEs”) or entities registered in countries or territories that are considered to be tax havens (“THEs”), as well as any other transactions or operations of a similar nature that, due to their complexity, might diminish the transparency of the Group.

In accordance with the same law, the *Regulations of the Audit and Risk Supervision Committee* of Iberdrola provide that the Audit Committee must report to the Board of Directors prior to such decisions being adopted on the creation or acquisition of said entities.

Accordingly, whenever the Company intends to create a special purpose entity or an entity registered in a tax haven, or to acquire an interest in one, the transaction requires a favourable report of the Audit and Risk Supervision Committee and subsequent approval of the Board of Directors.

There are specific procedures for such purpose, tailored to the current corporate governance model, according to which such initiative is to be taken by the Division of the Group or country subholding company, head of business company or company in which an interest is held through them, that intends to create or acquire a special purpose company or a company registered in a tax haven. In the case of listed country subholding companies of the Group or subsidiaries thereof, the audit and compliance committee or equivalent body of said listed country subholding company will issue the relevant report.

- **Whether the process takes into account the effects of other types of risks (operational, technological, financial, legal, tax, reputational, environmental, etc.) to the extent that they affect the financial statements.**

The process for the identification of risks of error in financial information takes into account the effects of other types of risks (operational, technological, legal, tax, reputational, environmental, etc.) to the extent that they affect the accounts; such risks are assessed and managed by different corporate units such as the Risk Division or Legal Services, among others. However, no express identification of such other types of risks is carried out to identify financial information risks.

- **What governance body of the entity supervises the process.**

The governance body that supervises the process is the Audit and Risk Supervision Committee, which draws on the support of the Internal Audit Area Division to discharge this responsibility.

### F.3. Control activities

Indicate whether at least the following are in place and describe their main features:

- F.3.1. **Procedures for review and authorisation of financial information, and description of the internal control over financial reporting system to be published in the securities market, indicating the persons or divisions responsible therefor, as well as documentation describing the flows of activities and controls (including those relating to risk of fraud) of the**

**various types of transactions that could materially affect the financial statements, including the closing process and the specific review of significant judgements, estimates, assessments, and projections.**

The process or structure of certification of financial information, conducted formally on a half-yearly basis, on the dates of the year-end and interim closing processes, reflects the manner in which financial information is generated in the Group.

In such structure, the persons in charge of the country subholding companies and those responsible for the head of business companies, together with the respective directors of control, and the heads of the global corporate areas, certify both the reliability of the financial information in the areas under their responsibility (which is the information they provide for purposes of consolidation at the Group level) and the effectiveness of the internal control system established to reasonably ensure such reliability. Finally, the chairman & chief executive officer, as the highest executive authority, and the director of Administration and Control, as the person responsible for the preparation of financial information, certify the reliability of the consolidated accounts to the Board of Directors.

The Audit and Risk Supervision Committee, with the support of the Internal Audit Area Division, supervises the entire certification process, and submits the conclusions of such review to the Board of Directors at the meetings at which the accounts are formally approved.

As regards the description of the internal control over financial reporting system (ICFRS) to be published in the securities markets, the review and authorisation procedure is the same as that used for all contents of an economic and financial nature of the *Annual Corporate Governance Report*.

The documentation of the internal control over financial reporting system includes high-level descriptions of the cycles of generation of selected significant financial information, as well as detailed descriptions of the prioritised risks of error and of the controls designed to mitigate or manage them. The description of the controls includes the evidence to be obtained in the implementation thereof, which is necessary for its review.

Each of the closing processes performed at the business units is regarded as a cycle, and the same is true of all the closing activities performed at the corporate level, of the global consolidation process, and of the process for preparation of the notes to the accounts. As a result, all such activities are subject to the methodological process described in the section relating to risks.

The specific review of critical accounting judgements and significant estimates, assessments, and projections is subject to specific controls within the model, since this type of matter entails the identification of risks of error in the different cycles in which they are made. In many cases, the evidence of such specific controls is the media supporting such reviews.

Independently of the certification process followed in the countries, businesses, and corporate areas, the Audit and Risk Supervision Committee, again with the support of the Internal Audit Division, performs an overall review of financial information on a quarterly basis, ensuring that the half-yearly financial reports and the quarterly management statements are prepared using the same accounting standards as the annual financial reports, verifying the proper delimitation of the scope of consolidation as well as the proper application of generally accepted accounting principles and international financial reporting standards.

**F.3.2. Policies and procedures of internal control over reporting systems (including, among others, security of access, control of changes, operation thereof, operational continuity, and segregation of duties) that provide support for the significant processes of the entity in connection with the preparation and publication of financial information.**

The controls used to mitigate or manage the risks of error in financial information include controls relating to the most significant computer applications, such as controls of user access permissions or of the integrity of the transfer of information between applications, the transaction, and change management.

In addition, the Iberdrola Group has guidelines or regulations as well as procedures for internal control over reporting systems in connection with software acquisition and development, the acquisition of system infrastructure, software installation and testing, change management, service level management, management of the services provided by third parties, system security and access thereto, management of incidents, operation management, continuity of operations, and segregation of duties.

Such guidelines and procedures (which, in some cases, differ according to geographical area or type of

solution and are in the process of progressive standardisation) are applied across all information systems supporting significant financial information generation processes, and on the infrastructure required for the operation thereof.

The Iberdrola Group also has an *Information Technologies Policy* that contemplates the management of risks associated with the use, ownership, operation, participation, influence and adoption of specific information technology and the processes for the management and control thereof.

This provides a general controls model integrated with the risk management model that allows for a global evaluation of the risks relating to information technology.

This model includes a periodic evaluation of the effectiveness of the controls on information technologies implemented in the area of the financial systems, adopting the appropriate measures if any incident is detected.

The heads of the Iberdrola Group's information technology systems certify the effectiveness of the internal controls established on financial information systems on an annual basis.

### **F.3.3. Internal control policies and procedures designed to supervise the management of activities outsourced to third parties, as well as those aspects of assessment, calculation or valuation entrusted to independent experts, which may materially affect the accounts.**

Generally speaking, the Iberdrola Group has no significant duties outsourced to third parties that have a direct impact on financial information. The assessments, calculations, or valuations entrusted to third parties that may materially affect the accounts are regarded as significant financial information generating activities that lead, if appropriate, to the identification of high-priority risks of error, which, in turn, entails the design of associated internal controls. Such controls cover the review and internal approval of the basic assumptions to be used, as well as the review of the assessments, calculations, or valuations made by outside parties, by verifying them against calculations made internally.

## **F.4. Information and communication**

**Indicate whether at least the following are in place and describe their main features:**

### **F.4.1. A specific function charged with defining and updating accounting policies (accounting policy area or department) and with resolving questions or conflicts arising from the interpretation thereof, maintaining fluid communications with those responsible for operations at the organisation, as well as an updated accounting policy manual that has been communicated to the units through which the entity operates.**

The Accounting Practices Division, reporting directly to the director of Administration and Control, is responsible for defining and updating accounting policies, as well as for resolving questions or conflicts stemming from the interpretation thereof. It maintains fluid communications with those responsible for the operation of the organisation and, especially, with those responsible for accounting functions. It publishes a quarterly newsletter, widely disseminated within the Group, on new accounting developments in connection with IFRS, which includes regulation updates (laws and regulations that come into force, drafts issued, laws and regulations enacted, laws approved and pending approval by the European Union, and expected future laws and regulations) as well as accounting questions asked internally, together with the conclusions in respect thereof.

The Accounting Practices Division is also responsible for continuously updating the Group's accounting practices manual and for the appropriate dissemination thereof.

The accounting manual is updated continuously. For this purpose, the Accounting Practices Division analyses whether new developments or changes in accounting matters have an effect on the Group's accounting policies, as well as the effective date of each of such laws or regulations. When a new law or regulation, or interpretation thereof, is identified as having an effect on the Group's accounting policies, it is included in the manual and is also communicated to those responsible for preparing the Group's

financial information by means of the quarterly newsletters mentioned above, and there is an update of the application in which the manual is maintained.

The updated version of the manual is available in an application on the Group's internal network. This application is also accessible by VPN over the internet and can be linked to e-mail. Any change or the inclusion of a document within the manual generates a notice by e-mail to all users.

**F.4.2. Mechanisms to capture and prepare financial information with standardised formats, to be applied and used by all units of the entity or the group, supporting the principal accounts and the notes thereto, as well as the information provided on the internal control over financial reporting system.**

The mechanism to capture and prepare the information supporting the principal accounts of the Iberdrola Group is based primarily on the use of a unified management consolidation tool (known as BPC) accessible from all geographical areas, currently deployed across the entire Group.

A large portion of the information supporting the breakdowns in and notes to the financial information is included in the consolidation tool, and the rest is captured on standardised spreadsheets known as reporting packages, which are prepared for the half-year and year-end closing processes.

**F.5. Supervision of the operation of the system**

**Indicate and describe the main features of at least the following:**

**F.5.1. The activities of supervision of the internal control over financial reporting system (ICFRS) performed by the audit committee, as well as whether the entity has an internal audit function whose duties include providing support to the committee in its work of supervising the internal control system, including the internal control over financial reporting system. Information is also to be provided concerning the scope of the assessment of the internal control over financial reporting system performed during the financial year and on the procedure whereby the person or division charged with performing the assessment reports the results thereof, whether the entity has an action plan in place describing possible corrective measures, and whether the impact thereof on financial information has been considered.**

The activities of supervision of the internal control over financial reporting system carried out by the Audit and Risk Supervision Committee include basically: (i) monitoring compliance with the certification process by the various persons or divisions responsible for financial information, (ii) reviewing the design and operation of the internal control system, with the support of the Internal Audit Area Division, to assess the effectiveness thereof, and (iii) periodic meetings with external auditors, internal auditors and senior management to review, analyse and discuss financial information, the group companies covered and the accounting standards applied, as well as, where appropriate, the significant internal control weaknesses detected.

It should be noted that on an annual basis, those responsible for the preparation of the financial information of each country subholding company, each head of business company and each corporate area carry out a review of the design and operation of the internal control system within their area of responsibility in order to assess the effectiveness thereof, in a process coordinated by the Internal Control Division.

To that end, an analysis is made of whether, as a result of the changing circumstances in which the Group operates (changes in organisation, systems, processes, products, regulation, etc.), changes in identified risks need to be included and prioritised. A review is also made of whether the design of the controls to mitigate or manage the risks that may have changed is appropriate, as well as whether the

controls have functioned properly, in accordance with their design.

The conclusions of this annual review, both as regards the deficiencies detected (which are classified as serious, medium, or slight, according precisely to their possible impact on financial information) and with respect to the action plans to correct them, are submitted at an annual seminar session chaired by the director of Administration and Control, at which the Internal Audit Area Division is also in attendance. At such meeting, conclusions are reached concerning the effectiveness of the internal control system at each of the different areas for which they are responsible and, overall, at the Group as a whole.

The most significant conclusions of the review performed are subsequently submitted to the Audit and Risk Supervision Committee within the framework of the periodic meetings with the director of Administration and Control.

Independently of the foregoing, the Internal Audit Area (which reports to the chairman & chief executive officer and is functionally controlled by the Audit and Risk Supervision Committee, and which, as provided in the Basic Internal Audit Regulations of Iberdrola, S.A. and the Companies of its Group, has the primary roles of working with the Audit and Risk Supervision Committee to further develop the powers thereof and to proactively ensure the proper operation of the information technology, internal control, and risk management systems of the Company), conducts an independent review of the design and operation of the internal control system in support of said Committee, identifies deficiencies, and draws up recommendations for improvement.

As a result thereof, the Internal Audit Area Division continuously monitors the various action plans agreed with the different organisations to correct the deficiencies detected and to implement the suggestions for improvement agreed with the organisations.

The period that the Internal Audit Area Division plans for an in-depth review of the entire internal control system is five years.

Specifically, during financial year 2017, more than 34 cycles corresponding to the companies Avangrid, Inc., Scottish Power, Ltd., Iberdrola España, S.A., Iberdrola México, S.A. de C.V., Elektro Redes, S.A. and Iberdrola Inmobiliaria, S.A.U., as well as Administration and Control, were reviewed. As a result of the integration process of Neoenergía, S.A., it is expected that its internal control system will be included within the methodology of the Group as from financial year 2018.

In addition, the Internal Audit Area Division performs a review of the operation of the internal controls regarded as most critical on a half-yearly basis, on the dates of the half-year and year-end closing.

The combination of the periodic reviews and the half-yearly reviews of the most critical controls enables the Internal Audit Area Division to perform an assessment of the internal control system, as regards the design and operation thereof, and to issue an opinion on the effectiveness of the internal controls established to ensure the reliability of financial information, which it submits to the Audit and Risk Supervision Committee within the framework of their periodic meetings.

**F.5.2. Whether it has a discussion procedure whereby the auditor (as provided in the Technical Auditing Standards), the internal audit function and other experts can inform senior management and the audit committee or the directors of the entity of the significant internal control weaknesses detected during the review of the annual accounts or such other reviews as may have been entrusted to them. Information shall also be provided on whether it has an action plan to seek to correct or mitigate the weaknesses found.**

Generally speaking, the procedure for discussion of significant internal control weaknesses detected is based on periodic meetings of the various agents.

Thus, the Audit and Risk Supervision Committee holds meetings, both at the half-year and at the year-end closing, with the external auditors, the internal auditors and the division responsible for preparing financial information, in order to discuss any significant aspect of the preparation process and of the resulting financial information.

Specifically, pursuant to its *Regulations* (scope of authority), the Audit and Risk Supervision Committee of Iberdrola has, among other duties, the duty of reviewing, together with the auditors, the significant weaknesses of the internal control system detected in the course of the audit. To such end, the auditor appears before such Committee on an annual basis to submit recommendations in connection with the internal control weaknesses identified during the review of the accounts. Any weaknesses described by the auditor are monitored on an ongoing basis by the Committee, with the support of the Internal Audit

Area Division. Furthermore, the division responsible for preparing the consolidated accounts also holds meetings with the external auditors and with the internal auditors, both at the half-year and at the year-end closing, to discuss significant issues relating to financial information.

## **F.6. Other significant information.**

Iberdrola has an internal model or system for control over financial reporting, the purpose of which is to reasonably ensure the reliability of the financial information. It is important to note that the development of this model, which commenced in 2006, was not the product of a legal requirement, but rather derived from the firm belief of both the Board of Directors and the senior management of the Company that in a context of growth and internationalisation as the one that could already be envisaged for the Group, an explicit and auditable internal control system would contribute to maintaining and improving its control environment and the quality of financial information; it would also boost investors' trust because of its effects on the transparency, reputation, and good governance of Iberdrola and of the subsidiaries making up the Iberdrola Group.

The Internal Control over Financial Reporting Model or System (ICFRS) of the Iberdrola Group rests on two main pillars: certification and internal control proper.

Certification is a half-yearly process in which those responsible for financial information in the different areas of the Company certify that: (i) the financial information they deliver to Iberdrola for purposes of consolidation does not contain any material errors or omissions and provides a fair view of the results and the financial condition within their area of responsibility, and (ii) they are responsible for establishing the ICFRS within their area of responsibility and have found, upon evaluation, that the system is effective. The text of these certifications is inspired by the form of certification established in section 302 of the U.S. Sarbanes-Oxley Act.

The culmination of the half-yearly process is a joint certification that the chairman & chief executive officer and the director of Administration and Control submit to the Board of Directors.

The other pillar supporting this model, i.e. internal control proper, is patterned on the reference framework described in the report entitled "Internal Control Integrated Framework" of the Committee of Sponsoring Organisations of the Treadway Commission (COSO), and is primarily aimed at providing a reasonable level of security in achieving the aim of reliability of the financial information.

The methodology used by Iberdrola for the development and continuous update of internal control consists of the following stages or steps: (i) analysis and selection of significant financial information, (ii) grouping such information into cycles or large processes in which it is generated, (iii) identification, assessment, and prioritisation of risks of error in financial information within selected cycles, (iv) design and operation of controls in order to mitigate or manage selected risks, and (v) monitoring and update of the previous steps in order to continuously adapt the model to the circumstances of corporate activities.

One of the salient features of the design of this model is that it seeks to guarantee the quality of financial information during all months of the year, such that it is not limited only to the periods of year-end or half-year closings.

This feature is strengthened through the use of a specific software application developed in-house by the Group that allows for monitoring of the status of controls at all times.

Another important feature of the model is that it extends the culture of internal control to all of the organisations, both corporate and business, that significantly contribute to generating financial information, by assigning personal responsibility for the implementation and documentation of controls.

All relevant documents in connection with Iberdrola's ICFRS, both regarding the certification process and internal control proper, are contained in the aforementioned computer application.

Those responsible for implementing the controls enter into the computer application evidence of such controls having been performed, and then evaluate the results obtained, which they rate as satisfactory or non-satisfactory. This allows for the internal control situation to be monitored in real time, and also makes it possible to act promptly on any deficiencies detected.

In addition, those responsible for control at the country subholding and head of business companies, as well as those responsible for the corporate areas, carry out an annual review of the design and operation of the SCIIF, as a systematic process for updating such model in order to adapt it to the changing circumstances of corporate activities.

The annual review is coordinated by the Internal Control Division, which is also responsible for managing the computer application and coordinating the development of the ICFRS in the various business units



and corporate areas of the Group.

Moreover, the Internal Audit Area Division, which is responsible for supervising internal control as part of its duty of support of the Audit and Risk Supervision Committee, performs an independent review of the design and operation of the ICFRS, identifying deficiencies and formulating recommendations for improvement. This review is performed applying a mixed model for selecting cycles based on risk and on a minimum rotation of five years.

The Internal Audit Area Division also performs a half-yearly independent review of the effectiveness of the internal controls established to guarantee the reliability of financial information. It also reviews the process for certification of financial information on a half-yearly basis. The conclusions of such reviews are submitted to the Audit and Risk Supervision Committee, which, if appropriate, adopts such conclusions and submits them in turn to the Board of Directors.

The current scope of the ICFRS is such that, based on materiality standards, it covers the entire Iberdrola Group. At present, more than 1,200 persons within the Group use the software application, both to document evidence of the performance of more than 2,800 controls (which mitigate or manage more than 1,000 risks of error in financial information that have been prioritised) and to monitor, analyse, adjust and assess the ICFRS.

Furthermore, approximately 70 officers who participate in the process of certification of the accuracy of information under their responsibility do so by using an electronic signature directly on the computer application.

As a consequence of all of the foregoing, the final result of the certification process, which is based on the situation of internal control proper, can be reviewed by the Board of Directors of Iberdrola as one of the significant guarantees of reliability in connection with the preparation of the Group's annual and interim financial information.

## **F.7 External audit report**

### **Report on:**

**F.7.1. Whether the information on the internal control over financial reporting system has been reviewed by the external auditor, in which case the entity should include the respective report as an exhibit. Otherwise, it should provide the reasons therefor.**

The information on the internal control over financial reporting system sent to the markets has not been reviewed by the external editor for reasons of consistency with the fact that the rest of the information set forth in the Annual Corporate Governance Report is only reviewed by the auditor in connection with the accounting information contained in said Report. It is also believed that having the information on the internal control over financial reporting system reviewed externally would in a certain manner overlap the internal control review to be performed by the external auditor, according to technical auditing standards, within the context of the audit of the accounts.

## **G. DEGREE TO WHICH CORPORATE GOVERNANCE RECOMMENDATIONS ARE FOLLOWED**

**State the company's degree of compliance with the recommendations of the Good Governance Code of Listed Companies.**

**If the company does not comply with any recommendation or follows it partially, there must be a detailed explanation of the reasons providing shareholders, investors, and the market in general with sufficient information to assess the company's course of action. Generalised explanations will not be acceptable.**

- 1. The bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market**

Complies  Explain

Article 29.2 of the By-Laws provides that “No shareholder may cast a number of votes greater than those corresponding to shares representing ten (10%) per cent of share capital, even if the number of shares held exceeds such percentage of the share capital. This limitation does not affect votes corresponding to shares with respect to which a shareholder is holding a proxy as a result of the provisions of article 23 above, provided, however, that with respect to the number of votes corresponding to the shares of each shareholder represented by proxy, the limitation set forth above shall apply”.

Section 3 of such article adds: “The limitation set forth in the preceding section shall also apply to the maximum number of votes that may be collectively or individually cast by two or more shareholders that are entities or companies belonging to the same group. Such limitation shall also apply to the number of votes that may be cast collectively or individually by an individual and the shareholder entity, entities, or companies controlled by such individual. A group shall be deemed to exist under the circumstances provided by law, and also when a person controls one or more entities or companies”.

Iberdrola believes that the limitation on the maximum number of votes that may be cast by a single shareholder, or by several shareholders belonging to the same group or, if applicable, acting in concert, is a measure to protect shareholders at companies with dispersed share ownership, whose investment is thus guarded from any transaction that is contrary to the corporate interest. In this regard, most shareholders, especially including but not limited to small individual investors, who represent approximately one-fourth of Iberdrola’s capital, have little room to manoeuvre and respond to a potential shareholder owning a non-controlling interest and not reaching the threshold requiring a takeover bid but seeking influence over the Company and whose own interest is not totally in line with the corporate interest.

It should also be noted that such voting limitation has been in effect since 16 June 1990, the date on which the General Shareholders’ Meeting was held at which it was resolved, by unanimous vote of the attendees, to bring the By-Laws of the Company (then doing business as Iberduero, S.A.) into line with the restated text of the Companies Act approved by Royal Legislative Decree 1564/1989 of 22 December. This shows the level of corporate consensus that has existed on such voting limitation from the very beginning, which has been confirmed by the fact that such limitation has remained unchanged through various by-law amendments passed by the shareholders at General Shareholders’ Meetings. In turn, it reflects the will of the shareholders to increase their bargaining power in the event of hostile offers or transactions.

In any event, article 50 of the current By-Laws establishes the instances of removal of such voting limitation in the event that the Company is the target of a takeover bid that receives the required shareholder approval, in which case the provisions of section 527 of the Companies Act prevail. Pursuant to the foregoing, it cannot be deemed that the limitation on the maximum number of votes that may be cast by a shareholder constitutes an obstacle to a takeover bid.

**2. When a dominant and subsidiary company are both listed, they should provide detailed disclosure on:**

**a) The activity they engage in and any business dealings between them, as well as between the listed subsidiary and other group companies.**

**b) The mechanisms in place to resolve possible conflicts of interest.**

Complies  Complies in part  Explain  Not applicable

**3. During the annual general meeting the chairman of the board should verbally inform shareholders in sufficient detail of the most relevant aspects of the company’s corporate governance, supplementing the written information circulated in the annual corporate governance report. In particular:**

**a) Changes taking place since the previous annual general meeting.**

**b) The specific reasons for the company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.**

Complies  Complies in part  Explain

4. **The company should draw up and implement a policy of communication and contacts with shareholders, institutional investors and proxy advisors that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.**

**This policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those charged with its implementation.**

Complies  Complies in part  Explain

5. **The board of directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription rights for an amount exceeding 20% of capital at the time of such delegation.**

**When a board approves the issuance of shares or convertible securities without pre-emptive subscription rights, the company should immediately post a report on its website explaining the exclusion as envisaged in company legislation.**

Complies  Complies in part  Explain

6. **Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the annual general meeting, even if their distribution is not obligatory.**

**a) Report on auditor independence.**

**b) Reviews of the operation of the audit committee and the nomination and remuneration committee.**

**c) Audit committee report on third-party transactions.**

**d) Report on the corporate social responsibility policy.**

Complies  Complies in part  Explain

7. **The committee should broadcast its general meetings live on the corporate website.**

Complies  Explain

8. **The audit committee should strive to ensure that the board of directors can present the company's accounts to the general meeting without limitations or qualifications in the auditor's report. In the exceptional case that qualifications exist, both the chairman of the audit committee and the auditors should give a clear account to shareholders of their scope and content.**

Complies  Complies in part  Explain

9. The company should disclose its conditions and procedures for admitting share ownership, the right to attend general meetings and the exercise or delegation of voting rights, and display them permanently on its website.

Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.

Complies  Complies in part  Explain

10. When an accredited shareholder exercises the right to supplement the agenda or submit new proposals prior to the general meeting, the company should:

- a) Immediately circulate the supplementary items and new proposals.
- b) Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the board of directors.
- c) Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the board of directors, with particular regard to presumptions or deductions about the direction of votes.
- d) After the general meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.

Complies  Complies in part  Explain  Not applicable

11. In the event that a company plans to pay for attendance at the general meeting, it should first establish a general, long-term policy in this respect.

Complies  Complies in part  Explain  Not applicable

12. The board of directors should perform its duties with unity of purpose and independent judgement, according the same treatment to all shareholders in the same position. It should be guided at all times by the company's best interest, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.

In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the broader community and the natural environment.

Complies  Complies in part  Explain

13. The board of directors should have an optimal size to promote its efficient functioning and maximise participation. The recommended range is accordingly between five and fifteen members.

Complies  Explain

14. The board of directors should approve a director selection policy that:

- a) Is concrete and verifiable.
- b) Ensures that appointment or re-election proposals are based on a prior analysis of the board's needs.
- c) Favours a diversity of knowledge, experience and gender.

The results of the prior analysis of board needs should be written up in the nomination committee's explanatory report, to be published when the general meeting is convened that will ratify the appointment and re-election of each director.

The director selection policy should pursue the goal of having at least 30% of total board places occupied by women directors before the year 2020.

The nomination committee should run an annual check on compliance with the director selection policy and set out its findings in the annual corporate governance report.

Complies  Complies in part  Explain

15. Proprietary and independent directors should constitute an ample majority on the board of directors, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.

Complies  Complies in part  Explain

16. The percentage of proprietary directors out of all non-executive directors should be no greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.

This criterion can be relaxed:

- a) In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.
- b) In companies with a plurality of shareholders represented on the board but not otherwise related.

Complies  Explain

17. Independent directors should be at least half of all board members.

However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30 percent of capital, independent directors should occupy, at least, a third of board places.

Complies  Explain

18. Companies should disclose the following director particulars on their websites and keep them regularly updated:

- a) Professional profile and biographical data.

- b) Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.
- c) Statement of the director class to which they belong, in the case of proprietary directors indicating the shareholder they represent or have links with.
- d) Dates of their first appointment as a board member and subsequent re-elections.
- e) Shares held in the company, and any options on the same.

Complies  Complies in part  Explain

19. Following verification by the nomination committee, the annual corporate governance report should disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 3 percent of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

Complies  Complies in part  Explain  Not applicable

20. Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latter's number should be reduced accordingly.

Complies  Complies in part  Explain  Not applicable

21. The board of directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the bylaws, except where they find just cause, based on a proposal from the nomination committee. In particular, just cause will be presumed when directors take up new posts or responsibilities that prevent them allocating sufficient time to the work of a board member, or are in breach of their fiduciary duties or come under one of the disqualifying grounds for classification as independent enumerated in the applicable legislation.

The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction alters the company's capital structure, provided the changes in board membership ensue from the proportionality criterion set out in recommendation 16.

Complies  Explain

22. Companies should establish rules obliging directors to disclose any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, and, in particular, to inform the board of any criminal charges brought against them and the progress of any subsequent trial.

The moment a director is indicted or tried for any of the offences stated in company legislation, the board of directors should open an investigation and, in light of the particular circumstances, decide whether or not he or she should be called on to resign. The board should give a reasoned account of all such determinations in the annual corporate governance report.

Complies  Complies in part  Explain

23. Directors should express their clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other directors not subject to potential conflicts of interest should strenuously challenge any decision that could harm the interests of shareholders lacking board representation.

When the board makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next recommendation.

The terms of this recommendation also apply to the secretary of the board, even if he or she is not a director.

Complies  Complies in part  Explain  Not applicable

24. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Whether or not such resignation is disclosed as a material event, the motivating factors should be explained in the annual corporate governance report.

Complies  Complies in part  Explain  Not applicable

25. The nomination committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively.

The board of directors regulations should lay down the maximum number of company boards on which directors can serve.

Complies  Complies in part  Explain

26. The board should meet with the necessary frequency to properly perform its functions, eight times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each director may propose the addition of initially unscheduled items.

Complies  Complies in part  Explain

27. Director absences should be kept to a strict minimum and quantified in the annual corporate governance report. In the event of absence, directors should delegate their powers of representation with the appropriate instructions.

Complies  Complies in part  Explain

28. When directors or the secretary express concerns about some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the meeting, they should be recorded in the minute book if the person expressing them so requests.

Complies  Complies in part  Explain  Not applicable

29. The company should provide suitable channels for directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the company's expense.

Complies  Complies in part  Explain

30. Regardless of the knowledge directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.

Complies  Explain  Not applicable

31. The agendas of board meetings should clearly indicate on which points directors must arrive at a decision, so they can study the matter beforehand or gather together the material they need.

For reasons of urgency, the chairman may wish to present decisions or resolutions for board approval that were not on the meeting agenda. In such exceptional circumstances, their inclusion will require the express prior consent, duly minuted, of the majority of directors present.

Complies  Complies in part  Explain

32. Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the company and its group.

Complies  Complies in part  Explain

33. The chairman, as the person charged with the efficient functioning of the board of directors, in addition to the functions assigned by law and the company's bylaws, should prepare and submit to the board a schedule of meeting dates and agendas; organise and coordinate regular evaluations of the board and, where appropriate, the company's chief executive officer; exercise leadership of the board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each director, when circumstances so advise.

Complies  Complies in part  Explain

34. When a lead independent director has been appointed, the bylaws or board of directors regulations should grant him or her the following powers over and above those conferred by law: chair the board of directors in the absence of the chairman or vice chairmen give voice to the concerns of non-executive directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those to do with the company's corporate governance; and coordinate the chairman's succession plan.

Complies  Complies in part  Explain  Not applicable

35. The board secretary should strive to ensure that the board's actions and decisions are informed by the governance recommendations of the Good Governance Code of relevance to the company.



Complies  Explain

**36. The board in full should conduct an annual evaluation, adopting, where necessary, an action plan to correct weakness detected in:**

- a) The quality and efficiency of the board's operation.
- b) The performance and membership of its committees.
- c) The diversity of board membership and competences.
- d) The performance of the chairman of the board of directors and the company's chief executive.
- e) The performance and contribution of individual directors, with particular attention to the chairmen of board committees.

The evaluation of board committees should start from the reports they send the board of directors, while that of the board itself should start from the report of the nomination committee.

Every three years, the board of directors should engage an external facilitator to aid in the evaluation process. This facilitator's independence should be verified by the nomination committee.

Any business dealings that the facilitator or members of its corporate group maintain with the company or members of its corporate group should be detailed in the annual corporate governance report.

The process followed and areas evaluated should be detailed in the annual corporate governance report.

Complies  Complies in part  Explain

**37. When an executive committee exists, its membership mix by director class should resemble that of the board. The secretary of the board should also act as secretary to the executive committee.**

Complies  Complies in part  Explain  Not applicable

**38. The board should be kept fully informed of the business transacted and decisions made by the executive committee. To this end, all board members should receive a copy of the committee's minutes.**

Complies  Complies in part  Explain  Not applicable

**39. All members of the audit committee, particularly its chairman, should be appointed with regard to their knowledge and experience in accounting, auditing and risk management matters. A majority of committee places should be held by independent directors.**

Complies  Complies in part  Explain

40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the audit committee, to monitor the effectiveness of reporting and control systems. This unit should report functionally to the board's non-executive chairman or the chairman of the audit committee.

Complies  Complies in part  Explain

41. The head of the unit handling the internal audit function should present an annual work programme to the audit committee, inform it directly of any incidents arising during its implementation and submit an activities report at the end of each year.

Complies  Complies in part  Explain  Not applicable

42. The audit committee should have the following functions over and above those legally assigned:

1. With respect to internal control and reporting systems

- a) Monitor the preparation and the integrity of the financial information prepared on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.
- b) Monitor the independence of the unit handling the internal audit function; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the service's budget; approve its priorities and work programmes, ensuring that it focuses primarily on the main risks the company is exposed to; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.
- c) Establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities.

2. With regard to the external auditor:

- a) Investigate the issues giving rise to the resignation of the external auditor, should this come about.
- b) Ensure that the remuneration of the external auditor does not compromise its quality or independence.
- c) Ensure that the company notifies any change of external auditor to the CNMV as a material event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.
- d) Ensure that the external auditor has a yearly meeting with the board in full to inform it of the work undertaken and developments in the company's risk and accounting positions.
- e) Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.

Complies  Complies in part  Explain

43. The audit committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.

Complies  Explain

44. The audit committee should be informed of any fundamental changes or corporate transactions the company is planning, so the committee can analyse the operation and report to the board beforehand on its economic conditions and accounting impact and, when applicable, the exchange ratio proposed.

Complies  Complies in part  Explain  Not applicable

45. The risk control and management policy should identify at least:

- a) The different types of financial and non-financial risk the company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risks), with the inclusion under financial or economic risks of contingent liabilities and other off- balance-sheet risks.
- b) The determination of the risk level the company sees as acceptable.
- c) The measures in place to mitigate the impact of identified risk events should they occur.
- d) The internal control and reporting systems to be used to control and manage the above risks, including contingent liabilities and off-balance- sheet risks.

Complies  Complies in part  Explain

46. Companies should establish a risk control and management function in the charge of one of the company's internal department or units and under the direct supervision of the audit committee or some other dedicated board committee. This function should be expressly charged with the following responsibilities:

- a) Ensure that risk control and management systems are functioning correctly and, specifically, that major risks the company is exposed to are correctly identified, managed and quantified.
- b) Participate actively in the preparation of risk strategies and in key decisions about their management.
- c) Ensure that risk control and management systems are mitigating risks effectively in the frame of the policy drawn up by the board of directors.

Complies  Complies in part  Explain

47. Appointees to the nomination and remuneration committee - or of the nomination committee and remuneration committee, if separately constituted - should have the right balance of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be independent directors.

Complies  Complies in part  Explain

**48. Large cap companies should operate separately constituted nomination and remuneration committees.**

Complies  Complies in part  Explain

**49. The nomination committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors.**

**When there are vacancies on the board, any director may approach the nomination committee to propose candidates that it might consider suitable.**

Complies  Complies in part  Explain

**50. The remuneration committee should operate independently and have the following functions in addition to those assigned by law:**

- a) Propose to the board the standard conditions for senior officer contracts.**
- b) Monitor compliance with the remuneration policy set by the company.**
- c) Periodically review the remuneration policy for directors and senior officers, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other directors and senior officers in the company.**
- d) Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.**
- e) Verify the information on director and senior officers' pay contained in corporate documents, including the annual directors' remuneration statement.**

Complies  Complies in part  Explain

**51. The remuneration committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors and senior officers.**

Complies  Complies in part  Explain

**52. The terms of reference of supervision and control committees should be set out in the board of directors regulations and aligned with those governing legally mandatory board committees as specified in the preceding sets of recommendations. They should include at least the following terms:**

- a) Committees should be formed exclusively by non-executive directors, with a majority of independents.**
- b) They should be chaired by independent directors.**
- c) The board should appoint the members of such committees with regard to the knowledge, skills and experience of its directors and each committee's terms of reference; discuss their proposals and reports; and provide report-backs on**

their activities and work at the first board plenary following each committee meeting.

- d) They may engage external advice, when they feel it necessary for the discharge of their functions.
- e) Meeting proceedings should be minuted and a copy made available to all board members.

Complies  Complies in part  Explain  Not applicable

53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one board committee or split between several, which could be the audit committee, the nomination committee, the corporate social responsibility committee, where one exists, or a dedicated committee established *ad hoc* by the board under its powers of self-organisation, with at the least the following functions:

- a) Monitor compliance with the company's internal codes of conduct and corporate governance rules.
- b) Oversee the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders.
- c) Periodically evaluate the effectiveness of the company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.
- d) Review the company's corporate social responsibility policy, ensuring that it is geared to value creation.
- e) Monitor corporate social responsibility strategy and practices and assess compliance in their respect.
- f) Monitor and evaluate the company's interaction with its stakeholder groups.
- g) Evaluate all aspects of the non-financial risks the company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.
- h) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.

Complies  Complies in part  Explain

54. The corporate social responsibility policy should state the principles or commitments the company will voluntarily adhere to in its dealings with stakeholder groups, specifying at least:

- a) The goals of its corporate social responsibility policy and the support instruments to be deployed.
- b) The corporate strategy with regard to sustainability, the environment and social issues.

- c) Concrete practices in matters relative to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conducts.
- d) The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.
- e) The mechanisms for supervising non-financial risk, ethics and business conduct.
- f) Channels for stakeholder communication, participation and dialogue.
- g) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.

Complies  Complies in part  Explain

55. The company should report on corporate social responsibility developments in its directors' report or in a separate document, using an internationally accepted methodology.

Complies  Explain

56. Director remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment, abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of non-executive directors.

Complies  Explain

57. Variable remuneration linked to the company and the director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans should be confined to executive directors.

The company may consider the share-based remuneration of non-executive directors provided they retain such shares until the end of their mandate. This condition, however, will not apply to shares that the director must dispose of to defray costs related to their acquisition.

Complies  Complies in part  Explain

58. In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, or circumstances of that kind.

In particular, variable remuneration items should meet the following conditions:

- a) Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.
- b) Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.

c) **Be focused on achieving a balance between the delivery of short, medium and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to long-term value creation. This will ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.**

Complies  Complies in part  Explain  Not applicable

59. **A major part of variable remuneration components should be deferred for a long enough period to ensure that predetermined performance criteria have effectively been met.**

Complies  Complies in part  Explain  Not applicable

60. **Remuneration linked to company earnings should bear in mind any qualifications stated in the external auditor's report that reduce their amount.**

Complies  Complies in part  Explain  Not applicable

61. **A major part of executive directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.**

Complies  Complies in part  Explain  Not applicable

62. **Following the award of shares, share options or other rights on shares derived from the remuneration system, directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three years after their award.**

**The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.**

Complies  Complies in part  Explain  Not applicable

63. **Contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out of step with the director's actual performance or based on data subsequently found to be misstated.**

Complies  Complies in part  Explain  Not applicable

64. **Termination payments should not exceed a fixed amount equivalent to two years of the director's total annual remuneration and should not be paid until the company confirms that he or she has met the predetermined performance criteria.**

Complies  Complies in part  Explain  Not applicable

Contracts with executive directors and senior officers signed as from 2011 provide severance for contractual termination equal to a maximum of two times annual salary in the event of termination of their relationship with the Company, provided that termination of the relationship is not the result of a breach attributable thereto or solely due to a voluntary decision thereof. This is the case of the Business CEO.

The Company included guarantee clauses of up to five years in contracts with its key officers in the year 2000. Subsequently, in 2001, when the current chairman & CEO joined Iberdrola, he received the treatment in effect for such officers, in order to achieve an effective and sufficient level of loyalty. As chairman & CEO, he is currently entitled to three times his annual salary.

The Board of Directors has analysed this situation, the treatment of which is necessarily collective in nature. Any reduction in the salary multiples would carry high costs for the Company, for which reason the Board of Directors believes that it is most appropriate not to change the status quo. Any proposed reduction in the salary multiples would have a higher cost for the Company, as the amount of the contingency will gradually decrease due to the passage of time, resulting in payments far smaller than any possible reduction in the agreed severance payment, taking into account the average age of the affected group (58 years) and the low likelihood of the guarantees being enforced. In this regard, it should be pointed out that at year-end 2014, there were 62 officers with a right to severance pay greater than two years in case of termination. By year-end 2017, the number has decreased again to 34, without the enforcement of any guarantee clause.



## H. OTHER INFORMATION OF INTEREST

1. **If there are any significant aspects regarding corporate governance at the company or at entities of the group that is not included in the other sections of this report, but should be included in order to provide more complete and well-reasoned information regarding the corporate governance structure and practices at the entity or its group, briefly describe them.**
2. **In this section, you may also include any other information, clarification, or comment relating to the prior sections of this report to the extent they are relevant and not repetitive.**

**Specifically, state whether the company is subject to laws other than Spanish laws regarding corporate governance and, if applicable, include such information as the company is required to provide that is different from the information required in this report.**

3. **The company may also state whether it has voluntarily adhered to other international, industrial, or other codes of ethical principles or good practices. If so, identify the code in question and the date of adherence thereto.**

### SECTION A.2

The sources of the information provided are the notices sent by the shareholders to the CNMV and to the Company itself, and the information contained in their respective annual reports and press releases, and the information that the Company obtains from Iberclear.

Pursuant to the provisions of section 23.1 of Royal Decree 1362/2007 of 19 October, further developing Law 24/1988 of 28 July on the Securities Market, in connection with the transparency requirements relating to the information on issuers whose securities have been admitted to trading on an official secondary market or other regulated market in the European Union, it is deemed that significant shareholders are the holders of at least 3% of voting rights.

On 12 January 2018, Capital Research and Management Company reported that it held a 5.117% interest in the share capital of Iberdrola.

On 15 February 2018, BlackRock Inc. reported to the CNMV that its interest in the capital of Iberdrola was 5.00%.

According to available information, the approximate breakdown of the interests in the share capital by type of shareholder is as follows:

- Foreign investors	66.28%
- Domestic entities	10.17%
- Domestic retail investors	23.55%

### SECTION A.3

Data at the date of approval of this Report.

For the chairman & CEO, there is a deferral of the second (510,596 shares in 2018) and third (510,596 shares in 2019) delivery of shares corresponding to the 2014-2016 Strategic Bonus approved by shareholders at the General Shareholders' Meeting. Each of the deliveries of said shares is subject to confirmation by the Board of Directors, after a report from the Remuneration Committee, on the currency of the circumstances on which the performance evaluation was based.

Furthermore, pursuant to the provisions of the 2017-2019 Strategic Bonus approved at the General Shareholders' Meeting, the chairman & CEO may receive up to a maximum of 1,900,000 shares

based on the performance evaluation for the 2017-2019 period, which if awarded will be paid in three equal parts in 2020, 2021 and 2022.

For the Business CEO, there is a deferral of the second (120,931 shares in 2018) and third (120,931 shares in 2019) delivery of shares corresponding to the 2014-2016 Strategic Bonus approved by shareholders at the General Shareholders' Meeting. Each of the deliveries of said shares is subject to confirmation by the Board of Directors, after a report from the Remuneration Committee, on the currency of the circumstances on which the performance evaluation was based.

Furthermore, pursuant to the provisions of the 2017-2019 Strategic Bonus, the Business CEO may receive up to a maximum of 300,000 shares based on the performance evaluation for the 2017-2019 period, which if awarded will be paid in three equal parts in 2020, 2021 and 2022.

#### SECTION A.8

Iberdrola maintains in treasury 75,710,149 own shares and 6,427,771 shares accumulated through derivatives contracts pending settlement and that are recorded as treasury shares in the consolidated financial statements at 31 December 2017, representing 1.30% of the capital. It also maintains 6,000,000 shares in total return swaps with physical settlement.

Pursuant to the authorisations granted to the Board of Directors by the shareholders at the General Shareholders' Meeting, during financial year 2017 Iberdrola acquired 156,414,422 shares for 1,002,999 thousand euros, of which 72,905,834 shares were acquired through discretionary market transactions, while the remaining 83,508,588 shares were acquired through derivatives contracts.

In addition, 11,939,050 own shares were sold for 84,382 thousand euros.

Under such authorisations, Iberdrola has also retired 219,990,000 own shares.

#### SECTION B.4

The percentage of absentee voting (others) reflects the votes received by mail. Absentee voting is not included within voting in person.

#### SECTION C.1.3

The complete professional profiles of all the directors are available on the Company's corporate website ([www.iberdrola.com](http://www.iberdrola.com)).

#### SECTION C.1.29

Within the framework of the process of evaluation of the Board of Directors, the lead independent director met individually with each of the directors in order to identify possible improvements in the operation thereof.

#### SECTION C.1.30

Below is the data on attendance of each and every one of the directors at the meetings of the Board of Directors and its committees during financial year 2017: See Annex.

#### SECTION C.1.31

The Iberdrola Group has established a certification process by which those responsible for financial information in the different areas of the Company certify that: (i) the financial information they deliver to Iberdrola for purposes of consolidation does not contain any material errors or omissions and provides a fair view of the results and the financial condition within their area of responsibility, and (ii) they are responsible for establishing the ICFRS within their area of responsibility and have found, upon evaluation, that the system is effective. The text of these certifications is inspired by the form of certification established in section 302 of the U.S. Sarbanes-Oxley Act.

The culmination of the process is a joint certification that the chairman & chief executive officer and the director of Administration and Control submit to the Board of Directors.

The process is carried out by means of electronic signature in a software application which manages the areas of responsibility and time periods and which serves as a repository of all the documentation generated, allowing for periodic review by the supervision and control bodies of the Group.

## SECTION D.2

Transactions by shareholders exercising a significant influence on participation in the entity's financial and operating decisions, with significant influence being understood as having a member of the Board of Directors.

Shareholders who are able to exercise the proportional representation system due to their interest in the capital of the Company are also considered to have such influence.

As of the date of this report, only Qatar Investment Authority meets this condition, for which reason the amounts reflected in the period refer to the transactions with this shareholder.

The amounts set forth as "profits and other dividends paid" correspond to the cash dividend distributed by the Company and to the free-of-charge allocation rights stemming from the two increases in share capital by means of a scrip issue approved by the shareholders at the General Shareholders' Meetings, which were sold to the Company at a guaranteed fixed price pursuant to the terms and conditions of such increases.

## SECTION D.4

Transactions with subsidiaries and companies in which the Company has an interest that have not been eliminated in the process of consolidation were made in the ordinary course of business of the Company, were carried out under arm's-length conditions, and are of little significance to accurately reflect the assets, financial condition, and results of operations of the Company.

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On 20 July 2010, the Company adhered to the Code of Good Tax Practices, a document approved at the full Forum of Large Businesses (*Foro de Grandes Empresas*) created by the National Tax Administration Agency (*Agencia Estatal de Administración Tributaria*) and certain large companies, and which was held on that date.

Pursuant to the provisions of section 2 of the annex of adherence to the Good Tax Practices Code and of subsection 4.a) of the Corporate Tax Policy, the Company reports that it has complied with the provisions of such Code as from the time of approval thereof.

Specifically, it is reported that, during financial year 2017, the Company's head of tax matters appeared on 22 February 2017 and 17 July 2017 before Iberdrola's Audit and Risk Supervision Committee to report on compliance with the Corporate Tax Policy, which includes the good tax practices contained in the aforementioned Code, all of which was reported to the Board of Directors.

This annual corporate governance report was approved by the Board of Directors of the company at its meeting of 20 February 2018.

State whether any directors voted against or abstained in connection with the approval of this Report.

Yes  No

Individual or company name of director that did not vote in favour of the approval of this report	Reasons (opposed, abstained, absent)	Explain the reasons

## ANNEX – SECTION H

### SECTION C.1.30

Below is the data on attendance of each and every one of the directors at the meetings of the Board of Directors and its committees during financial year 2017: Proxies granted with specific voting instructions are considered to be attendances.

Directors	Board	Committees				
		EC	ARSC	AC	RC	CSRC
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	9/9	14/14	--	--	--	--
MR IÑIGO VÍCTOR DE ORIOL IBARRA	9/9	--	--	7/7	8/8	--
MS INÉS MACHO STADLER	9/9	14/14	--	--	8/8	--
MR BRAULIO MEDEL CÁMARA	9/9	--	--	--	--	8/8
MS SAMANTHA BARBER	9/9	11/11	--	--	--	8/8
MS MARÍA HELENA ANTOLÍN RAYBAUD	9/9	--	--	7/7	--	--
MR SANTIAGO MARTÍNEZ LAGE	3/3	--	--	--	3/3	--
MR JOSÉ LUIS SAN PEDRO GUERENABARRENA	3/3	3/3	--	--	--	--
MR ÁNGEL JESÚS ACEBES PANIAGUA	9/9	14/14	--	7/7	--	--
MS GEORGINA KESSEL MARTÍNEZ	9/9	--	11/11	--	--	--
MS DENISE MARY HOLT	9/9	--	11/11	--	--	--
MR JOSÉ WALFREDO FERNÁNDEZ	9/9	--	11/11	--	--	--
MR MANUEL MOREU MUNAIZ	9/9	14/14	--	--	--	8/8
MR XABIER SAGREDO ORMAZA	9/9	--	11/11	--	--	--
MR JUAN MANUEL GONZÁLEZ SERNA	6/6	--	--	--	5/5	--
MR FRANCISCO MARTÍNEZ CÓRCOLES	6/6	--	--	--	--	--

Notes:

- The denominator indicates the number of meetings held during the period of the year in which the director served as such or as a member of the respective Committee.
- EC: Executive Committee.
- ARSC: Audit and Risk Supervision Committee.
- AC: Appointments Committee.
- RC: Remuneration Committee
- CSRC: Corporate Social Responsibility Committee.