





IBERDROLA

INVESTOR DAY
Madrid / March 2nd / 2011



The Corporate Governance System
Mr. Julián Martínez-Simancas
Secretary of the Board of Directors and General Secretary





The Corporate Governance System – Julián Martínez-Simancas

Corporate Governance Model – Santiago Martínez

Evolution of the Corporate Governance System – Iñigo Elorriaga

Structure - corporate and governance – José Miguel Alcolea

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INVESTOR DAY  **The Corporate Governance System** 

Iberdrola: over 100 years of history, solid track record and strong commitment to our shareholders



Generating profits every year, strong track record of management

Capital-intensive business, focused on long-term investments

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A successful industrial company and a long-term business model supported by a corporate governance system that has consistently evolved to comply with the Spanish Unified Code and the best international practices

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INVESTOR DAY  **The Corporate Governance System** 

The Iberdrola Group understands good corporate governance as key to value creation



Only a Group with solid and adequate corporate governance principles and rules can create value in a sustained manner over time

The Company's strategy in the corporate governance area seeks to maximize the value of the enterprise and its sound performance in the long term, in accordance with the corporate interest

This strategy is based on developing, revising and continually improving its corporate governance rules

The governance principles and rules of Iberdrola and its Group are structured into the Corporate Governance System

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INVESTOR DAY  **The Corporate Governance System** 

The Corporate Governance System of Iberdrola comprises a whole made up of:

- **The Bylaws**
 - They represent the basic charter of the Company, in accordance with the Law and with the general principles of good corporate governance
- **Corporate Policies**
 - They develop the principles reflected in the Corporate Governance System
 - They contain the guidelines that govern the conduct of the Group within the framework of the Strategic Plan and of the Vision and Values of the Company
 - They comprise:
 - The Corporate Governance and Regulatory Compliance Policies
 - The Risk Policies
 - The Social Responsibility Policies
- **The Internal Corporate Governance Rules**
- **The other Internal Codes and Procedures**

All of the documents of the Corporate Governance System are available on the Company's website, in Spanish and English

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INVESTOR DAY  **The Corporate Governance System** 



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INVESTOR DAY  **Corporate Structure** 



Decentralized corporate structure, avoiding accumulation of power

Iberdrola, as the parent company, formulates the strategy and the corporate policies and oversees the management of the Group

Each business unit is managed by a subholding company with its own board and committees

Independent directors have been appointed to the boards of the subholding companies

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INVESTOR DAY  **Ownership Structure** 

Independent and private company with no controlling shareholder in our history

Over 400,000 shareholders worldwide



- Share Capital (€): 4,112,882,250
- Shares outstanding: 5,483,843,000

- Significant shareholders: ACS (15% of share capital and 20.2% of voting rights, including Natixis (5%)), BBK (6.6%) and Bancaja (5.5%)
- Other stable shareholders: 6.0% (Saving Banks)
- Iberdrola's employees: ≈ 0.5%
- Individual shareholders (retail): 22.0%

Shareholder Type	Percentage
Institutional	40%
Retail	22.0%
ACS	15%
BBK	6.6%
Natixis	5%
Bancaja	5.5%
Other core shareholders	6.0%

BBK and Bancaja are minority shareholders with long-standing links to the company - no control capacity and few related-party transactions as financial services providers

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INVESTOR DAY  **Structure of the Board of Directors** 

- **Board of Directors made up of:**
 - The Chairman and Executive Chief Officer
 - Two proprietary Directors (BBK and Bancaja)
 - Eleven independent Directors
 - One of whom discharges the office of Independent Lead Director
- **Executive Committee made up of six members**
 - The Chairman and Executive Chief Officer
 - Two proprietary Directors (BBK and Bancaja)
 - Three independent Directors
- **Consultative committees of the Board of Directors (made up of independent Directors):**
 - Audit and Risk Supervision Committee (three members)
 - Nominating and Compensation Committee (three members)
 - Corporate Social Responsibility Committee (four members)

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INVESTOR DAY  **Operating rules of the Board of Directors** 

Strict rules and procedures for dealing with conflicts of interest within the Board of Directors

Conflicts of interest affecting a Director are resolved by:

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The obligation of the Director to communicate the conflict and refrain from participating in the debate and the vote on the matter in question



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The obligation of the Company to communicate to the market any situations of conflict in the annual corporate governance report and in the semi-annual information on related-party transactions

Permanent conflicts of interest, such as structural competition situations, block access to the Board of Directors in accordance with the Law and Iberdrola's Corporate Governance System

Transactions with significant shareholders are subject to authorization by the Board, following a report from the Audit and Risk Supervision Committee

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INVESTOR DAY  **The Shareholders' Meeting** 

All shareholders may attend the GSM, regardless of their shareholding

Right to grant proxy to any person and to vote remotely

1 share, 1 vote



According to Spanish Law, voting rights limited to 3% for shareholders of two or more Main Operators

Bylaws-stipulated restrictions on the right to vote: needed to protect minority shareholders from attempts to take control without paying the appropriate premium

No shareholder may exercise voting rights above 10% of the capital stock

Neutralization of limitations in case of tender offers (Title III of the Bylaws)

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INVESTOR DAY  **The Shareholders' Meeting** 

- General rule: quorum requirements in accordance with the Law
- Qualified quorum for amending corporate purpose, alteration of legal form, spin-off and dissolution
- Attendance quorum reached 79.59% at the 2010 Shareholders' Meeting
- An independent entity verifies the quorum

Approval of resolutions

- General rule: > 50% of shares present in person or by proxy

- Amendment of Bylaws
- Capital increases
- Debt issue
- Merger or spin-off

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2/3 of shares present in person or by proxy at the Shareholders' Meeting (If quorum is lower than 50% of capital)

Modification of limitations and neutralization rules in case of tender offers

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3/4 of shares present in person or by proxy at the Shareholders' Meeting

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INVESTOR DAY  **Evolution of the Corporate Governance System** 

Proactive attitude towards the challenge of good corporate governance

The voluntary recommendations of the Spanish Unified Code and the most widely acknowledged international practices have been incorporated into the Company's Corporate Governance System.
Iberdrola complies with 56 of 58 recommendations of the Spanish Unified Code

Evolution of the composition of the Board of Directors:

	1991	2001	2007	2010
Directors	38	21	15	14
Independents with < 12 years	-	-	5/33%	8/57%
Women	0	0	1/6%	3/21%

New Policy on Director Compensation



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INVESTOR DAY  **Recent improvements in the Corporate Governance System** 

- Creation of a Corporate Social Responsibility Committee
- Reduction in the Directors' term of office to four years
- Reduction to three of the number of Directors of listed companies in which the office of director can be discharged
- Reinforcement of the office of Lead Independent Director

- **Compensation policy:**
 - Detailed information
 - Vote on compensation ("*say on pay*")
 - Payment for performance
 - Claw-back clauses
 - Share-retention periods
 - Reduction in indemnities to two years for new contracts

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INVESTOR DAY  **Evolution of the Corporate Governance System** 



Iberdrola has engaged an independent and highly prestigious firm (PWC) to evaluate its corporate governance practices

Evaluation of the Board and its Committees

Examination of best practices at national and international level and of comparable national and international companies



The result of the evaluation was very satisfactory in terms of the extent to which these requirements were fulfilled

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INVESTOR DAY  **Evolution of the Corporate Governance System** 

- ACS appointed a Director under the proportional representation system, avoiding the need of approval by a majority of the shareholders
- Removal of the ACS appointee approved by a majority of the shareholders in the General Meeting (81.50%)
- Independent reports on competition conflict between Iberdrola and ACS available in the web
- ACS challenged in front of the Commercial Court the decision of the shareholders meeting to remove his appointee
- The Commercial Court has ruled against ACS, stating that there was no reason to nullify the decision adopted by the shareholders meeting
- The judgment states that Iberdrola and ACS are structural competitors

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INVESTOR DAY  **Structure – corporate and governance** 

Since 2008: new Group “profile”

- Significant increase in the size of the business
- Internationalization of the business
- Increase in the complexity of legal and operational risks in the business
- Complexity of the corporate structure

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INVESTOR DAY  **Structure – corporate and governance** 

The corporate structure and organization is a fundamental part of the Corporate Governance System:

- It shapes interaction between the different areas of decision-making, action and responsibility within the Group
- Focused on maximizing the value of the business: synergies and efficiencies deriving from coordinated management of the Group
- A fundamental aspect of the strategy to create value for shareholders



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INVESTOR DAY  **Structure – corporate and governance** 

Separate areas of decision-making and responsibility

- A comprehensive, strategic vision and overall supervision by Iberdrola's Board
- General coordination of the Group by the Chairman and Chief Executive Officer and the management team
- Ordinary and effective management by the subholding companies through their own boards (with the presence of independent directors), which have audit and compliance committees and internal audit teams

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INVESTOR DAY  **Structure – corporate and governance** 

Aims

- To bring ordinary management closer to the operational level of the Group's business
- To allocate and isolate in an appropriate way the responsibilities arising from the management of the business
- To comply with legislation on the separation of regulated / liberalized activities:
 - Safeguards the independence of regulated activities vis-à-vis liberalized activities
 - Ensures that a liberalized business does not have competitive advantages due to the fact that it belongs to a group with regulated activities
 - Facilitates investment in countries that are particularly demanding in this area

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