

# Corporate Governance

## CORPORATE GOVERNANCE

ACCIONA's corporate governance practices focus on creating sustained economic and social value over the long term. The company's goal is to ensure financial stability and safeguard shareholders' interests while maximising the positive impact on society as a whole.

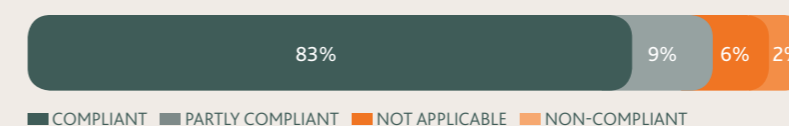
ACCIONA is governed by the Spanish Corporate Enterprises Act and the Good Governance Code of Listed Companies issued by the Spanish National Securities Market Commission (CNMV).

### COMPLIANCE WITH THE CORPORATE GOVERNANCE RECOMMENDATIONS

ACCIONA fulfils the requirements of the Corporate Enterprises Act, having implemented most of those requirements on a voluntary basis before the Act was published. Consequently, the Act did not require major changes or adaptations to internal regulations.

ACCIONA complies with 83% of the recommendations of the CNMV's Good Governance Code of Listed Companies. The only one not implemented by the company refers to the separation of the Appointments and Remuneration Committee into two committees. The company does not consider it necessary to create two separate committees since six of the eleven members of the Board of Directors are independent and, in the event of separation into two committees, their membership would probably overlap to a significant degree, which would increase Board expenditure unnecessarily. Nevertheless, the Articles of Association contemplate the possibility of there being two separate committees if future circumstances make it advisable.

**ACCIONA'S compliance with the recommendations in the Good Governance Code**



**The company's goal is to safeguard shareholders' interests while maximising the positive impact on society**

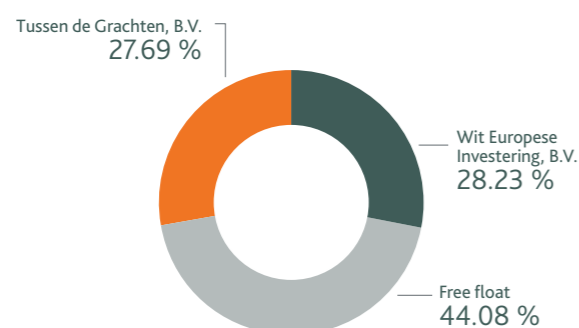
## ACCIONA's share capital structure

ACCIONA's share capital is composed of 57,259,550 fully paid uncertificated ordinary shares with a par value of one euro each.

All the shares comprising the share capital have the same rights and there are no restrictions as to their transferability; they are all listed on the Madrid and Barcelona Stock Exchanges.

As of 31 December 2016, the company had 233,898 treasury shares, representing 0.41% of the share capital.

### Significant shareholdings (as at the date of drafting this Report)



All the shares comprising the share capital have the same rights

## The company's governing bodies

### General Shareholders' Meeting

- ACCIONA's sovereign decision-making body.
- Its functions include approving the financial statements, appointing the auditor, distributing profits, appointing directors to the Board and adopting the director remuneration policy.
- In 2016, 84.5% of shareholders attended the General Shareholders' Meeting either in person or by proxy. The motions laid before the meeting were approved with votes in favour of at least 91% of capital, reflecting the high degree of alignment between the shareholders' interests and those of the company.

### Board of Directors

- The Board of Directors is the body entrusted with pursuing the company's interests representing the company and its shareholders in administering the net worth, managing the business and directing the organisation.
- The Board's responsibilities include contributing to the company's strategic orientation, supervising compliance with the established objectives and ensuring that the company has the necessary policies, processes and controls in place to comply with the applicable internal and external regulations.

### Lead Independent Director

- Chairs the Board in the absence of the chairman and vice-chairman.
- Reflects the concerns of non-executive directors and maintains contact with investors and shareholders.
- Directs the Board of Directors' assessment of the chairman's performance.

### Board of Directors' Committees

#### Executive Committee

- Holds all the powers of the Board of Directors, except those which may not legally be delegated. Meets in situations of extreme urgency.

#### Audit Committee

- Supports the Board in the supervision of accounting, tax and financial reporting, internal and external audit services, internal control and risk management.

#### Appointments and Remuneration Committee

- Checks that the directors possess the necessary competence, knowledge and experience.
- Proposes and reviews the remuneration policy for directors and senior executives.

#### Sustainability Committee

- Identifies and guides the company's sustainability policy, objectives and programmes.
- Assesses, monitors and reviews the company's sustainable practices.

### Senior management

- ACCIONA has a senior management team comprising prestigious professionals with extensive experience in the industry.
- They are in charge of day-to-day management of the business. Under the supervision of the Board of Directors, they ensure that the business is conducted in accordance with the policies and procedures established by the governing bodies.
- They report regularly to the Board of Directors with regard to attainment of the established objectives.

## Composition and operation of the Board of Directors

ACCIONA's Board of Directors is comprised of eleven members: two executive directors, six independent directors, two proprietary directors and one other non-executive director. The composition of the Board and its Committees is based on the criteria of complementarity, balance, professionalism and diversity.

A diversity of profiles on the Board of Directors is very important for ACCIONA since diversity makes a positive contribution to achieving the company's strategic objectives and priorities.

In response to recommendation 14 of the CNMV's Good Governance Code of Listed Companies, the company has defined a Director Selection Policy, with the aim of ensuring that the proposals for director appointment or re-appointment are based on a prior analysis of the Board's needs and that its composition favours a diversity of knowledge, experience and gender.

Consequently, when appointing new directors, ACCIONA considers candidates with a range of professional profiles and track records, who have the required competencies to ensure effective performance of their assigned duties. ACCIONA's Board of Directors is composed of men and women from a range of backgrounds (energy and infrastructure), with knowledge of finance and accounting, international profiles and experience in sustainability, among other aspects.

ACCIONA has set a goal that women should represent at least 30% of the Board of Directors by 2020. The Appointments and Remuneration Committee fosters the inclusion of women directors, and the percentage is currently close to that target.

One of the objectives for 2020 is for women to account for at least 30% of the Board of Directors

### Board of Directors

	Year of first appointment	Profile	Board Committees of which he/she is a member	No. of direct voting rights	Directorships at other listed companies
José Manuel Entrecanales Domecq * Ɂ Ɂ Ɂ Ɂ Ɂ	1997	Executive chairman	e	2,169	
Juan Ignacio Entrecanales Franco Ɂ Ɂ Ɂ Ɂ	1997	Executive vice-chairman	e	11,529	
Belén Villalonga Morenés Ɂ Ɂ IBEX	2006	Independent		200	■ Grifols, S.A. ■ Talgo.
Jaime Castellanos Borrego Ɂ Ɂ Ɂ IBEX	2009	Independent	a e n	10,000	
Fernando Rodés Vilà Ɂ Ɂ Ɂ Ɂ Ɂ	2009	Independent	s n	9,000	
Daniel Entrecanales Domecq Ɂ Ɂ Ɂ Ɂ IBEX	2009	Proprietary (Wit Europese Investerings B.V.)	s n		■ Prosegur Cash, S.A.*
Javier Entrecanales Franco Ɂ Ɂ Ɂ Ɂ	2011	Proprietary (Tussen de Grachten B.V.)	a s	5	
Juan Carlos Garay Ibaragaray Ɂ Ɂ Ɂ	2013	Independent - Lead independent director	a e n		
Jerónimo Marcos Gerard Rivero Ɂ Ɂ Ɂ Ɂ Ɂ	2014	Independent			
Carmen Becerril Martínez * Ɂ Ɂ Ɂ IBEX	2014	Other non-executive	s	8,006	
Ana Sainz de Vicuña Bemberg Ɂ Ɂ IBEX	2015	Independent	a		■ Inmobiliaria Colonial, S.A. ■ Prosegur Cash, S.A.*
Jorge Vega-Penichet López	2006	Secretary (Non-Director)			

\* Date of appointment: 06/02/2017.

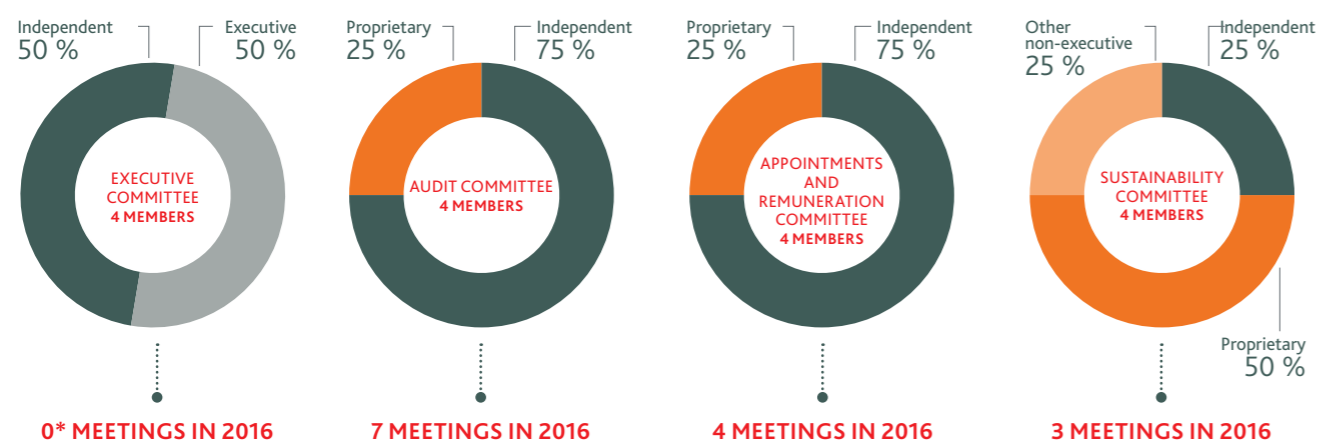
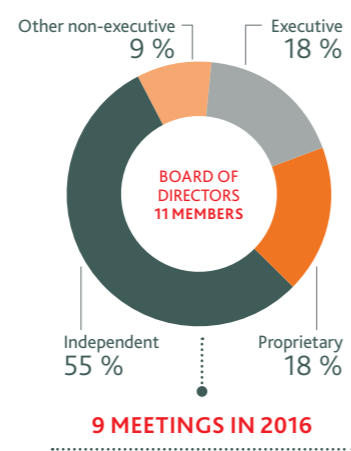
- Committee chair ● Committee member
- Ⓜ Executive Committee
- Ⓜ Audit Committee
- Ⓜ Appointments and Remuneration Committee
- Ⓜ Sustainability Committee

#### Competencies and experience:

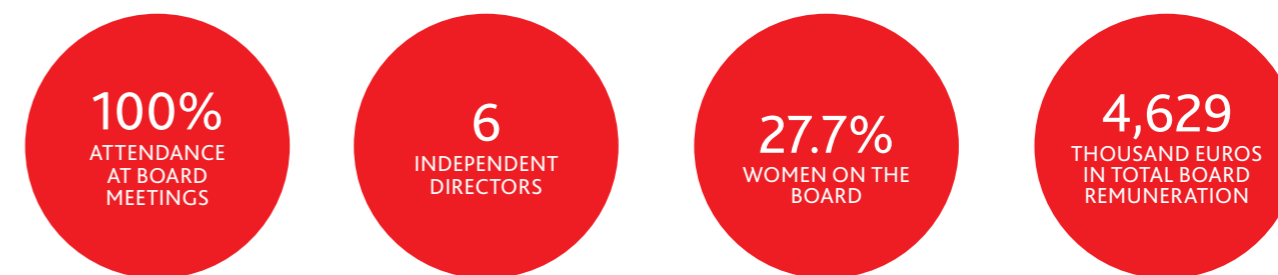
- Ɂ Energy
- Ɂ Infrastructure
- Ɂ Finance/Accounting
- Ɂ Internationalisation
- Ɂ Sustainability
- Ɂ Marketing
- Ɂ Business management
- IBEX Ibex

There were no changes in the composition of the Board of Directors in 2016. The General Shareholders' Meeting voted to re-appoint Juan Carlos Garay Ibargaray and Belén Villalonga Morenés as independent directors, based on a proposal by the Appointments and Remuneration Committee.

## There were no changes in the composition of the Board of Directors in 2016



\*The Board of Directors meets frequently that it is not necessary to hold meetings of the Executive Committee.



### SELF-ASSESSMENT BY THE BOARD OF DIRECTORS

Each year, by means of an individual and anonymous questionnaire, the Board of Directors assesses the quality and efficacy of its performance in such aspects as composition, operations and meetings and the performance of the chairman and vice-chairman. The assessment process is constructive and responds to recommendation 36 in the CNMV's Good Governance Code of Listed Companies. It leads to an action plan for responding to directors' feedback and implementing proposed improvements.

### BOARD OF DIRECTORS' REMUNERATION

Directors' remuneration is established on the basis of competencies and responsibilities assigned; ensuring that remuneration is competitive and in line with market benchmarks. Directors' remuneration consists of a fixed amount for membership of the Board of Directors and its committees (a total of 1,330,000 euros in 2016). The remuneration that executive directors receive for their executive functions is directly related to the company's earnings and the evaluation of their professional performance. Variable annual remuneration is based essentially on meeting the economic objectives set out in the annual budget. The annual assessment of executive director performance also includes specific sustainability objectives and metrics. Under article 31 of the company's Articles of Association, the director remuneration policy must be approved by the General Shareholders' Meeting at least once every three years. The remuneration policy for the three-year period from 2018-2020 will be submitted to the 2017 General Shareholders' Meeting.

*i* For more information about director remuneration, consult the [Annual Report on Director Remuneration on the company's website](#)

## Strategic orientation and supervision of the attainment of the business objectives

The Board of Directors actively contributes to defining the strategy upon which the business lines' strategic plans are based. It also participates in monitoring the implementation of such plans. Division managers report periodically to the Board on the progress made, providing the information necessary to ensuring that the variables that may affect implementation of the strategies are analysed in a fully independent way.

The Board of Directors regularly assesses attainment of the established objectives. When authorising the company's Financial Statements, the Board performs a quarterly in-depth analysis of the degree of attainment. The Board of Directors also receives regular reports on perceptions of the company by third parties (shareholders, investors and analysts).

To foster interaction between directors and senior management, the heads of the business lines attend Board meetings and report on the areas under their responsibility at least twice per year. Directors also meet with division heads individually.

**The Board of Directors supervises attainment of the established objectives**

During the year, ACCIONA continued to **train employees** in connection with the Code of Conduct

## Ethics and integrity

The Board of Directors, assisted by the Audit Committee, has ultimate responsibility for ensuring the organisation's ethical climate and for orienting and guiding the ethics and compliance model, as well as the policies, processes and controls that support it.

In July 2016, the Board of Directors approved an amendment to the company's Code of Conduct, which establishes the values that should guide the behaviour of all company personnel. During the year, ACCIONA continued to train employees, new hires in particular, in connection with the Code of Conduct. A new company-wide training plan is being developed following revision of the code.

The Compliance Department, which was created in 2015 and reports to the Executive Chairman and the Board's Audit Committee, is entrusted with supervising compliance with, and the efficacy of, the internal procedures, controls and commitments established to ensure fulfilment of the obligations established by law or adopted voluntarily in the ethical, organisation, environmental and social dimensions, and with identifying, avoiding and mitigating the related risks.

### PROGRESS WITH ACCIONA'S CRIME PREVENTION AND ANTI-CORRUPTION MODEL

Having implemented the Crime Prevention and Anti-Corruption Model\* in Spain, in 2016 ACCIONA sought external ratification of the Model's suitability in the form of an expert report on the ACCIONA Group as a whole and specific reports on the Infrastructure and Energy divisions.

Internationally, the Model has been adapted for Mexico, Brazil and Chile. Following an analysis of the legal situation as regards criminal liability for legal persons, a matrix of risks and controls was defined for Mexico and Brazil in 2016, and one is planned for Chile in 2017.

Additionally, a training programme on anti-corruption for ACCIONA executives and managers was introduced in 2016, and was completed by approximately 60% of employees in those categories.

As part of the company's commitment to ethics and responsible business practices, in January 2016 the Board of Directors approved the ACCIONA Group Anti-Corruption Guidelines.

\* The Crime Prevention and Anti-Corruption Model establishes the company's general control environment in line with international best practices, inventories the crime risks that ACCIONA faces in its activities that might entail criminal liability for the Group, and contains an exhaustive list of all the crimes that might be committed in key departments, as well as the controls that are in place to prevent/detect such crimes.

## ACCIONA's risk management model

The Board of Directors is the body entrusted with approving the company's risk control and management policy. The Audit Committee supports the Board in this area and is entrusted with reviewing internal control systems and risk management on a regular basis to ensure that the main risks are properly identified, managed and disclosed. For appropriate supervision of the control systems and risk management, both bodies hold meetings specifically dedicated to discussing this area.

ACCIONA's risk management system works on an integrated basis: each business line identifies, assesses and mitigates risks in coordination with a team at corporate level (Finance and Risk Department) which establishes risk tolerances and coordinates actions to address risks in line with the overall risk policy.

At corporate level, risks are assessed in qualitative and quantitative terms and plotted on a matrix in order to ensure that they are evaluated and handled properly on an overall basis. The methodology is based on such factors as likelihood of occurrence, economic and financial consequences, potential impact on reputation, impact on sustainability and the risk management approach. The company establishes a risk tolerance level for each business, activity and investment project. Situations that exceed the risk tolerance level are analysed individually by the persons in charge of the business unit, who take mitigating action in coordination with the Corporate Finance Department. A file is drawn up on each major risk, setting out the basis for the decision to accept or reject the transaction as a function of profitability, as well as operational, economic-political and security-related factors.

In 2016, the company updated the risk map for Spain and other countries, producing separate maps for each business line and a consolidated group-level map. The scope of the country risk analysis and assessment was expanded to geographies that represent a significant proportion of revenues. Risk related to crimes that might entail criminal liability for group companies were incorporated into the risk map. A policy for managing tax risks was also defined.

During 2016, risks deriving from the normal course of ACCIONA's business activities arose as a result of economic, financial and international circumstances, which were broadly mitigated by diversification and internationalisation.

### PROGRESS IN MANAGING NON-FINANCIAL RISKS

In 2016, ACCIONA advanced with the development of a methodology for identifying and assessing sustainability risks in line with the methodology employed in the company's risk map (climate change, environmental, social, labour, governance and corruption risks).

In the area of human rights, the risks associated with the countries where ACCIONA operates were analysed on the basis of a diagnosis performed in 2015. To this end, 21 control blocks were identified, divided into four categories: labour risks; risks for communities; risks for vulnerable groups; personal safety risks. Additionally, in 2016 ACCIONA expanded the scope of the diagnosis in order to deepen the analysis of business procedures and policies.

The environmental risks associated with climate change that may impact ACCIONA and its supply chain were also analysed in 2016. Based on the methodology of the Intergovernmental Panel on Climate Change (IPCC), an analysis was performed on the inter-relations between the principal dangers and the exposure of ACCIONA and its suppliers (based on the activities in each country) and their vulnerability to each hazard.

### NATURE OF IDENTIFIED RISKS

The risk scenarios considered in the company's management system are classified into the groups given below. ACCIONA executives have identified the first two groups as the ones posing the greatest risk.

 <p><b>ECONOMIC AND FINANCIAL RISKS</b></p>	<p>These are primarily fluctuations in exchange rates, interest rates and financial markets, changes in commodity prices, liquidity, cash flow, bad debts and loss of customers.</p> <p><b>MITIGATION MEASURES:</b></p> <ul style="list-style-type: none"> <li>Exchange rate risk: ACCIONA arranges currency derivatives to cover material transactions and cash flows.</li> <li>Interest rate risk: mitigated by hedging with derivatives.</li> <li>Commodity price fluctuation risk: managed with derivatives.</li> <li>Credit and liquidity risk: ACCIONA deals only with solvent third parties and requires guarantees to mitigate financial loss in the event of non-compliance.</li> </ul>
 <p><b>STRATEGIC RISKS</b></p>	<p>These are risks that may affect implementation of the company's strategy.</p> <p><b>MITIGATION MEASURES:</b></p> <ul style="list-style-type: none"> <li>Business diversification in both industrial and geographical terms.</li> <li>Exhaustive research of the markets, the competition and the countries where business is conducted.</li> <li>Focus on R&amp;D and Innovation.</li> </ul>
 <p><b>OPERATING RISKS</b></p>	<p>Risks related to processes, people and products: compliance with the law, regulations and contracts; control systems and procedures, supply chain, information systems, etc.</p> <p><b>MITIGATION MEASURES:</b></p> <ul style="list-style-type: none"> <li>Procurement process risks: controls that foster competition and transparency of processes; drafting of a risk map of critical suppliers in terms of finance, environment, OHS, business and country of origin.</li> <li>Risks derived from improper conduct: there is a Code of Conduct and a Ethical Channel available to employees and suppliers; implementation of a Crime Prevention and Anti-Corruption Model.</li> <li>Project-related risks: exhaustive studies of operational risks and of risks associated with partners and clients, including approval by the Risk Committees.</li> <li>Tax risks: definition of a policy for managing tax risks.</li> </ul>
 <p><b>FORTUITOUS RISKS</b></p>	<p>Risks related to events that might impair the company's performance: fire, natural disasters, environmental pollution and labour risks, among others.</p> <p><b>MITIGATION MEASURES:</b></p> <ul style="list-style-type: none"> <li>Environmental risk: the Corporate Environmental Crisis Management System defines measures, persons responsible and resources.</li> <li>Labour risk: prevented via management systems certified to the OHSAS 18001 standard.</li> </ul>