

Annual Directors Remuneration Report

Financial Year 2019



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Company Name: IBERDROLA, S.A.

Registered Office: Plaza Euskadi número 5, Bilbao 48009 Biscay, Spain

**ANNUAL REPORT ON THE REMUNERATION OF
DIRECTORS OF LISTED COMPANIES**

**A. REMUNERATION POLICY OF THE COMPANY FOR THE CURRENT
FINANCIAL YEAR**

A.1 Explain the current director remuneration policy applicable to the year in progress. To the extent that it is relevant, certain information may be included in relation to the remuneration policy approved by the General Shareholders' Meeting, provided that these references are clear, specific and concrete.

The specific determinations for the year in progress should be described, both the remuneration of directors in their status as such and as a result of their executive functions carried out for the Board pursuant to the contracts signed with executive directors and to the remuneration policy approved by the General Shareholders' Meeting.

In any event, the following aspects should be reported:

- Description of the procedures and company bodies involved in determining and approving the remuneration policy and its terms and conditions.
- Indicate and, where applicable, explain whether comparable companies have been taken into account in order to establish the company's remuneration policy.

- Information on whether any external advisors took part in this process and, if so, their identity.

Pursuant to article 48.1 of the By-Laws, the overall limit to the amounts allocated by Iberdrola, S.A. ("Iberdrola" or the "Company") to the directors each year as remuneration, including, in the case of executive directors, remuneration payable for performing executive duties, as well as the funding of a reserve to meet the liabilities assumed by the Company in connection with pensions, payment of life and casualty insurance premiums, payment of severance to former and current directors, and the operating expenses of the Board of Directors and of its committees, is a maximum of 2% of the consolidated group's profit for the financial year, after allocations to cover the legal and other mandatory reserves and after declaring a dividend to the shareholders of not less than 4% of the share capital. This amount was 17,000 thousand euros in 2019 (it was also 17,000 thousand euros in 2018).

For the purpose of establishing such limit, the quoted price of shares or options thereon or remuneration indexed to the listing price of the shares shall not be calculated, which remuneration shall in all cases require the approval of the shareholders at a General Shareholders' Meeting.

The Director Remuneration Policy must be approved by the shareholders at the General Shareholders' Meeting upon a proposal of the Board of Directors, which first receives a report in this respect from the Remuneration Committee. The current Policy was approved by the shareholders at the General Shareholders' Meeting held on 13 April 2018.

This Policy considers talent, efforts, creativity and leadership to be the main differentiating elements in the energy industry, and thus seeks to retain, attract and reward the most competent professionals. All of the foregoing is in order to maximise the social dividend and shareholder return and to contribute to the achievement of the Company's strategic objectives.

As regards external directors, the *Director Remuneration Policy* seeks to remunerate the directors appropriately in recognition of their dedication and the responsibility they assume, while also being in line with the market remuneration paid at companies of a similar nature.

As far as executive directors are concerned, the *Director Remuneration Policy* follows the same standards as those of the *Senior Management Remuneration Policy* and shares the same principles and guidelines as those of the remuneration policy for all of the Company's professionals. The main principles governing the remuneration of the executive directors are: (i) ensure that the overall structure and amount of their remuneration complies with best practices and is competitive compared to the remuneration paid by comparable entities at the domestic and international levels; (ii) establish remuneration with objective standards in relation to individual performance and achievement of the business objectives; (iii) include an annual variable component linked to performance and to the achievement of pre-determined, quantifiable objectives aligned with the company interest and its strategic objectives, taking into account economic/financial, operational/industrial and other parameters relating to the Sustainable Development Goals; (iv) strengthen and incentivise the achievement of the Company's strategic objectives through the use of long-term incentives; and (v) establish suitable limits on variable remuneration and mechanisms for the Company to be able to obtain the reimbursement of the variable components if the payment thereof does not conform to the conditions for payment.

- Relative importance of variable remuneration items vis-à-vis fixed remuneration (remuneration mix) and the criteria and objectives taken into consideration in their determination and to guarantee a suitable balance between the fixed and variable components of the

remuneration. In particular, state the actions adopted by the company in relation to the remuneration system to reduce exposure to excessive risks and adapt this to the long-term objectives, values and interests of the company, which will include, as the case may be, mention of any measures to guarantee that the long-term results of the company are taken into account in the remuneration policy, the measures adopted in relation to those categories of staff whose professional activities have a material impact on the risk profile of the company, and any measures to avoid conflicts of interest.

Furthermore, state whether the company has established any period for the accrual or vesting of certain variable remuneration items, in cash, shares or other financial instruments, any deferral period in the payment of amounts or the handover of accrued and vested financial instruments, or if any clause has been approved reducing the deferred remuneration or that obliges the director to return remuneration received, when such remuneration has been based on certain figures that have clearly been shown to be inaccurate.

The final structure of the “remuneration mix” of executive directors is based on an evaluation of the performance of said directors by the Board of Directors, upon a proposal of the Remuneration Committee, as well as the change in value of any shares to be delivered in payment of the multi-year variable remuneration.

Annual and multi-year variable remuneration is linked to the performance of the executive directors with respect to economic/financial, operational/industrial and other parameters relating to the Sustainable Development Goals. Performance is evaluated by the Board of Directors, upon a proposal of the Remuneration Committee. This Committee is in turn customarily advised by an independent firm that evaluates such performance.

Multi-year variable remuneration in shares approved by the shareholders at the General Shareholders’ Meeting relates to the performance of the executive directors and of the Company itself over a three-year period, and does not accrue until the Board of Directors performs the corresponding evaluation at the end of said period. Any payment thereof is deferred over the next three years.

Prior to payment, all deferred variable remuneration requires a report from the Remuneration Committee confirming that the rationale supporting such deferred variable remuneration still applies. If there is a circumstance that subsequently requires a correction of the parameters taken into consideration during the initial evaluation, the Board of Directors will decide whether to cancel payment of the deferred variable remuneration in whole or in part (malus clause), and even to demand the total or partial return of amounts already paid (claw-back).

- Amount and nature of fixed components that are due to be accrued during the year by directors in their status as such.

For financial year 2020, the Board of Directors, upon a proposal of the Remuneration Committee, has unanimously resolved to maintain the fixed remuneration and the amounts set as attendance fees. These amounts have been frozen since 2008.

Fixed remuneration of the directors for belonging to the Board of Directors and to the committees thereof based on the position held in each case was as follows:

- Chairman of the Board of Directors: 567 thousand euros.

- Vice Chair of the Board of Directors and chairs of the consultative committees: 440 thousand euros.
- Members of the committees: 253 thousand euros.
- Members of the Board of Directors: 165 thousand euros.

Attendance fees received by the directors for attending the meetings of the Board of Directors and of the committees thereof, based on the position held in each case, were as follows:

- Chairman and vice chair of the Board of Directors and chairs of the committees: 4 thousand euros.
- Members of the Board of Directors and of the committees: 2 thousand euros.

- Amount and nature of fixed components that are due to be accrued during the year for the performance of senior management functions of executive directors.

The Board of Directors has resolved to maintain the fixed remuneration for the performance of executive duties of the chairman & CEO for financial year 2020 at 2,250 thousand euros. It has also resolved to maintain the fixed remuneration of the Business CEO for said financial year at 1,000 thousand euros.

- Amount and nature of any component of remuneration in kind that will accrue during the year, including, but not limited to, insurance premiums paid in favour of the director.

The Company pays the premiums under insurance policies that it has taken with certain insurance companies for the coverage of the death or disability of directors caused by accidents, and the Company itself assumes coverage of benefits for the death or disability of directors due to natural causes. Other remuneration in kind is insignificant and is basically used for the electricity rate and for health, life and casualty insurance. The estimated cost of all remuneration in kind will be similar to the cost reflected in section B.14 of this Report.

- Amount and nature of variable components, differentiating between those established in the short and long term. Financial and non-financial, including social, environmental and climate change parameters selected to determine variable remuneration in the year in progress, explaining the extent to which these parameters are related to performance, both of the director and of the company, together with their risk profile, and the methodology, deadline necessary and techniques established to determine the degree of compliance with the parameters used in the design of the variable remuneration at the end of the year.

State the range, in monetary terms, of the different variable components according to the degree of compliance with the objectives and parameters established, and whether any maximum monetary amounts exist in absolute terms.

The only directors that receive variable remuneration are the executive directors. For 2020, the Board of Directors has resolved to maintain the maximum limit on the annual variable remuneration of the chairman & CEO at the same level as in 2019 (3,250 thousand euros), as well as the maximum limit on that of the Business CEO (1,000 thousand euros).

Set forth below are the parameters and objectives to which the variable remuneration is linked, in line with the Outlook 2018-2022.

The parameters for the chairman & CEO will include:

Economic/financial objectives:

- Exceed net profit for the preceding financial year.
- Increase shareholder remuneration in line with the growth in net profit.
- Maintain financial strength in the FFO/NET DEBT ratio at year-end 2019.

Sustainable development objectives:

- Continuous increase of female presence in significant positions.
- Presence on international indices (Dow Jones Sustainability Index, FTSE4Good World's Most Ethical Company, etc.).
- Exceed ratio of training hours received per employee over that of comparable companies.

The Remuneration Committee may also consider other parameters for the evaluation of the chairman & CEO. The relative weight of the economic/financial objectives will be around 50%; the other 50% will correspond to parameters related to the Sustainable Development Goals.

For the Business CEO, approximately 50% of his benchmark parameters will be related to economic/financial objectives during financial year 2020 (including net profit and cost efficiencies). The other parameters will be related to objectives linked to growth (installed capacity and portfolio of projects) and management efficiency.

The Remuneration Committee may also consider other parameters for the evaluation of the Business CEO.

The Board of Directors will evaluate performance in relation to the aforementioned parameters based on a proposal to be made thereto by the Remuneration Committee, advised by an independent expert, which will take into account the individual performance of each of the executive directors.

In addition, the shareholders acting at the General Shareholders' Meeting held on 31 March 2017 approved, under item number 15 on the agenda, the 2017-2019 Strategic Bonus as a long-term incentive linked to the performance of the Company with respect to certain parameters, under the following guidelines:

- Beneficiaries: a maximum of 300, including executive directors.
- Parameters: annual average accumulated growth in net profit, total shareholder return, financial strength and reduction in the average intensity of CO₂ emissions.
- Maximum number of shares to be delivered: 14,000,000, equal to 0.22% of the share capital at the time of approval of the resolution.
- Maximum number of shares to be delivered to all of the executive directors: 2,500,000 shares (a maximum of 1,900,000 shares in the case of the chairman & CEO and 300,000 shares in the case of the Business CEO).
- Term: evaluation period 2017-2019 and payment period 2020-2022.
- Annual verification by the Remuneration Committee, prior to each of the payments, that the circumstances leading to the accrual thereof remain in effect.
- Ability to cancel pending payments and obtain reimbursement of the shares delivered.

The Annual Director Remuneration Report for the next financial year will report the evaluation of the level of achievement of objectives and the payment deriving therefrom.

Furthermore, item 16 on the agenda for the General Shareholders' Meeting called for 2 April 2020 contains the terms of the proposed resolution regarding a new 2020-2022 Strategic Bonus.

- Main characteristics of the long-term savings systems. Among other information, state the contingencies covered by the system, whether through defined contributions or benefits, the annual contribution that needs to be made to the defined contribution system, the benefits directors are entitled to in the event of defined benefit systems, the conditions under which economic rights are vested for directors and their compatibility with any other type of payment or severance pay as a result of the early termination or dismissal of the director, or deriving from the termination of the contractual relation, on the terms provided, between the company and the director.

State if the accrual or vesting of any of the long-term savings plans is linked to achieving certain objectives or parameters related to the short- or long-term performance of the director.

The Company has no commitment to any long-term defined-contribution, defined-benefit retirement or savings system for any director.

- Any type of payment or severance pay for early termination or dismissal of the director, or deriving from the termination of the contractual relation, on the terms provided between the company and the director, whether voluntary resignation by the director or dismissal of the director by the company, as well as any type of agreement reached, such as exclusivity, post-contractual non-competition, continuance in office or loyalty, which entitle the director to any type of remuneration.

External non-proprietary directors who cease to hold office prior to the expiration of the term to which they were appointed, if such cessation is not the consequence of a breach attributable thereto or exclusively due to the director's own decision, may not hold office in management decision-making bodies of companies within the energy industry or of other competitor companies or participate in any other way in the management thereof or in the provision of advice thereto for the remaining term of their appointment (with a maximum of two years).

Non-executive directors who cease to hold office due to the provisions of the succession plan included in the General Corporate Governance Policy shall not be subject to any non-compete commitment, nor shall they have the right to receive any compensation for the cessation from office. This right shall also not be held by directors who cease to hold office voluntarily or as a result of a breach of their duties. In other cases, the compensation to which external non-proprietary directors would be entitled for the non-compete commitment shall be equal to 90% of the fixed amount that the director would have received for the remainder of the director's term (assuming that the annual fixed amount that the director receives at the time of cessation from office is maintained), with a maximum equal to two times 90% of such annual fixed amount.

- State the conditions that contracts should respect for those exercising senior management functions as executive directors. Among others, information should be provided on the duration, limits on amounts of severance pay, minimum contract term clauses, notice periods and payment in lieu of these notice periods, and any other clauses relating to hiring bonuses, compensation and golden parachute clauses for early termination of the contractual relationship between the company and the executive director. Include, among others, any clauses or agreements on non-competition, exclusivity, continuance in office and loyalty, and post-contractual non-competition, unless these have been explained in the previous section.

Contracts with new executive directors and with senior management include, as from 2011, maximum severance pay equal to 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 system applicable to the Business CEO, who was appointed as a director by the shareholders at the General Shareholders' Meeting held on 31 March 2017.

In 2000, the Company also included clauses in contracts with key directors providing for severance pay of up to five annual salary amounts in order to achieve an effective and sufficient level of loyalty. Subsequently, in 2001, when the current chairman & CEO joined the Company, he received the treatment in effect for such officers. As chairman & CEO, he is currently entitled to three times annual salary as severance pay.

The Board of Directors has analysed this situation and has found that, taking into account the average age of the affected group and the low likelihood of the guarantees being enforced, the amount of the contingency would gradually decrease over time, resulting in payments far smaller than any alternative consisting of a reduction in the agreed severance payments.

Furthermore, the contracts with executive directors in all cases establish a duty not to compete with respect to companies and activities that are similar in nature to those of the Company during the term of their relationship with the Company

and for a maximum period of between one to two years thereafter. In consideration for this commitment, the executive directors are entitled to a severance payment equal to the remuneration for such period.

Other basic terms of the contracts with executive directors are: (i) indefinite term; (ii) strict compliance with the rules and provisions of the Company's Corporate Governance System; (iii) confidentiality and commitment to return documents in case of termination of the contractual relationship; (iv) general prior notice period for termination of three months.

- The nature and estimated amount of any other supplementary remuneration accrued by directors in the year in progress in consideration for services rendered other than those inherent in the post.

There is no supplementary remuneration.

- Other items of remuneration like those deriving from the company providing advances, loans, guarantees or any other remuneration to the directors.

None.

- The nature and estimated amount of any other planned supplementary remuneration accrued by directors in the year in progress that is not included in the previous sections, whether payment is made by the company or another group company.

The Director Remuneration Policy approved by the shareholders at the General Shareholders' Meeting held on 13 April 2018 provides that "executive directors and officers of the group who hold the position of director at companies that are not wholly owned either directly or indirectly by Iberdrola may receive remuneration corresponding to the position from said companies in accordance with their corporate governance rules on the same terms as the other directors.

Along these lines, it is estimated that during 2020 the chairman & CEO will receive an amount similar to the amount reflection in section C of this Report for his positions as chairman of the boards of directors of Neoenergia, S.A. and Avangrid, Inc.

A.2 Explain any significant change in the remuneration policy applicable in the current year resulting from:

- A new policy or a modification of the policy already approved by the General Meeting.
- Significant changes in the specific determinations established by the board for the current year regarding the remuneration policy in force with respect to those applied in the previous year.

- Proposals that the board of directors has agreed to submit to the general shareholders' meeting to which this annual report will be submitted and which are proposed to be applicable to the current year.

There are no significant changes in the Director Remuneration Policy as compared to prior financial years. The current Policy was approved by the shareholders at the General Shareholders' Meeting held on 13 April 2018.

A.3 Identify the direct link to the document where the current company remuneration policy is posted, which must be available on the web page of the company.

<https://www.iberdrola.com/corporate-governance/corporate-governance-system/corporate-policies/director-remuneration-policy>

A.4 Explain, taking into account the data provided in Section B.4, the outcome of voting, of a consultative nature, by shareholders at the General Shareholders' Meeting on the annual report on remuneration for the previous year.

Iberdrola maintains continuous contact with both its individual and institutional shareholders. The Activities Report of the Board of Directors and of the Committees thereof reports on the practical development of the Shareholder Engagement Policy. The *Annual Director Remuneration Report 2018* received the support of a broad majority in the consultative vote at the General Shareholders' Meeting held on 29 March 2019. The proposal of the Board of Directors regarding the *Director Remuneration Policy* was submitted to a binding vote of the shareholders at the General Shareholders' Meeting held on 13 April 2018 and also received widespread support at said meeting.

B OVERALL SUMMARY OF HOW REMUNERATION POLICY HAS BEEN APPLIED DURING THE YEAR ENDED

B.1 Explain the process followed to apply the remuneration policy and determine the individual remuneration contained in Section C of this report. This information will include the role played by the remuneration committee, the decisions taken by the Board of Directors and, as the case may be, the identity and the role of the external advisors whose services have been used in the process to apply the remuneration policy in the year ended.

As provided in Iberdrola's Corporate Governance System, the Board of Directors, upon a proposal of the Remuneration Committee, is the body with power to set the remuneration of directors, except the remuneration consisting of the delivery of shares of the Company or of options thereon or which is indexed to the price of the shares of Iberdrola, which must be approved by the shareholders acting at a General Shareholders' Meeting.

The Remuneration Committee, which met on 7 occasions during 2019, is comprised of the following as at the date of this report:

- Mr Juan Manuel González Serna (chair, independent)
- Ms Inés Macho Stadler (member, other external)

- Mr Manuel Moreu Muniaiz (member, independent)
- Mr Rafael Mateu de Ros Cerezo (secretary, non-member)

In all of their decision-making processes, this Committee and the Board of Directors have received information and advice from the internal services of the Company and from expert external consultants in this area, taking into consideration the most demanding remuneration recommendations and policies at the international level. In particular, the advice of PwC was relied upon in 2019 to evaluate the performance of the executive directors during the financial year. Furthermore, the advice of Willis Towers Watson was relied upon in 2018 to carry out a benchmark analysis of the remuneration paid by the Company compared to the remuneration paid to executive directors by other companies. This benchmark was internally updated in 2019. A summary thereof is included in section D of this Report.

The final proposal determining the individual remuneration of each executive director was submitted by the Remuneration Committee to the Board of Directors at its meeting of 24 February 2020.

B.2 Explain the different actions taken by the company in relation to the remuneration system and how they have contributed to reducing exposure to excessive risks and adapting them to the long-term objectives, values and interests of the company, including a reference to the measures that have been adopted to guarantee that the long-term results of the company have been taken into consideration in the remuneration accrued and that a suitable balance has been attained between the fixed and variable components of the remuneration, the measures that have been adopted in relation to those categories of staff whose professional activities have a material repercussion on the company's risk profile and the measures that have been adopted to avoid conflicts of interest, if appropriate.

Reference to section A.1 of this Report.

B.3 Explain how the remuneration accrued over the year meets the provisions contained in the current remuneration policy.

Furthermore, report on the relationship between the remuneration obtained by the directors and the results or other performance measures of the company in the short and long term, explaining, as the case may be, how the variations in the performance of the company have influenced changes in the remuneration of directors and how the latter contribute to the short- and long-term results of the company.

The remuneration accrued in 2019 fully conforms to the current Director Remuneration Policy. In this regard: (i) it does not exceed the overall limit established by article 48.1 of the By-Laws; (ii) it has been formulated and approved by the competent decision-making bodies following the prescribed procedure; (iii) it respects the remuneration principles and structure provided by the Director Remuneration Policy; and (iv) the annual fixed remuneration to be paid to the directors does not exceed the limits set forth in the Policy.

The annual variable remuneration accrued by the executive directors for the performance of their executive duties during financial year 2019 has taken into account as a reference the indicators and objectives identified in the Annual

Director Remuneration Report approved by the shareholders at the General Shareholders' Meeting held on 29 March 2019 and disseminated to the international financial community on the Investor Day held in London on 26 February 2019. Due to the foregoing, the Board of Directors, upon a proposal of the Remuneration Committee, believes that 2019 was a record year in that the objectives and budget were amply surpassed by the overall performance of the Company. In this regard, the annual variable remuneration of the chairman & CEO reached 100% of the maximum provided for in said Annual Director Remuneration Report. It also reached 100% of the maximum provided for the Business CEO.

The Company's performance with respect to main benchmark parameters is summarised below:

- The Company's net profit in financial year 2019 was 3,406 thousand euros, an increase of 13% over the last financial year, broadly exceeding the provisions of the budget.
- As regards shareholder remuneration, during the financial year 0.356 euro per share was distributed with a charge to 2018 profits, an increase of 7.6% over the prior financial year, in line with the growth in net profit.
- The group's solvency level has remained stable for the three credit rating agencies (Moody's (Baa1), Standard & Poor's (BBB+) and Fitch (BBB+)) and the FFO/Net Debt ratio at year-end 2019 was 22.2%, calculated using the same standards as at year-end 2018.
- Net Operating Expenses (NOE) were 4,330 thousand euros, lower than the amount budgeted.
- Total investment during the year was 8,158 thousand euros, ahead of the planned schedule. In particular, gross investment in networks during 2019 was 3,624 thousand euros, installed renewable capacity during the year was 2,791 MW, and new generation projects in Mexico was 2,655 MW, exceeding the budgeted objectives in all cases.
- There were 170 significant positions in the Company's management held by women at year-end 2019, representing 21.6% of the total.
- In line with the trend in recent years, during financial year 2019 IBERDROLA kept its presence on the main sustainability indices (Dow Jones Sustainability Index, FTS4Good, World's Most Ethical Companies, Global 100, CDP Climate Change (Clasificación A-), RobecoSam Sustainability Awards (Silver Class), Gender Equality Index).
- Training hours per employee provided in 2019 were 50.29, which in the case of Spain is 3.1 times greater than the hours provided at comparable companies.
- The employee injury rate was 0.21 accidents per 100 employees, a 25% reduction from the 2014-2018 period.
- Other notable milestones are: i) the IPO of Neoenergia, S.A. in Brazil, the share price of which increased 59% by year-end; ii) the Company's public commitment to the fight against climate change and for the energy transition shown by its major presence at COP25 and at the Climate Week Summit held in New York, as well as the Platts Energy Transition Award; iii) the inclusion of the Company on the Stoxx 50 index, which groups together the 50 largest companies in Europe; and iv) more than 7,000 million euros of new financing, of which 55% is green financing.

B.4 Report on the result of the consultative vote at the General Shareholders' Meeting on remuneration in the previous year, indicating the number of votes against that may have been cast:

	Number	% of total
Votes cast	4,831,245,458	74.12

	Number	% of cast
Votes against	339,310,920	7.02
Votes in favour	4,232,821,012	87.61
Abstentions	259,113,526	5.36

Remarks
There were 1,745,586 blank votes.

B.5 Explain how the fixed components accrued during the year by the directors in their capacity as such have been determined and how they have changed with respect to the previous year.

The remuneration of the directors in their capacity as such has been approved in accordance with the Director Remuneration Policy. Fixed remuneration as well as remuneration corresponding to membership on committees of the Board of Directors and attendance fees have been unchanged since 2008 and are set forth in section A.1. of this Report.

B.6 Explain how the salaries accrued by each one of the executive directors over the past financial year for the performance of management duties were determined, and how they have changed with respect to the previous year.

The salaries accrued by each of the executive directors during 2019 are determined by the Board of Directors upon a proposal of the Remuneration Committee in accordance with the provisions of the *Director Remuneration Policy* and correspond to the provisions established in the *Annual Director Remuneration Report* approved at the General Shareholders' Meeting held on 29 March 2019.

The fixed remuneration comes to 2,250 thousand euros in the case of the chairman & CEO and to 1,000 thousand euros in the case of the Business CEO. These amounts have not changed compared to the past year.

B.7 Explain the nature and the main characteristics of the variable components of the remuneration systems accrued in the year ended.

In particular:

- Identify each one of the remuneration plans that have determined the different types of variable remuneration accrued by each of the directors in the year ended, including information on their scope, their date of approval, their date of incorporation, the periods of accrual and validity, the criteria used to evaluate performance and

how this has affected the establishment of the variable amount accrued, as well as the measurement criteria used and the period necessary to be in a position to suitably measure all the conditions and criteria stipulated.

In the case of share options and other financial instruments, the general characteristics of each plan will include information on both the conditions to acquire unconditional ownership (vesting) and to exercise these options or financial instruments, including the price and term to exercise them.

- Each one of the directors, together with their category (executive directors, proprietary external directors, independent external directors and other external directors), that are beneficiaries of remunerations systems or plans that include variable remuneration.
- As the case may be, information is to be provided on periods for the accrual or deferment of payment applied and/or the periods for withholding/unavailability of shares or other financial instruments, if they should exist.

Explain the short-term variable components of the remuneration systems
The only directors that are entitled to short-term variable remuneration are the executive directors. In this regard, section B.3 above describes their annual variable remuneration, the relation thereof to the Company's performance, and the performance of each of them with respect to the objectives and parameters contained in the Annual Director Remuneration Report approved by the shareholders at the General Shareholders' Meeting.

Explain the long-term variable components of the remuneration systems
<p>During the month of May 2017, the Board of Directors, upon a proposal of the Remuneration Committee, evaluated compliance with the objectives of the 2014-2016 Strategic Bonus approved by the shareholders at the General Shareholders' Meeting held on 28 March 2014. This was reported in the Annual Director Remuneration Report approved by the shareholders at the General Shareholders' Meeting held on 13 April 2018.</p> <p>The third delivery of shares within the framework of said Strategic Bonus occurred on 8 March 2019, after a report from the Remuneration Committee that confirmed that the circumstances upon which such deferred variable remuneration was based remained in effect. A description of the shares delivered and the amount thereof is reflected in section C of this Report.</p>

- B.8 Indicate whether certain variable components have been reduced or clawed back when, in the case of the former, payment has been vested and deferred or, in the case of the latter, vested and paid, on the basis of data that have subsequently proved to be inaccurate. Describe the amounts reduced or clawed back through the application of the reduction or clawback clauses, why they were implemented and the years to which they refer.

This has not occurred.

B.9 Explain the main characteristics of the long-term savings systems where the amount or equivalent annual cost appears in the tables in Section C, including retirement and any other survivor benefit that are financed, totally or partially, by the company, whether through internal or external contributions, indicating the type of plan, whether it is a defined contribution or benefit, the contingencies covered, the conditions for vesting economic rights for directors and their compatibility with any type of severance pay for early termination or termination of the contractual relationship between the company and the director.

The company does not currently have any long-term savings system.

B.10 Explain, where appropriate, the severance pay or any other type of payment deriving from early dismissal or early resignation, or from the termination of the contract upon the terms provided for therein, accrued and/or received by directors during the year ended.

There have been no severance pay or payments deriving from early dismissal or resignation.

B.11 Indicate whether there have been any significant changes in the contracts of persons exercising senior management functions, such as executive directors, and, where appropriate, explain such changes. In addition, explain the main conditions of the new contracts signed with executive directors during the year, unless these have already been explained in Section A.1.

There have been no changes in the contracts of executive directors.

B.12 Explain any supplementary remuneration accrued by directors as consideration for services rendered outside of their post.

No supplementary remuneration has accrued.

B.13 Explain any remuneration deriving from advance payments, loans or guarantees granted, indicating the interest rate, their key characteristics and the amounts eventually returned, as well as the obligations taken on by way of guarantee or collateral.

None.

B.14 Itemise the remuneration in kind accrued by the directors over the year, briefly explaining the nature of the different salary components.

Remuneration in kind for all members of the Board of Directors is not significant and has not exceeded 135 thousand euros (mainly the employee electricity rate and health, life and casualty insurance).

B.15 Explain the remuneration accrued by directors by virtue of payments made by the listed company to a third company at which the director

renders services when these payments seek to remunerate the director's services to the company.

None.

B.16 Explain any other items of remuneration other than those mentioned in the previous sections, whatever their nature or the group company that settles the payment, particularly when this is a related-party transaction or the payment thereof distorts the true image of the total remuneration accrued by the director.

The chairman of the Board of Directors has received remuneration as chairman of the Boards of Directors of Avangrid, Inc. and of Neoenergia, S.A. The amount of said remuneration is reflected in section C of this Report.

C ITEMISED INDIVIDUAL REMUNERATION ACCRUED BY EACH DIRECTOR

Name	Type	Period of accrual in year t
Mr José Ignacio Sánchez Galán	Executive Chairman	From 01/01/2019 until 31/12/2019
Ms Inés Macho Stadler	Other External Director	From 01/01/2019 until 31/12/2019
Mr Iñigo Víctor de Oriol Ibarra	Other External Director	From 01/01/2019 until 31/12/2019
Ms Samantha Barber	Independent Director	From 01/01/2019 until 31/12/2019
Ms María Helena Antolín Raybaud	Independent Director	From 01/01/2019 until 31/12/2019
Ms Georgina Kessel Martínez	Independent Director	From 01/01/2019 until 31/12/2019
Ms Denise Mary Holt	Independent Director	From 01/01/2019 until 31/12/2019
Mr José Walfredo Fernández	Independent Director	From 01/01/2019 until 31/12/2019
Mr Manuel Moreu Munaiz	Independent Director	From 01/01/2019 until 31/12/2019
Mr Xabier Sagredo Ormaza	Independent Director	From 01/01/2019 until 31/12/2019
Mr Juan Manuel González Serna	Independent Director	From 01/01/2019 until 31/12/2019
Mr Francisco Martínez Córcoles	Executive Director	From 01/01/2019 until 31/12/2019
Mr Anthony L. Gardner	Independent Director	From 01/01/2019 until 31/12/2019

Ms Sara de la Rica Goiricelaya	Independent Director	From 29/03/2019 until 31/12/2019
Mr Ángel Jesús Acebes Paniagua	Independent Director	From 01/01/2019 until 28/03/2019

C.1 Complete the following tables regarding the individual remuneration of each director (including the salary received for performing executive duties) accrued during the year.

a) Remuneration from the reporting company:

i) Remuneration in cash (thousand euros)

Name	Fixed remuneration	Per diem allowances	Remuneration for membership on Board committees	Salary	Short-term variable remuneration	Long-term variable remuneration	Severance pay	Other grounds	Total financial year 2019	Total financial year 2018
Mr José Ignacio Sánchez Galán	567	92		2,250	3,250			72	6,231	6,224
Ms Inés Macho Stadler	165	76	275					3	519	511
Mr Iñigo Víctor de Oriol Ibarra	165	52	88					5	310	296
Ms Samantha Barber	165	82	275					2	524	516
Ms María Helena Antolín Raybaud	165	52	275					7	499	486
Ms Georgina Kessel Martínez	165	46	114					1	326	505
Ms Denise Mary Holt	165	40	88					1	294	294
Mr José Walfredo Fernández	165	40	88					1	294	294
Mr Manuel Moreu Munaiz	165	60	88					2	315	317

Mr Xabier Sagredo Ormaza	165	58	249					2	474	295
Mr Juan Manuel González Serna	165	44	275					2	486	387
Mr Francisco Martínez Córcoles	165	16		1,000	1,000			34	2,215	2,208
Mr Anthony L. Gardner	165	30	88					1	284	198
Ms Sara de la Rica Goiricelaya	126	24	67					1	218	
Mr Ángel Jesús Acebes Paniagua	39	12	21					1	73	314

Remarks

ii) Table of changes in share-based remuneration schemes and gross profit from vested shares or financial instruments

Name	Name of Plan	Financial instruments at start of financial year 2019		Financial instruments granted during financial year 2019		Financial instruments vested during the year				Instruments matured but not exercised	Financial instruments at end of financial year 2019	
		No. of instruments	No. of equivalent shares	No. of instruments	No. of equivalent shares	No. of instruments	No. of equivalent/vested shares	Price of vested shares	Gross profit from vested shares or financial instruments (thousand €)	No. of instruments	No. of instruments	No. of equivalent shares
Mr José Ignacio Sánchez Galán	2014-2016 Strategic Bonus	0	510,596	0	0	0	510,596	€7.64	3,899	0	0	0
	2017-2019 Strategic Bonus	0	1,900,000	0	0	0	0	0	0	0	0	1,900,000
Mr Francisco Martínez Corcoles	2014-2016 Strategic Bonus	0	120,932	0	0	0	120,932	€7.64	923	0	0	0
	2017-2019 Strategic Bonus	0	300,000	0	0	0	0	0	0	0	0	300,000

Remarks
<p>The chairman & CEO received the third and last delivery of shares (510,596 shares in 2019) corresponding to payment of the 2014-2016 Strategic Bonus approved by the shareholders at the General Shareholders' Meeting held on 28 March 2014. Each of the deliveries of said shares is subject to confirmation by the Board of Directors, after a report from the Remuneration Committee, that the circumstances on which the performance evaluation was based remain in effect.</p>

Furthermore, pursuant to the provisions of the 2017-2019 Strategic Bonus approved at the General Shareholders' Meeting held on 31 March 2017, 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 his part, the Business CEO received the third and last delivery of shares (120,932 shares in 2019) corresponding to payment of the 2014-2016 Strategic Bonus. Each of the deliveries of said shares is subject to confirmation by the Board of Directors, after a report from the Remuneration Committee, that the circumstances on which the performance evaluation was based remain in effect.

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.

iii) Long-term savings systems

	Remuneration from vesting of rights to savings system
Director 1	

	Contribution over the year from the company (thousand €)				Amount of accumulated funds (thousand €)			
Name	Savings systems with vested economic rights		Savings systems with non-vested economic rights					
	Financial Year 2019	Financial Year 2018	Financial Year 2019	Financial Year 2018	Financial Year 2019		Financial Year 2018	
					Savings systems with vested economic rights	Savings systems with non-vested economic rights	Savings systems with vested economic rights	Savings systems with non-vested economic rights
Director 1								

Remarks

iv) Details of other items

Name	Item	Amount remunerated
Director 1		

Remarks

b) Remuneration of the company directors for seats on the boards of other group companies:

i) Remuneration in cash (thousand euros)

Name	Fixed remuneration	Per diem allowances	Remuneration for membership on Board committees	Salary	Short-term variable remuneration	Long-term variable remuneration	Severance pay	Other grounds	Total financial year 2019	Total financial year 2018
Mr José Ignacio Sánchez Galán	302	0	0	0	0	0	0	0	302	261

Remarks
124 thousand euros correspond to his remuneration as chairman of the Board of Directors of Neoenergia, S.A. 178 thousand euros correspond to his remuneration as chairman of the Board of Directors of Avangrid, Inc.

ii) Table of changes in share-based remuneration schemes and gross profit from vested shares or financial instruments

Name	Name of Plan	Financial instruments at start of year t		Financial instruments vested during year t		Financial instruments vested during the year				Instruments matured but not exercised	Financial instruments at end of year t	
		No. of instruments	No. of equivalent shares	No. of instruments	No. of equivalent shares	No. of instruments	No. of equivalent/vested shares	Price of vested shares	Gross profit from vested shares or financial instruments (thousand €)	No. of instruments	No. of instruments	No. of equivalent shares
Director 1	Plan 1											
	Plan 2											

Remarks

iii) Long-term savings systems

	Remuneration from vesting of rights to savings system
Director 1	

Name	Contribution over the year from the company (thousand €)				Amount of accumulated funds (thousand €)			
	Savings systems with vested economic rights		Savings systems with non-vested economic rights					
	Financial Year 2019	Financial Year 2018	Financial Year 2019	Financial Year 2018	Financial Year 2019		Financial Year 2018	
					Savings systems with vested economic rights	Savings systems with non-vested economic rights	Savings systems with vested economic rights	Savings systems with non-vested economic rights
Director 1								

Remarks

iv) Details of other items

Name	Item	Amount remunerated
Director 1		

Remarks

c) Summary of remuneration (thousand €):

This should include a summary of the amounts corresponding to all the remuneration items included in this report that have accrued to each director (thousand €).

Name	Remuneration accrued at the Company					Remuneration accrued at group companies				
	Total Cash remuneration	Gross profit from vested shares or financial instruments	Remuneration from savings systems	Remuneration for other items	Total financial year 2019 - company	Total Cash remuneration	Gross profit from vested shares or financial instruments	Remuneration from savings systems	Remuneration for other items	Total financial year 2019 - group
Mr José Ignacio Sánchez Galán	6,231	3,899			10,130	302				302
Ms Inés Macho Stadler	519				519					
Mr Iñigo Víctor de Oriol Ibarra	310				310					
Ms Samantha Barber	524				524					
Ms María Helena Antolín Raybaud	499				499					
Ms Georgina Kessel Martínez	326				326					
Ms Denise Mary Holt	294				294					
Mr José Walfredo Fernández	294				294					
Mr Manuel Moreu Munaiz	315				315					

Mr Xabier Sagredo Ormaza	474				474					
Mr Juan Manuel González Serna	486				486					
Mr Francisco Martínez Córcoles	2,215	923			3,138					
Mr Anthony L. Gardner	284				284					
Ms Sara de la Rica Goiricelaya	218				218					
Mr Ángel Jesús Acebes Paniagua	73				73					
Total:	13,062	4,822			17,884	302				302

Remarks

D OTHER INFORMATION OF INTEREST

If there are any relevant issues relating to directors' remuneration that you have not been able to address in the previous sections of this report, but which are necessary to provide more comprehensive and fully reasoned information on the remuneration structure and practices of the company with regard to its directors, list them briefly.

In 2019 the Remuneration Committee requested the preparation of a benchmarking analysis of the total remuneration of the executive directors.

Said analysis used the following criteria to select the comparison group:

1. Utilities (7 companies selected):
 - Companies listed on the S&P 500 Utilities and Stoxx Europe 600 indices.
 - Companies belonging to the European Round Table of Industrialists (ERT) and Business Round Table (BRT) forums.
 - Turnover during last year being a minimum of approximately 50% of Iberdrola's turnover, provided that stock market capitalisation is greater than 10,000 million Euros.
 - Companies in which the government had an interest in management or ownership were eliminated.

2. Multi-sector sample (38 companies selected):
 - Companies listed on the FTSE Eurotop 100 and S&P 500 indices.
 - Companies belonging to the European Round Table of Industrialists (ERT) and Business Round Table (BRT) forums.
 - Turnover during last financial year and stock market capitalisation between approximately 50% and 200% of the size of Iberdrola.
 - International presence and geographic diversity comparable to those of Iberdrola.
 - Excludes financial services and insurance companies.
3. Main companies of the IBEX 35 by capitalisation (4 companies selected).
4. Main companies of the European energy transition (4 companies selected).

The list of companies is as follows:

Utilities:

Duke Energy
E.ON
Exelon
National Grid
Naturgy
NextEra
Southern Company

Multi-sector:

3M
ABB
Aflac
Air Liquide
American Express
BASF
Bayer
Caterpillar
ConocoPhillips
Deere & Co
Dow
Eaton Corp
Fedex
General Dynamics
Heineken
Henkel
Honeywell
IBM
Johnson Controls
Koninklijke Philips
LafargeHolcim
Lockheed Martin
LyondellBasell
Marriott
Micron Tech
Northrop Grumman
Orange

Progressive
 Qualcomm
 Raytheon
 Rio Tinto
 Target
 The Travelers Comp.
 Union Pacific
 United Tech
 UPS
 Vodafone
 Volvo

Ibex-35:

Inditex
 Banco Santander
 BBVA
 Telefónica

European energy transition:

Shell
 Total
 BP
 Equinor

The conclusions are the following:

- The remuneration of the chairman & CEO is below the median.
- The remuneration of the Business CEO is above the median.

This annual remuneration report has been approved by the board of directors of the company at its meeting on 24/02/2020.

State whether any directors voted against or abstained from voting on this report.

Yes ☐

No ☒

Name or company name of the member of the Board of Directors who has not voted for the approval of this report	Reasons (against, abstention, non-attendance)	Explain the reasons