

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

Data identifying issuer

Ending date of reference financial year	31/12/2016
Tax Identification Code	A-48010615
Registered name	IBERDROLA, S.A.
Registered address	Plaza Euskadi número 5, Bilbao 48009 Biscay Spain

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

A.1. Explain the company's remuneration policy. This section will include information regarding:

- **General principles and foundations of the remuneration policy.**
- **Most significant changes made to the remuneration policy from the policy applied during the prior financial year, as well as changes made during the year to the terms for exercising options already granted.**
- **Standards used and composition of groups of comparable companies whose remuneration policies have been examined to establish the company's remuneration policy.**
- **Relative significance of the variable items of remuneration as compared to fixed items and standards used to determine the various components of the director remuneration package (remunerative mix).**

Explain the remuneration policy

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 insurance premiums, payment of severance to former and current directors, and the operating expenses of the Board of Directors, 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 2016 (it was 17,000 thousand euros in 2015).

The price of the shares or options thereon, or any remuneration indexed to the listing price, which in any event must be approved by the shareholders at the General Shareholders' Meeting, is not included in the calculation for the purposes of such limit.

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

As far as executive directors are concerned, the Remuneration Policy follows the same standards as those of the Senior Officer Remuneration Policy and shares the same principles and guidelines as those of the Company's personnel remuneration policy, i.e. commitment to personal and corporate ethics, excellence in the selection process, constant training, gender equality, meritocracy and talent recognition, reconciliation, and significance of the variable remuneration component. All of the foregoing is intended to align the Company's remuneration policy with the corporate interest and shareholder return, within the framework of IBERDROLA's commitment to all stakeholders with which it interacts. In this regard, the Board of Directors believes that one of the key factors that make the difference in the performance of utilities is, specifically, the success or failure of strategic decisions made by the Company's management team. All utilities can choose the same businesses, markets, and technologies. However, their individual performance may be different. The Board of Directors believes that such difference depends upon the talent, effort, creativity, leadership, and management skills of each company. Therefore, IBERDROLA's Remuneration Policy seeks to retain, reward, and attract the most competent professionals. The investment in remuneration has a major impact on the creation of sustainable value for its shareholders and stakeholders. In this regard, Iberdrola has shown consistently better performance than comparable companies. The Integrated Report 2016 (section 2.8) includes the conclusions from a comparative analysis performed by PricewaterhouseCoopers. This Report also reflects external recognition of the good performance of the Company and its executives in various areas.

The remuneration payable to the directors is structured in accordance with the provisions of the Director Remuneration Policy appearing as an Annex to this report.

The final structure of the "remunerative mix" of executive directors is based on performance with respect to pre-determined parameters as a benchmark in order to pay the variable remuneration, as well as the

value of any shares to be delivered in payment of the medium- and long-term variable remuneration, and ultimately on the Board of Directors' assessment of the performance of such directors.

There have been no major changes in the remuneration policy as compared to the policy applied during prior financial years.

A.2. Information regarding preparatory work and the decision-making process followed to determine the remuneration policy, and any role played by the Remuneration Committee and other control bodies in the configuration of the remuneration policy. This information shall include, if appropriate, the mandate and composition of the Remuneration Committee and the identity of external advisers whose services have been used to determine the remuneration policy. There shall also be a statement of the nature of any directors who have participated in the determination of the remuneration policy.

Explain the process for determining the remuneration policy

As provided in the *By-Laws* and in the internal regulations of Iberdrola, the Board of Directors, upon a proposal of the Remuneration Committee, is the body with power to set the remuneration of directors, except for the remuneration consisting of the delivery of shares of Iberdrola 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.

Iberdrola's Board of Directors formulates the Company's *Director Remuneration Policy*, which forms part of the Corporate Governance System.

Said *Director Remuneration Policy*, which is available on the corporate website (www.iberdrola.com), implements, among other things, the structure for the remuneration of the directors for their activities as such and the structure of the executive directors' remuneration for the performance of their executive duties.

The Remuneration Committee, which met on 7 occasions during 2016, is comprised of the following:

- Ms Inés Macho Stadler (chair, independent)
- Mr Íñigo Víctor de Oriol Ibarra (member, other external)
- Mr Santiago Martínez Lage (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. This particularly includes the advice of PricewaterhouseCoopers.

This Committee also periodically compares the relevant data to information corresponding to comparable markets and entities, taking into account the size and international scope of Iberdrola. In this regard, Willis Towers Watson, a consultant specialising in compensation matters, was requested to prepare a comparative study of the remuneration package of the executive directors in 2016. The annex to this report shows the standards used to create the comparison group, the list of companies selected based thereon, and the conclusions of the study. In summary, the conclusion is that the remuneration policy for Iberdrola's executive directors is in line with the market practices analysed by said study and with good governance recommendations. As stated in the preceding section, the remuneration package for the executive directors and senior officers reflects the quality of their performance and the goal of the Board of Directors to retain, reward, and attract talent and management skills, as this is one of the key and distinctive factors contributing to the better performance of a company like IBERDROLA.

A.3. State the amount and nature of the fixed components, with a breakdown, if applicable, of remuneration for the performance by the executive directors of the duties of senior management, of additional remuneration as chair or member of a committee of the board, of attendance fees for participation on the board and the committees thereof, or other fixed remuneration as director, and an estimate of the annual fixed remuneration to which they give rise. Identify other benefits that

are not paid in cash and the basic parameters upon which such benefits are provided.

Explain the fixed components of remuneration

For financial year 2017, at the proposal of the Remuneration Committee, the Board of Directors has unanimously resolved to maintain the fixed remuneration and attendance fee amounts. 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
- Chairs of the consultative committees: 440 thousand euros
- Members of the consultative committees: 253 thousand euros
- Members of the Board of Directors: 165 thousand euros

Currently, all members of the Board of Directors take on responsibilities on one of the four committees of the Board.

Attendance fees of the directors for belonging to the Board of Directors and to the committees thereof based on the position held in each case were as follows:

- Chairman of the Board of Directors and chairs of the consultative committees: 4 thousand euros
- Members of the Board of Directors and of the consultative committees: 2 thousand euros

The Board of Directors has resolved to maintain the fixed remuneration for the performance of executive duties of the chairman & chief executive officer for financial year 2017 at 2,250 thousand euros.

A.4. Explain the amount, nature, and main features of the variable components of the remuneration systems.

In particular:

- Identify each of the remuneration plans of which the directors are beneficiaries, including the scope, date of approval, date of implementation, date of effectiveness, and main features thereof.
In the case of share option plans and other financial instruments, the general features of the plan shall include information on the conditions for the exercise of such options or financial instruments for each plan.
- State any remuneration received under profit-sharing or bonus schemes, and the reason for the accrual thereof.
- Explain the fundamental parameters and rationale for any annual bonus plan.
- The classes of directors (executive directors, external proprietary directors, external independent directors, or other external directors) that are beneficiaries of remuneration systems or plans that include variable remuneration.
- The rationale for such remuneration systems or plans, the chosen standards for evaluating performance, and the components and methods of evaluation to determine whether or not such evaluation standards have been met, as well as an estimate of the absolute amount of variable remuneration to which the current remuneration plan would give rise, based on the level of compliance with the assumptions or goals used as a benchmark.

- **If applicable, information shall be provided regarding any payment deferral periods that have been established and/or the periods for retaining shares or other financial instruments.**

Explain the variable components of the remuneration systems
<p>The only directors that receive variable remuneration are the executive directors. For 2017, the Board of Directors has resolved to maintain the maximum limit on the annual variable remuneration of the chairman & chief executive officer at the same level as in 2016 (3,250 thousand euros).</p> <p>The payment of annual variable remuneration is linked to three types of 2017 parameters, which are focused on the Company's medium-term performance, in line with the presentation to the financial community on Investor Day held in London on 24 February 2016:</p> <p>a) Economic/financial</p> <ul style="list-style-type: none"> • Results: reach net profit in excess of that for financial year 2016, leading to average growth of 5% in line with the announcement on Investor Day for the 2016-2020 cycle. • Align shareholder remuneration with the growth in After Tax Profit (ATP). <p>b) Corporate social responsibility</p> <ul style="list-style-type: none"> • Presence on international indices, like FTSE4Good, Dow Jones Sustainability Index, and World's Most Ethical Company (Ethisphere Institute). • Level of consensus received for the proposals of the Board of Directors at the General Shareholders' Meeting. • Maintain continuous growth in the percentage female presence in management positions. • Maintain the high standard of perception by employees of the "team pride" indicator measured in the labour climate survey. • Maintain the ratio of training hours received per employee appreciably higher than that of other comparable companies. <p>The relative weight of the economic/financial targets is 60%. That of the corporate social responsibility targets is 40%.</p> <p>The Board of Directors' evaluation will be conducted based on the 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.</p> <p>In addition, the shareholders acting at the General Shareholders' Meeting held on 28 March 2014 approved, under item seven on the agenda, a new Strategic Bonus 2014-2016 as a long-term incentive linked to the performance of the Company with respect to certain parameters, under the following guidelines:</p> <ul style="list-style-type: none"> • Beneficiaries: a maximum of 350, including executive directors. • Parameters: net profit, share price performance, and financial strength. • Maximum number of shares to be delivered: 19,000,000, equal to 0.3% of share capital. • Maximum for all executive directors: 2,200,000 shares. • Term: evaluation period 2014-2016 and payment period 2017-2019. <p>The Annual Director Remuneration Report for the next financial year will report the Board of Directors' evaluation of the level of compliance with the parameters to which said Strategic Bonus is indexed, as well as any payment thereof.</p> <p>Item 15 on the agenda for the General Shareholders' Meeting called to be held on 31 March 2017 contains the terms of the proposed resolution on the new 2017-2019 Strategic Bonus.</p>

- A.5. Explain the main features of the long-term saving systems, including retirement and any other survival benefit, either wholly or partially financed by the company, and whether funded internally or externally, with an estimate of the equivalent**

annual amount or cost thereof, stating the type of plan, whether it is a defined-contribution or benefit plan, the conditions for the vesting of economic rights in favour of the directors, and the compatibility thereof with any kind of indemnity for early termination or severance of the contractual relationship between the company and the director.

Also state the contributions on the director's behalf to defined-contribution pension plans; or any increase in the director's vested rights, in the case of contributions to defined-benefit plans.

Explain the long-term savings systems

The Company pays the premiums under insurance policies that it has taken out with certain insurance companies for the coverage of the death and 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. Furthermore, the Company pays the premiums under insurance policies providing coverage against civil liability deriving from holding the office of director. The total estimated cost of said premiums comes to 319 thousand euros.

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

A.6. State any severance payments agreed to or paid in case of termination of duties as a director.

Explain the severance payments

In the event of termination of a non-proprietary external director prior to the expiration of the term to which said director was appointed that is not the consequence of a breach attributable thereto or solely due to a voluntary decision thereof, the Company makes a severance payment to said director to compensate for the director's adherence to the agreement not to compete, i.e. the director's obligation to not hold positions in the management bodies of companies in the energy industry or of other competitor companies and to not otherwise participate in the management thereof or in the provision of advice thereto.

The amount of the severance payment is equal to 90% of the fixed amount that the director would have received for the remainder of the director's term (considering that the director will maintain the annual fixed amount received at the time of termination), subject to a maximum equal to two times 90% of such annual fixed amount.

Contracts with new executive directors and senior officers include, as from 2011, maximum severance 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.

The Company included guarantee clauses of up to five years in contracts with its key officers 17 years ago. Subsequently, in 2001, when the current chairman joined the Company, he received the treatment in effect for such officers, in order to achieve an effective and sufficient level of loyalty. As chairman & chief executive officer, he is currently entitled to three times 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 used for termination purposes 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 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 agreed severance payments. By year-end 2015, the number had decreased to 52. By year-end 2016, the number has decreased again to 45, without the enforcement of any guarantee clause.

A.7. State the terms and conditions that must be included in the contracts of executive directors performing senior management duties. Include information regarding, among other things, the term, limits on severance payment amounts, continuance in office clauses, prior notice periods and payment in lieu of prior notice, and any other clauses relating to hiring bonuses, as well as benefits or golden parachutes due to early termination or severance of the contractual relationship between the company and the executive director.

Include, among other things, any clauses or agreements on non-competition, exclusivity, continuance in office or loyalty, and post-contractual non-competition.

Explain the terms of the contracts of the executive directors
<p>The contracts with the executive directors are of indefinite duration, and financial compensation is contemplated in the event of termination of the contractual relationship with the Company, provided that said termination is not caused by a breach of the director's duties. The contract provides for a prior notice period of 3 months.</p> <p>Applicable legal provisions are those provided by law in each case.</p> <p>Executive directors have the duty to strictly observe the rules and provisions contained in the Company's Corporate Governance System, to the extent applicable thereto.</p> <p>The contracts in all cases establish a duty not to compete with respect to companies and activities that are similar in nature during the term of their relationship with the Company and for a maximum period of two years thereafter. In compensation for this commitment, the chairman & chief executive officer is entitled to severance pay equal to the remuneration for such period.</p> <p>There is a rigorous duty of confidentiality both during the term of the contract and after the relationship has terminated. In addition, upon termination of their relationship with Iberdrola, executive directors must return to the Company any documents and items relating to their activity in their possession.</p>

A.8. Explain any supplementary remuneration accrued by the directors in consideration for services provided other than those inherent in their position.

Explain the supplementary remuneration

A.9. State any remuneration in the form of advances, loans, or guarantees provided, with an indication of the interest rate, main features, and amounts ultimately returned, as well as the obligations assumed on their behalf as a guarantee.

Explain the advances, loans, and guarantees provided

A.10. Explain the main features of remuneration in kind.

Explain the remuneration in kind
Remunerations in kind for all members of the Board of Directors are not significant and will not exceed

101 thousand euros (employee electricity rate and life and casualty insurance).

- A.11. State the remuneration accrued by the director by virtue of payments made by the listed company to a third party to which the director provides services, if such payments are intended to provide remuneration for the services thereof in the company.**

Explain the remuneration accrued by the director by virtue of the payments made by the listed company to a third party to which the director provides services

- A.12. Any item of remuneration other than those listed above, of whatever nature and provenance within the group, especially when it is deemed to be a related-party transaction or when the making thereof detracts from a true and fair view of the total remuneration accrued by the director.**

Explain the other items of remuneration

- A.13. Explain the actions taken by the company regarding the remuneration system in order to reduce exposure to excessive risk and align it with the long-term goals, values, and interests of the company, including any reference to: measures provided to ensure that the remuneration policy takes into account the long-term results of the company, measures establishing an appropriate balance between the fixed and variable components of remuneration, measures adopted with respect to those categories of personnel whose professional activities have a significant impact on the entity's risk profile, recovery formulas or clauses giving the right to demand the return of the variable components of remuneration based on results if such components have been paid based on data that is later clearly shown to be inaccurate, and measures provided to avoid any conflicts of interest.**

Explain actions taken to reduce risks

Annual and multi-year variable remuneration is tied to the performance of the executive directors and indexed to performance with respect to industrial, financial, and corporate social responsibility parameters. Performance is evaluated by the Board of Directors, upon a proposal of the Remuneration Committee. This Committee is in turn advised by an independent firm (PricewaterhouseCoopers in recent years) that evaluates the various governance bodies of the Company.

It should be noted that multi-year variable remuneration is related to the performance of the executive directors and of the Company itself over a 3-year period, and does not accrue until the Board of Directors performs the corresponding evaluation. In addition, any payment thereof is deferred over the next 3 years.

Prior to payment, all deferred variable remuneration requires a prior 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).

The proposed resolution on the 2017-2019 Strategic Bonus submitted to the shareholders at the General Shareholders' Meeting called to be held on 31 March 2017 provides for a claw-back in the event of a material restatement of the financial statements.

B. Section deleted.

**OVERALL SUMMARY OF THE APPLICATION OF THE REMUNERATION POLICY
DURING THE YEAR JUST ENDED**

- C.1. Summarise the main features of the structure and items of remuneration from the remuneration policy applied during the financial year just ended, which give rise to the breakdown of individual remuneration accrued by each of the directors as reflected in section D of this report, and provide a summary of the decisions made by the board to apply such items.**

Explain the structure and items of remuneration from the remuneration policy applied during the financial year

The structure and items of remuneration from the <i>Director Remuneration Policy</i> applied during financial year 2016 do not differ from the provisions of section A of this report.
--

D. BREAKDOWN OF INDIVIDUAL REMUNERATION ACCRUED BY EACH OF THE DIRECTORS

Name	Class	Accrual period – Financial Year 2016
SANTIAGO MARTÍNEZ LAGE	Independent	From 01/01/2016 to 31/12/2016
ÁNGEL JESÚS ACEBES PANIAGUA	Independent	From 01/01/2016 to 31/12/2016
GEORGINA KESSEL MARTÍNEZ	Independent	From 01/01/2016 to 31/12/2016
JOSÉ IGNACIO SÁNCHEZ GALÁN	Executive	From 01/01/2016 to 31/12/2016
MARÍA HELENA ANTOLÍN RAYBAUD	Independent	From 01/01/2016 to 31/12/2016
SAMANTHA BARBER	Independent	From 01/01/2016 to 31/12/2016
XABIER DE IRALA ESTÉVEZ	Proprietary	From 01/01/2016 to 08/04/2016
IÑIGO VÍCTOR DE ORIOL IBARRA	Other external	From 01/01/2016 to 31/12/2016
INÉS MACHO STADLER	Independent	From 01/01/2016 to 31/12/2016
BRAULIO MEDEL CÁMARA	Independent	From 01/01/2016 to 31/12/2016
JOSÉ LUIS SAN PEDRO GUERENABARRENA	Other external	From 01/01/2016 to 31/12/2016
DENISE MARY HOLT	Independent	From 01/01/2016 to 31/12/2016
MANUEL MOREU MUNAIZ	Independent	From 01/01/2016 to 31/12/2016
JOSÉ WALFREDO FERNÁNDEZ	Independent	From 01/01/2016 to 31/12/2016
XABIER SAGREDO ORMAZA	Other external	From 08/04/2016 to 31/12/2016

D.1. Complete the following tables regarding the itemised remuneration of each of the directors (including remuneration for the performance of executive duties) accrued during the financial year.

a) Accrued remuneration at the company covered by this report:

i. Cash remuneration (thousands of €)

Name	Salaries	Fixed remuneration	Attendance fees	Short-term variable remuneration	Long-term variable remuneration	Remuneration for belonging to committees of the Board	Severance payments	Other items	Total 2016	Total 2015
MARÍA HELENA ANTOLÍN RAYBAUD	0	165	44	0	0	275	0	6	490	444
INÉS MACHO STADLER	0	165	66	0	0	275	0	3	509	515
JOSÉ LUIS SAN PEDRO GUERENABARRENA	0	165	42	0	0	88	0	1	296	296
ÁNGEL JESÚS ACEBES PANIAGUA	0	165	56	0	0	88	0	2	311	311
SANTIAGO MARTÍNEZ LAGE	0	165	28	0	0	88	0	4	285	286
BRAULIO MEDEL CÁMARA	0	165	30	0	0	88	0	3	286	284
SAMANTHA BARBER	0	165	60	0	0	275	0	2	502	486
XABIER DE IRALA ESTÉVEZ	0	44	12	0	0	24	0	1	81	298
JOSÉ IGNACIO SÁNCHEZ GALÁN	2,250	567	84	3,185	0	0	0	68	6,154	6,221
IÑIGO VÍCTOR DE ORIOL IBARRA	0	165	42	0	0	88	0	5	300	300

GEORGINA KESSEL MARTÍNEZ	0	165	60	0	0	275	0	1	501	484
DENISE MARY HOLT	0	165	36	0	0	88	0	1	290	296
JOSÉ WALFREDO FERNÁNDEZ	0	165	34	0	0	88	0	1	288	256
MANUEL MOREU MUNAIZ	0	165	58	0	0	88	0	2	313	235
XABIER SAGREDO ORMAZA	0	120	24	0	0	60	0	1	205	0

ii. Share-based remuneration systems

JOSÉ IGNACIO SÁNCHEZ GALÁN STRATEGIC BONUS 2011-2013											
Date of implementation	Ownership of options at beginning of 2016						Options allocated during 2016				
	No. of options	Shares affected	Exercise price (€)	Exercise period			No. of options	Shares affected	Exercise price (€)	Exercise period	
27/05/2011	0	0	0.00	There is no option plan			0	0	0.00	There is no option plan	
Terms: There is no option plan											
Shares delivered in 2016			Options exercised in 2016				Options expired and not exercised	Options at end of 2016			
No. of Shares	Price	Amount	Exercise price (€)	No. of options	Shares affected	Gross profit (m€)	No. of options	No. of options	Shares affected	Exercise price (€)	Exercise period
536,359	5,96	3,197	0.00	0	0	0	0	0	0	0.00	There is no option plan
Other requirements for exercise: there are no other requirements											

**JOSÉ LUIS SAN PEDRO GUERENABARRENA
STRATEGIC BONUS 2011-2013**

Date of implementation	Ownership of options at beginning of 2016				Options allocated during 2016						
	No. of options	Shares affected	Exercise price (€)	Exercise period	No. of options	Shares affected	Exercise price (€)	Exercise period			
27/05/2011	0	0	0.00	There is no option plan	0	0	0.00	There is no option plan			
Terms: There is no option plan											
Shares delivered in 2016			Options exercised in 2016				Options expired and not exercised	Options at end of 2016			
No. of Shares	Price	Amount	Exercise price (€)	No. of options	Shares affected	Gross profit (m€)	No. of options	No. of options	Shares affected	Exercise price (€)	Exercise period
90,640	5,96	540	0.00	0	0	0	0	0	0	0.00	There is no option plan
Other requirements for exercise: there are no other requirements											

iii. Long-term savings systems

b) Remuneration accrued by directors of the company for belonging to boards at other companies of the group:

i. Cash remuneration (thousands of €)

Name	Salaries	Fixed remuneration	Attendance fees	Short-term variable remuneration	Long-term variable remuneration	Remuneration for belonging to committees of the Board	Severance payments	Other items	Total 2016	Total 2015
MARÍA HELENA ANTOLÍN RAYBAUD	0	0	0	0	0	0	0	0	0	0
INÉS MACHO STADLER	0	0	0	0	0	0	0	0	0	0
JOSÉ LUIS SAN PEDRO GUERENABARRENA	0	0	0	0	0	0	0	0	0	0
ÁNGEL JESÚS ACEBES PANIAGUA	0	0	0	0	0	0	0	0	0	0
SANTIAGO MARTÍNEZ LAGE	0	0	0	0	0	0	0	0	0	0
BRAULIO MEDEL CÁMARA	0	0	0	0	0	0	0	0	0	0
SAMANTHA BARBER	0	0	0	0	0	0	0	0	0	0
XABIER DE IRALA ESTÉVEZ	0	0	0	0	0	0	0	0	0	0
JOSÉ IGNACIO SÁNCHEZ GALÁN	0	0	0	0	0	0	0	0	0	0
IÑIGO VÍCTOR DE ORIOL IBARRA	0	0	0	0	0	0	0	0	0	0
GEORGINA KESSEL MARTÍNEZ	0	0	0	0	0	0	0	0	0	0
DENISE MARY HOLT	0	0	0	0	0	0	0	0	0	0

JOSÉ WALFREDO FERNÁNDEZ	0	0	0	0	0	0	0	0	0	0
MANUEL MOREU MUNAIZ	0	0	0	0	0	0	0	0	0	0
XABIER SAGREDO ORMAZA	0	0	0	0	0	0	0	0	0	0

ii. Share-based remuneration systems

iii. Long-term savings systems

c) Summary of remuneration (thousands of €):

The summary must include the amounts for all items of remuneration included in this report that have been accrued by the director, in thousands of euros.

In the case of long-term saving systems, include contributions or funding for these types of systems:

Name	Accrued remuneration at the Company				Accrued remuneration at companies of the group				Totals		
	Total cash remuneration	Amount of shares granted	Gross profit on options exercised	Total 2016 company	Total cash remuneration	Amount of shares delivered	Gross profit on options exercised	Total 2015 group	Total 2016	Total 2015	Contribution to savings system during the year
MARÍA HELENA ANTOLÍN RAYBAUD	490	0	0	490	0	0	0	0	490	444	0
INÉS MACHO STADLER	509	0	0	509	0	0	0	0	509	515	0
JOSÉ LUIS SAN PEDRO GUERENABARRENA	296	540	0	836	0	0	0	0	836	852	0
ÁNGEL JESÚS ACEBES PANIAGUA	311	0	0	311	0	0	0	0	311	311	0
SANTIAGO MARTÍNEZ LAGE	285	0	0	285	0	0	0	0	285	286	0
BRAULIO MEDEL CÁMARA	286	0	0	286	0	0	0	0	286	284	0
SAMANTHA BARBER	502	0	0	502	0	0	0	0	502	486	0
XABIER DE IRALA ESTÉVEZ	81	0	0	81	0	0	0	0	81	298	0
JOSÉ IGNACIO SÁNCHEZ GALÁN	6,154	3,197	0	9,351	0	0	0	0	9,351	9,509	0

IÑIGO VÍCTOR DE ORIOL IBARRA	300	0	0	300	0	0	0	0	300	300	0
GEORGINA KESSEL MARTÍNEZ	501	0	0	501	0	0	0	0	501	484	0
DENISE MARY HOLT	290	0	0	290	0	0	0	0	290	296	0
JOSÉ WALFREDO FERNÁNDEZ	288	0	0	288	0	0	0	0	288	256	0
MANUEL MOREU MUNAIZ	313	0	0	313	0	0	0	0	313	235	0
XABIER SAGREDO ORMAZA	205	0	0	205	0	0	0	0	205	0	0
TOTAL	10,811	3,737	0	14,548	0	0	0		14,548	14,556	0

D.2. Report the relationship between remuneration obtained by the directors and the results or other indicators of the entity's performance, explaining how any changes in the company's performance may have influenced changes in the remuneration of the directors.

The reference figures for determining annual variable remuneration of the executive directors for performance in 2016 were identified in the report approved by the shareholders at the General Shareholders' Meeting held on 8 April 2016, and are focused on the Company's medium-term performance, based on three parameters:

- Economic/financial.
- Operational and industrial in each of the markets.
- Corporate social responsibility.

The Company has relied on the advice of PricewaterhouseCoopers Asesores de Negocios, S.L. to evaluate the Company's performance level regarding these indicators.

Iberdrola performed brilliantly in financial year 2016. The results, both at the operational and economic/financial levels, have amply exceeded the budget and the commitments made to the financial community on Investor Day in London on 24 February 2016.

Due to the foregoing, the Board of Directors, upon a proposal of the Remuneration Committee, believes that the goals for financial year 2016 were satisfactorily achieved. The Company's performance with respect to the aforementioned parameters is described below.

- Net profit reached 2,705 million euros (12% growth), amply exceeding the projections announced at Investor Day and reflected in the Director Remuneration Report 2015 approved at the 2016 General Shareholders' Meeting.
- EBITDA was 7,808 million euros (6% growth, and 8% if exchange rate effect is eliminated), broadly exceeding the projections announced at Investor Day.
- During the 2014-2016 period, Iberdrola's listing price increased 34.5% and total shareholder return was 52.2%. During the same period, the Eurostoxx Utilities decreased 2.1% and total return on said index was 14.3%. During financial year 2016, Iberdrola's listing price decreased 4.8% and total shareholder return was -0.3%. On the other hand, the Eurostoxx Utilities decreased 7.8% and total return on said index was -2.8%. Furthermore, all of the principal international investment banks recommend purchasing or holding Iberdrola shares.
- Operational and industrial parameters:
 - The quality indicator (service interruption) ended 2016 in compliance with the regulatory requirements of the various markets, and in particular has beaten the results for prior financial years in Spain.
 - The accident rate for company personnel has stayed at low levels, with no fatal accidents. The accident rate for subcontractors has also decreased.
 - The results of the evaluation in the labour climate survey sent to 26,821 employees, and in which the employees of Avangrid have participated for the first time, have slightly improved despite an environment of corporate and labour restructuring. In particular, the "team pride" indicator was excellent.
- In 2016, Iberdrola was selected as the best utility in the world on the Dow Jones Sustainability Index, has once again obtained the highest rating on the CDP index, and has been selected for the FTSE4Good index. It has also been included on the World's Most Ethical Company list published by Ethisphere Institute.
- The percentage of emissions-free installed capacity has increased over the average of recent years. Iberdrola is playing a leading role in the private sector to contribute to the achievement of the United Nations Sustainable Development Goals, mainly 7 (energy) and 13 (climate change). This includes the full operational status of the West of Duddon Sands offshore wind farm located in the Irish Sea (389 MW). There is also the completion of the design and the award of supplies for East Anglia One (714 MW) in the North Sea, one of the largest offshore windfarms in the world. Wikinger (350 MW), located in the Baltic Sea, is in an advanced state of construction, with the placement of all foundations, installation of connection cables, and construction of the substation.

- The results of the voting at the General Shareholders' Meeting with respect to the attendance quorum (77.91%) was quite satisfactory. There was massive support for the proposals made by the Board of Directors. The average votes against the proposals of the Board of Directors was lower than for other listed companies with a large free float and similar equity ownership structure.

D.3. Report the results of the consultative vote of the shareholders on the annual remuneration report for the preceding financial year, indicating the number of votes against, if any:

	Number	% of total
Votes cast	4,864,941,456	97.55

	Number	% of total
Votes against	96,443,115	1.98
Votes in favour	4,370,914,965	89.85
Abstentions	397,583,376	8.17

E. OTHER INFORMATION OF INTEREST

E.1 If there are any significant aspects regarding director remuneration that could not be included in the other sections of this report, but should be included in order to provide more complete and well-reasoned information regarding the remuneration structure and practices of the company with respect to its directors, briefly describe them.

Section D.3 of this form of the Annual Remuneration Report does not allow for a reflection of blank votes cast at the General Shareholders' Meeting, which were 2.45% of the total votes cast.

As of the date of approval of this Report, the chairman & chief executive officer is the holder of 8,107,123 shares of Iberdrola, S.A., which is 0.12% of the capital. Since his appointment, he has not sold shares of the Company.

The directors as a group hold 0.15% of the capital.

The notes to the annual accounts referring to the remuneration of the Board are annexed hereto as supplementary information.

E.2 This annual remuneration report was approved by the board of directors of the company at its meeting of 23 February 2016.

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

Yes No

ANNEX

BENCHMARK 2016

1. Standards

The study performed by Willis Tower Watson for the Remuneration Committee used the following selection standards to define the group of comparison companies.

- a) Internationalised European and North American companies listed on a stock exchange.
- b) Listed “utilities” with no less than 50% of the IBERDROLA’s turnover and a market capitalisation at 31.12.2015 of more than 10,000 million euros.
- c) Multi-sector sample of companies listed on the FTSE Eurotop 100 and S&P 500 indices with turnover of not more than 200% nor less than 50% of IBERDROLA’s turnover and a market capitalisation at 31.12.2015 of not more than 200% nor less than 50% than that of IBERDROLA, excluding banks and insurance companies.
- d) The main companies on the Spanish IBEX 35 index.

2. List of companies

American Electric Power	Accenture	Lyondellbasell
Centrica	Astrazeneca	Río Tinto
Duke Energy	Caterpillar	Orange
E.ON	Cigna	Renault
EDP – Energias de Portugal	Continental	Schlumberger
Enel	Danone	Schneider Electric
Engie	Delta	Tix Cos
Exelon	Ericsson	Vinci
Gas Natural Fenosa	General Dynamics USA	Vodafone
National Grid	Heineken	Inditex
NextEra Energy	Henkel	Santander
Southern Company	Honeywell	Telefónica
SSE	Johnson Controls USA	BBVA
ABB	Koninklijke Philips	

3. Conclusions

- The companies of the comparison group reflect Iberdrola's geographic distribution and are comparable in size and complexity.
- Accepting such samples, which includes the U.S. market, Iberdrola's remuneration policy for the chairman & chief executive officer is reasonably aligned with observed market practices and with good governance recommendations.

DIRECTOR REMUNERATION POLICY

The Board of Directors of IBERDROLA, S.A. (the “**Company**”) approves this *Director Remuneration Policy* in exercise of the powers granted thereto.

The Company desires to continue to focus on the ongoing improvement and full alignment of the *Director Remuneration Policy* with the good governance recommendations generally recognised in international markets in the area of director remuneration, adjusting them to the specific needs and circumstances of the Company and of the group of which the Company is the controlling entity, within the meaning established by law (the “**Group**”).

1. Purpose and Basic Principles

The *Director Remuneration Policy* seeks to ensure adequate remuneration in recognition of their dedication and the responsibility assumed, and in accordance with the remuneration paid on the market at comparable domestic and international companies, taking into account the long-term interest of all of the shareholders.

In particular, as far as executive directors are concerned, the guiding principle is to offer remuneration systems that make it possible to attract, retain, and motivate the most outstanding professionals in order to enable the Company and the Group to attain their strategic objectives within the increasingly competitive and internationalised context in which they operate. Accordingly, in connection with executive directors, the *Director Remuneration Policy* seeks to:

- a) Ensure that the remuneration, in terms of structure and total amount, is in line with best practices, as well as competitive vis-à-vis that of comparable entities at the domestic and international level, taking into account the situation of the regions in which the Group operates.
- b) Establish the remuneration, in accordance with objective standards, based on individual performance and on the achievement of the business objectives of the Company and the Group.
- c) Include a significant annual variable component tied to performance and to the achievement of specific, pre-established, quantifiable objectives in line with the corporate interest and strategic goals of the Company. The foregoing should be understood to be without prejudice to the possibility of considering other objectives, especially in the area of corporate governance and corporate social responsibility.
- d) Foster and encourage the attainment of the strategic goals of the Company through the inclusion of long-term incentives, strengthening continuity in the competitive development of the Group, of its directors, and of its management team, and generating a motivating effect that acts as a driving force to ensure the loyalty and retention of the best professionals.
- e) Set appropriate maximum limits to any short-term or long-term variable remuneration, and establish suitable mechanisms to reconsider the implementation and payment of any deferred variable remuneration when a reformulation occurs that has a negative effect on the Company's consolidated annual accounts, including the potential total or partial cancellation of the payment of deferred variable remuneration if there is a reformulation of the annual accounts or a correction of non-financial dimensions or parameters upon which such remuneration was based.

Without prejudice to all of the foregoing, the *Director Remuneration Policy* shall be suitably adjusted to the prevailing economic situation and to the international context.

The *Annual Director Remuneration Report* is made available to the shareholders upon the call to the Annual General Shareholders' Meeting, and will be submitted to a consultative vote thereat, as a separate item on the agenda.

2. Competent Bodies

The Board of Directors, at the proposal of the Appointments and Remuneration Committee¹, is the body with authority to determine the remuneration of directors within the overall limit established in the *By-Laws* and in accordance with the provisions of law, except for remuneration consisting of the delivery of shares of the Company or of options thereon, or remuneration indexed to the value of the shares of the Company, which must be approved by the shareholders acting at a General Shareholders' Meeting.

3. Limit on Remuneration

Pursuant to article 52.1² of the *By-Laws*, the limit on the amounts that the Company allocates annually as an expense to director remuneration, including the remuneration of the executive directors for the performance of executive duties, as well as to the funding of the fund created to honour the obligations incurred by the Company with respect to pensions, the payment of life insurance premiums, and the payment of severance to current and former directors, is two per cent of consolidated group profits obtained during the financial year, after covering legal and other mandatory reserves and the issuance to the shareholders of a dividend of at least four per cent of the share capital.

For the purpose of establishing such limit, the value 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.

4. Structure of Director Remuneration for the Directors' Activity as Such

The remuneration to which directors are entitled for serving as such is structured in accordance with the following standards within the framework of legal and by-law provisions:

a) Fixed Amount

Directors receive a fixed annual amount that is commensurate with market standards, in keeping with the positions they hold on the Board of Directors and in the committees on which they sit, always taking into account the limit on director remuneration set forth in section 3 above.

b) Attendance Fees

Directors are entitled to payment of certain amounts as attendance fees, whether for attendance at meetings of the Board of Directors or at meetings of the committees on which they sit.

c) Coverage of Risk Benefits

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. Furthermore, the Company pays the premiums under insurance policies providing coverage against civil liability deriving from holding the office of director.

d) Severance Compensation

In the event that an external non-proprietary director withdraws from office prior to the expiration of the term to which such director was appointed, and provided that such withdrawal from office is not the consequence of a breach attributable thereto or exclusively due to the director's own decision to withdraw, the Company shall make a severance payment to such director, subject to the director's obligation during the remainder of the director's term in office (with a maximum of two years) not to hold office in management decision-making bodies of companies within the energy industry or of other competitor companies and not to participate, in any other manner, in the management thereof or in the provision of advice thereto.

¹ On 25 March 2015, the Board of Directors resolved to split the Appointments and Remuneration Committee, vesting the power to set director remuneration within the Remuneration Committee.

² After the bylaw amendment approved by the shareholders at the Company's General Shareholders' Meeting of 27 March 2015, this reference should be understood as being made to article 48.1 of the *By-Laws*.

The amount of the compensation shall be equal to 90% of the fixed amount that the director would have received for the remainder of the director's term (considering that the annual fixed amount that the director receives at the time of withdrawal is maintained), with a maximum equal to two times 90% of such annual fixed amount.

5. Structure of Remuneration of Executive Directors for the Performance of Executive Duties

The remuneration that executive directors are entitled to receive for the performance of executive duties at the Company (i.e. other than the duties inherent in their status as members of the Board of Directors) is structured as follows:

a) Fixed Remuneration

This portion of the remuneration shall be in line with the remuneration paid in the market by companies with comparable capitalisation, size, ownership structure, and international scope.

Under ordinary circumstances, it should not represent a percentage greater than 50% of the theoretical maximum annual remuneration to be received.

b) Variable Remuneration

(i) Short-term Variable Remuneration:

A portion of the remuneration of executive directors is variable, in order to strengthen their commitment to the Company and to promote a better performance of their duties.

This variable remuneration shall be tied, for the most part, to the achievement of specific and pre-established objectives that are quantifiable and aligned with the corporate interest and with the strategic goals of the Company. Weight will also be given to goals in the area of corporate governance and corporate social responsibility, as well as the individual performance of the executive directors. The Appointments and Remuneration Committee³ will assess the achievement of objectives as well as performance. The committee may seek the advice of independent professionals. The proposal thereof shall be submitted to the Board of Directors for approval.

(ii) Medium-term and Long-term Variable Remuneration:

The Company also contemplates the implementation of incentive systems tied for the most part to the Company's performance with respect to certain specific and pre-established economic/financial, industrial, and operational goals that are quantifiable and aligned with the strategic objectives pursued by the Company and the Group, in order to promote the retention and motivation of the executive directors and the creation of long-term value. Weight will also be given to goals in the area of corporate governance and corporate social responsibility, as well as the individual performance of the executive directors. The Appointments and Remuneration Committee⁴ will evaluate performance and determine compliance with pre-established parameters. The committee may seek the advice of independent professionals. The proposal thereof shall be submitted to the Board of Directors for approval.

These systems may include the delivery of Company shares or options thereon or remuneration rights linked to the value thereof, when so resolved by the shareholders acting at a General Shareholders' Meeting at the proposal of the Board of Directors, after a report from the Appointments and Remuneration Committee⁴.

The timeframe to be used for guidance purposes in medium- and long-term remuneration programmes shall be three years, and in the case of systems linked to shares of the Company, they shall be submitted to the shareholders at a General Shareholders' Meeting for approval as provided by law. Appropriate minimum holding periods may be established in

³ See footnote 1 above.

⁴ See footnote 1 above.

respect of a portion of the shares received. If there is a reformulation of the annual accounts or a correction of non-financial dimensions or parameters upon which such remuneration was based, the Board of Directors shall evaluate whether it is appropriate to totally or partially cancel payment of the deferred variable remuneration.

(iii) Neutrality:

Variable remuneration of any kind may not be based merely on the general performance of the markets, of the industry in which the Company operates, or on other similar circumstances.

c) Benefits

The remuneration system for executive directors is supplemented by appropriate life insurance and social security benefits, in line with practice in the market by companies with comparable capitalisation, size, ownership structure and international scope.

d) Severance Clauses

Since the end of the 1990s, the executive directors, as well as a group of senior officers, have the right to receive severance compensation in the event of termination of their relationship with the Company, provided that such termination is not the consequence of a breach attributable thereto or to the sole decision thereof. In the case of the chairman & chief executive officer, he is currently entitled to three times annual salary. Since 2011, a severance limit of two times annual salary applies to new contracts with executive directors.

6. Basic Terms of the Contracts of Executive Directors

The Board of Directors establishes the remuneration payable to executive directors for the performance of their executive duties and the other basic terms that must be set forth in their contracts. Such terms are the following:

a) Indefinite Duration

The contracts with executive directors of the Company are of indefinite duration, and financial compensation is contemplated therein in the event of termination of the contractual relationship with the Company, provided that such termination does not occur exclusively due to the decision of the executive directors to withdraw or as a result of a breach of their duties.

b) Applicable Legal Provisions

The contracts with executive directors are governed by the legal provisions applicable in each case.

c) Compliance with the Company's Corporate Governance System

Executive directors have the duty to strictly observe the rules and provisions contained in the Company's Corporate Governance System, to the extent applicable thereto.

d) Non-competition

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 during the term of their relationship with the Company and for a two-year period of time thereafter. As consideration for such commitments, the executive directors are entitled severance equal to the remuneration for such period.

e) Confidentiality and Return of Documents

There is a rigorous duty of confidentiality both during the term of the contracts and after the relationship has terminated. In addition, upon termination of their relationship with the Company, the executive directors must return to the Company any documents and items in their possession relating to the activities carried out thereby.

7. Principle of Full Transparency

The Board of Directors of the Company assumes the commitment to enforce the principle of the fullest transparency of all the items of remuneration received by all directors, providing clear and adequate information as much in advance as required and in line with the good governance recommendations generally recognised in international markets in the area of director remuneration.

For such purpose, the Board of Directors establishes this *Director Remuneration Policy* and ensures the transparency of director remuneration by including in the Company's report a detailed breakdown, according to positions and status, of all remuneration received by the directors, whether as such, in their capacity as executives, if applicable, or in any other capacity, and whether such remuneration has been paid by the Company or by other companies of the Group.

In addition, the Board of Directors prepares the *Annual Director Remuneration Report* on an annual basis, which is made available to the shareholders upon the call to the Annual General Shareholders' Meeting and is submitted to a consultative vote, as a separate item on the agenda.

* * *

This *Director Remuneration Policy* was initially approved by the Board of Directors on 18 December 2007 and was last amended on 17 February 2015, and was approved at the Company's General Shareholders' Meeting held on 27 March 2015 pursuant to the transitory provision of Law 31/2014, of 3 December, modifying the Companies Act to improve corporate governance.