SHAREHOLDER ENGAGEMENT REPORT FOR FINANCIAL YEAR 2017

1. Introduction

The purpose of this report is to comply with the provisions of the Shareholder Engagement Policy and of the Policy regarding Communication and Contacts with Shareholders, Institutional Investors and Proxy Advisors of Iberdrola, S.A. (“Iberdrola” or the “Company”), which require that the Company publish on the corporate website (www.iberdrola.com) an annual report regarding the practical application of both policies, including information regarding the relations maintained with shareholder associations, institutional shareholders and investors, and proxy advisors.

2. Shareholder Engagement

In November 2014, the Office of the Secretary of the Company’s Board of Directors appointed a tripartite commission (the “Commission”) made up of representatives of Iberdrola, of the principal minority shareholder associations and of independent specialists with particular qualifications and experience in corporate governance to prepare a report analysing the framework of relations between the Company and its shareholders, and to propose applicable formulas to promote the engagement thereof in the corporate life of Iberdrola. To perform this task, the Committee prepared the report and attached thereto a proposed engagement policy that it submitted to the Board of Directors.

The concept of shareholder engagement generally represents an increasingly significant component in relationships between listed companies and their shareholders based on two-way interaction between them, and which is intended to highlight the value of the shareholders of large listed companies with a significant free float.

Along these lines, awareness by the Board of Directors of the expectations, opinions and concerns of the shareholders in certain areas of corporate life and their effective engagement within the Company is an important source for creating value.

Achieving this engagement requires a change in the relations between the Company and its shareholders, which goes beyond the principle of transparency traditionally applied to information flows.

It requires the formulation and implementation of a policy driven by the Company and led by the Board of Directors thereof that allows for the establishment of a constructive, ongoing and efficient dialogue that helps to align the interests of the shareholders and those of the Company.

The Company has various types of shareholders. On the one hand, there are institutional shareholders, whose activities are subject to the fiduciary duties of managers to their participants. In many regards, these duties favour their participation in corporate life.

On the other hand, the Company has a broad base of minority shareholders. Iberdrola is aware of the desirability of making an effort to develop relations with this group.

Based on the Committee’s proposal, on 17 February 2015 the Board of Directors approved and published the Shareholder Engagement Policy, which contains the principles and rules covering engagement, as well as a statement of the channels and media through which it is implemented. The continued application of said policy, periodically revised and updated by the Board of Directors, has led to the results set forth below.

3. Shareholder Day

A new edition of Shareholder Day was held on 31 March 2017, during which there were presentations and activities to bring the shareholders closer to the business, corporate and institutional reality of Iberdrola.

During Shareholder Day, and prior to the General Shareholders’ Meeting, the shareholders met with the chairman & CEO, who presented the results and strategic pillars of Iberdrola in an interview. There were also musical performances and interviews with major figures in the scientific, social and artistic areas from the geographic environment in which Iberdrola does business.

The “2017 Iberdrola Together Award / Solidarity” was delivered to Fundación Cadete in recognition of its assistance to children with disabilities and their families by promoting their social integration through the granting of scholarships. This Foundation was created and is sponsored by a shareholder of Iberdrola.

The main event of Shareholder Day 2017 was the General Shareholders’ Meeting, which was held with the participation of a total of 165,873 shareholders (attending in person and by proxy), holders of 4,986,855,908 shares
(340,885,129 present in person and 4,645,970,779 represented by proxy) reaching a quorum of 77.20% of the share capital (5.28% present in person and 71.92% represented by proxy). To foster participation, Iberdrola has a series of mechanisms in place to allow all shareholders to grant a proxy or cast an absentee vote. Specifically, thanks to the measures adopted to facilitate participation via electronic means, the number of shareholders who granted a proxy or cast an absentee vote by these means increased by 59% compared to the prior year, thus coming to 8,424 shareholders, owners of a total of 53,112,610 shares.

The documentation for the General Shareholders’ Meeting is published in both Spanish and English on the corporate website (www.iberdrola.com), and is accessible to people with sensory limitations, who may also request the delivery of the announcement of the call to meeting in Braille. Iberdrola also adopts the measures required to ensure full accessibility by those attending Shareholder Day at Palacio Euskalduna in Bilbao, where there is also a childcare centre with duly qualified staff.

After the chair responded to the issues raised, voting on the items included on the agenda took place, during which all of the proposals submitted by the Board of Directors were approved by a wide majority.

All official documentation regarding the 2017 General Shareholders’ Meeting, as well as the various mechanisms for participation that Iberdrola made available to the shareholders, can be accessed on the corporate website.

With a view to the upcoming General Shareholders’ Meeting, Iberdrola has developed a new application that will allow the shareholders to grant a proxy and to cast an absentee vote from any device with access to the internet (including mobile phones and tablets), verifying their shareholder status in real time. In addition, for the first time, individual shareholders will be able to grant a proxy or vote by telephone through the free phone number of the Office of the shareholder, through which they may also request any information regarding the event. Said electronic and telephone channels will add to the traditional forms of participation in presence, by post or through the shareholder service desks, which Iberdrola will continue to offer its shareholders in order to provide them with all of the alternatives for participation in the General Meeting.

4. **Engagement of Institutional Investors**

Pursuant to the provisions of the *Policy regarding Communication and Contacts with Shareholders, Institutional Investors and Proxy Advisors*, attention to institutional investors preferably occurs via direct channels and by personnel who are qualified to respond to quite specialised financial players.

The participation of senior management in these engagement efforts, especially the participation of the chairman & CEO and of the CFO, is frequent and valued.

The following paragraphs describe the principal channels of relations with this segment of investors.

4.1 **Presentation of Results**

Iberdrola publishes its results on a quarterly basis by means of communications to the National Securities Market Commission, followed by live and recorded presentations through the corporate website. At these events, any interested person has the opportunity to participate by asking questions of the management team.

There is significant attendance at these presentations, with an average of approximately 300 people connected online.

4.2 **Investor Day**

In February 2017 Iberdrola presented the investment community with an update of the “Outlook 2016-2020” within the framework of Investor Day, which was held in London with the attendance of close to 100 investors and analysts and 3,000 streaming connections.

At the end of the event, there was a satisfaction survey of the attendees, which obtained a 9 out of 10 rating as to the content of the event, and almost 9.1 out of 10 as to the organisation.

The high quality of the event, which exceeded the expectations of the attendees, led the Company to achieve recognition from the investment community for the second consecutive year and to be awarded first prize for “All-Europe Best Analyst Days” in the “utilities” category by Institutional Investor.
4.3 **Meetings at Iberdrola Facilities**

Requests to visit Iberdrola’s facilities or for meetings with its management team and the Investor Relations team are quite frequent. Numerous meetings were held with analysts, investors and rating agencies at Iberdrola’s facilities during 2017.

In particular, specific events were organised, such as a visit to the Wikinger offshore wind farm in the Baltic Sea, which was attended by 14 investment banking analysts.

There were also 350 in-person and telephonic meetings with all kinds of market participants.

4.4 **Roadshows and Equity, Fixed-income and Sustainable Investment Conferences**

The Investor Relations team attends numerous events and conferences where it meets with investors and shareholders. It also organises roadshows and specific trips to visit significant investors or investors who have shown an interest in making contact with the Company.

These roadshows and conferences cover the entire spectrum of investor activity in the capital markets: equity, fixed-income, sustainable investment and other market players like rating agencies.

Approximately 25 cities in Europe, North America, Asia and Australia were visited in 2017, and meetings were held with more than 600 institutional investors.

4.5 **Corporate Governance Roadshows**

Iberdrola is an especially proactive company when it comes to investor contact. In particular, and as regards corporate governance, one can also say that it is a pioneer in adding this topic to common financial lingo in its relations with the international financial community.

Analysts, institutional investors and proxy advisers monitor and scrutinise the corporate performance of large listed companies. This is especially so when there are new legislative or regulatory developments or when a new code of good practices is adopted.

It should be noted that Iberdrola has held specific corporate governance roadshows for several years. Upon the call to the General Shareholders’ Meeting, a team from the Office of the Secretary of the Board of Directors and from the Finance and Resources Division goes to Belgium, France, the United Kingdom, Germany, the United States, etc. in order to present on the Company’s main new developments in the area of corporate governance.

There are also roadshows when so required by the circumstances, beyond those occurring on occasion of the call to the General Shareholders’ Meeting. The goal is to visit the main institutional investors and proxy advisers, for two reasons. On the one hand, to explain in detail each of the proposed resolutions that the Board of Directors submits to the shareholders at the General Shareholders’ Meeting, and on the other, to explain the corporate governance model, its continuing evolution and new developments in our practices.

But the most important goal of this type of contact is to listen to the concerns and proposals of the investors.

The main topics addressed at this type of meeting are: (i) the role of Iberdrola’s Board in defining strategy and supervising the implementation thereof, (ii) management of the Company’s risks, (iii) commitments and scenarios in connection with climate change, (iv) composition, diversity, renewal and remuneration of the Board of Directors, (v) cybersecurity, (vi) relationship with the main stakeholders, and (vii) equity transactions and shareholder remuneration.

The result of these intense engagement efforts is the continuous improvement of our corporate governance practices, the implementation of a new flexible remuneration formula, called “Iberdrola Flexible Remuneration”, which will be submitted to the shareholders for approval at the next General Shareholders’ Meeting, and the massive support received from the international financial community.

This practice, which has been developed over several years, has given rise to continuous and fluid contact throughout the financial year, apart from the meetings held during each of the roadshows.

Foreign institutional shareholders have a sophisticated profile and keenest interest in the areas of corporate governance and social responsibility. Their engagement in the corporate life of Iberdrola is essential for the evolution of our governance model.
During the roadshow for the 2017 General Shareholders’ Meeting, contact was made with more than 30 foreign institutional investors holding interests in excess of 20% of the share capital.

5. Engagement of Minority Shareholders

The work of engagement with minority investors and shareholders is performed through a wide array of channels in order to optimise the scope and quality of the response provided. It is managed by highly qualified personnel who are specialised in the various channels of participation, from personal response to mass communication through mailings, e-mail or via the corporate website.

5.1 Corporate Governance Day

The third corporate governance day was held in Madrid on 14 November 2017.

These one-day events deal with current issues in this area. On this occasion, Adam Emmerich, a partner of the American law firm Wachtell, Lipton, Rosen & Katz, presented on the main new developments in the area of shareholder activism at the international level. Gabriel Alsina (ISS) spoke on the differences in corporate governance practices between European and American listed companies.

This event was a success in terms of attendance. Shareholders, academics, and legal and finance professionals had the opportunity to participate in an interesting engagement initiative.

5.2 Dialogue with Shareholder Associations

Iberdrola maintains intense relations on a permanent basis with the principal minority shareholder associations, which translate into agreements for support of and collaboration on some of the events organised by these associations and constant telephone contact as needed, and formal meetings at least every half-year.

5.3 Activities of the Shareholders’ Club

The Shareholders’ Club is a channel of participation open to all shareholders of the Company. The club allows for maintaining more direct contact with shareholders interested in receiving periodic information regarding the performance of the Company and in participating in various proceedings and events organised thereby.

The main goal of the club is to promote the engagement of shareholders, allowing them to express their opinions and interests. The communications and events organised are designed to expand the shareholders’ knowledge regarding the activities carried out by the Company (visits to facilities) and regarding Iberdrola’s contribution to the communities in which it does business, through its social responsibility strategy and particularly through various cultural and social investments (visits to museums, sponsorships, sporting activities, etc.).

As part of this goal, a drawing was organised in 2017 among those shareholders who joined the club in the days prior to the General Shareholders’ Meeting.

More than 1,300 shareholders participated in on-site activities. The more significant initiatives include:

- Expanded financial information
- Quarterly results bulletins
- Flexible Dividend Campaign: through personalised letters, press and radio
- Specific communications and other events at the General Shareholders’ Meeting
- Cultural events
- Visits to museums
- Music concerts
- Visits to group facilities
• Sporting and healthy living events
• Specific discounts for shareholders based on institutional sponsorships: Abao Opera and Guggenheim Museum

Hundreds of telephone calls were also received during the year.

At the end of each event, a satisfaction survey is sent to the attendees in order to gather their opinions and interests. The most noteworthy conclusions indicate that the shareholders are very satisfied with the management of the Company and with the information and treatment received, obtaining more than 9 points (out of 10) in all categories. It should be noted that none of the survey participants indicated that they intend to cease being a shareholder. As to the activities, apart from being well organised, they consider them to have helped them know the Company.

5.4 Office of the Shareholder: Shareholder Telephone Line

The shareholder telephone line is an additional channel made available to all shareholders in order to allow them to contact the Company directly and easily, and, as from the next General Shareholders’ Meeting, to grant a proxy and cast an absentee vote.

The telephone number is 900 10 00 19 and is available from Monday to Friday, from 09:00 to 19:00, throughout the year, except during August, when service hours are from 09:00 to 14:00.

The shareholder telephone line received a total of 21,289 calls during 2017, a slight decrease over the prior year due to the users going over to digital channels, the increased number of visits to the website and new OLS users.

5.5 Corporate Website and Applications

The corporate website (www.iberdrola.com) is one of the most important channels for informing investors and shareholders. Iberdrola’s development and management of this channel was publicly recognised by the publication Institutional Investor with first prize for “All-Europe Best Website” in the “utilities” category in 2017.

The Company periodically (at least quarterly) updates the information relevant to shareholders in various areas:

- Economic and financial information: results brochure, results presentation and shareholder bulletin.
- Data and tools: financial, sustainability and operational data on the Company, facilitating an interactive analysis thereof.
- Map of facilities.
- Shareholder remuneration: operation of the flexible remuneration schemes, tax impacts, examples, etc.
- Changes in capital: increases and reductions in capital, significant equity interests, treasury shares.

In 2017, Iberdrola continued improving the design of its corporate website, inaugurated in 2016, in order to continue offering its shareholders and investors the best user experience. Especially noteworthy is the addition of a new menu for direct access to relevant information in the Shareholders and Investors section of the corporate website.

New contents of interest to the shareholders and the financial community have also been included, such as the “Regulation: Our Vision” section, providing a description of Iberdrola’s position with regard to the main regulated issues affecting the business. Other more specific contents have also been offered and which the company provides for dissemination purposes, such as those regarding green bonds, or of wider general interest, regarding technology, lifestyle, environment and culture. All of these contents can also be easily shared by shareholders and investors on social media with just one click from the corporate website.

The corporate website contains various tools to facilitate the provision of information to and participation by the shareholders, including:

- Interactive and functional calendar, which allows one to personalise the search for and selection of events, save historical data and integrate their content with private Yahoo, Gmail and Outlook calendars.
- Video explaining how the “Iberdrola Flexible Dividend” programme works, to facilitate an understanding thereof.
Personalised alert system, which allows one to define a set of e-mail alerts, choosing items of interest (Iberdrola on the stock exchange, press releases, significant event notices) and frequency (daily or weekly).

During 2017, the shareholders and investors section of the corporate website had 307,283 visits, 17.9% of the total received by the website, and a total of 95,207 users.

Another channel that Iberdrola makes available to its investors and shareholders is the app for mobile devices. This app allows for easy, intuitive and immediate access to current information regarding Iberdrola. It also allows for off-line use and contains specific information for shareholders and investors.

Since it began operating in 2013, this app has achieved 20,803 users, with more than 40,500 visits during 2017.

5.6 On Line Shareholders (OLS)

OLS is an interactive system made available to the shareholders on Iberdrola’s corporate website. This system is of special significance and utility because it allows one to easily:

- Make queries of or request clarifications from other shareholders, either openly or confidentially, regarding the Company or in connection with one’s status as a shareholder, 365 days a year.
- View frequently asked questions and answers, and access legal and corporate documentation.
- Make queries regarding the ethical principles of the group or make complaints through the Shareholders’ Ethics Mailbox.
- Request information or clarifications or ask questions regarding items on the agenda for the General Shareholders’ Meeting.
- Cast a vote or grant one’s proxy electronically at the General Shareholders’ Meeting.
- Download a copy of their attendance, proxy and absentee voting card for the General Shareholders’ Meeting.
- Live viewing of the General Shareholders’ Meeting.

OLS had 12,188 registered shareholders at year-end 2017 (a 14% increase over 2016). Almost 62,287 visits and 179 questions were received in 2017 alone.