1. **Purpose of the Report**

This report is submitted by the Board of Directors of IBERDROLA, S.A. (“Iberdrola” or the “Company”) pursuant to the provisions of section 529 decies of the Companies Act (Ley de Sociedades de Capital) and the Company’s Corporate Governance System in relation to the proposed re-election of Mr José Ignacio Sánchez Galán as a director of Iberdrola, with the status of executive director.

This report evaluates both the conformance of the proposal to the Company’s Corporate Governance System and the competency, experience, and merits of Mr Sánchez Galán upon the terms of subsection 5 of section 529 decies of the Companies Act.

In addition, attached to this report is the information referred to in article 9.7.c) of the Regulations for the General Shareholders’ Meeting:

(a) Professional profile and biographical data of the director.
(b) Membership on other boards of directors of listed or unlisted companies.
(c) Indication of the type of director such person is or should be, with mention, in the case of proprietary directors, of the shareholder that proposes or proposed the appointment thereof or with which the director has ties.
(d) Date of their first and subsequent appointments as a director of the Company.
(e) Shares of the Company and derivative financial instruments whose underlying assets are shares of the Company of which such director is the holder.

Based on the status of Mr José Ignacio Sánchez Galán as chairman of the Board of Directors and chief executive officer of Iberdrola, and order to favour the maximum transparency of the process, this report is prepared separately and independently from the reports regarding the other proposals for ratification and/or re-election of directors submitted for approval of the shareholders at the General Shareholders’ Meeting.
2. **Procedure Followed for Preparing this Proposal for Re-election**

The following procedure has been followed to prepare the proposal for re-election of Mr José Ignacio Sánchez Galán as executive director of the Company:

(a) The initiative for the process was led by the coordinating director, Ms Inés Macho Stadler.

(b) In this process, Ms Inés Macho Stadler collected the opinions of the independent directors who, in the exercise of the powers given to her by article 38.2 of the By-Laws and article 17 b) of the *General Corporate Governance Policy*, she called to a meeting that was held on 15 December 2014. The meeting was chaired by Ms Inés Macho Stadler, wherein the duties of secretary of the Appointments and Remuneration Committee were exercised. All of the independent directors attended in person who, based on the excellent work performed by Mr José Ignacio Sánchez Galán in his position and the good results obtained in his evaluations as chairman of the Board of Directors and chief executive officer, unanimously approved the submission to the Board of Directors, through the coordinating director, of the proposal for the re-election thereof as executive director.

(c) In addition, in order to have an outside comparison regarding the compatibility of an executive chairman with the best corporate governance practices, regarding the effectiveness of the counterbalances established in the Company’s Corporate Governance System, and regarding the results of the practical application of the governance model, and regarding the performance of Iberdrola under the leadership of Mr José Ignacio Sánchez Galán, the Appointments and Remuneration Committee requested a report of an internationally recognised independent expert on corporate governance, PriceWaterhouseCoopers Asesores de Negocio, S.L.

(d) The Appointments and Remuneration Committee debated the proposed re-election of the executive chairman at its meetings of 1 December 2014, 2 February 2015, and 16 February 2015. At this last meeting, it prepared the report referred to in articles 3 f) and 5 e) of the *Regulations of the Appointments and Remuneration Committee*, which is made available to the shareholders pursuant to the provisions of sections 518 and 529 *decies* of the Companies Act.

(e) The Board of Directors, in view of the unanimous favourable opinion of the independent directors, the favourable report of the Appointments and Remuneration Committee, and of the content of the report prepared by the independent expert, has approved the preparation of this report and submission of the resulting proposed re-election of Mr José Ignacio Sánchez Galán as executive director of Iberdrola.
3. **Professional Profile and Biographical Data**

Industrial engineer from Escuela Superior de Ingeniería (ICAI) of Universidad Pontificia Comillas (Madrid). He also holds a degree in Business Administration from ICADE, and in General Corporate Management and Foreign Trade from Escuela de Organización Industrial (EOI) in Madrid.

He has been awarded honorary doctorate degrees by the Universities of Salamanca, Edinburgh, and Strathclyde (Glasgow). He has been on the faculty of Escuela Técnica Superior de Ingeniería (ICAI), and is currently a visiting professor at University of Strathclyde and chair of the Social Board of Universidad de Salamanca.

In 2014, he received the international Responsible Capitalism award in London given by First Magazine, the distinction recognises the business leaders who integrate sustainability and social responsibility throughout their corporate strategy.

He was also distinguished, for the eighth time, as the Best CEO for European electric companies by the Institutional Investor Research Group. In 2011 he was named Best CEO in the European utilities sector and among Spanish listed companies for investor relations, according to the Thomson Extel Survey, and has received the Best Investor Relations by a CEO Award from IR Magazine on three occasions (2003-2005), among other recognitions awarded based on opinion studies of securities market analysts and investment fund managers.

He speaks English, French, Italian, and Portuguese. He is married and has four children. He adheres above all to values like integrity, effort, and commitment. Conscious of the significant role played by companies in today’s world and of their capacity to contribute towards a more sustainable society, at Iberdrola he develops a business model based on ethics, transparency, innovation, and the integration of people and cultures, designed to create long-term value for the benefit of its shareholders and all of society.

**Noteworthy experience for the holding of his positions at Iberdrola:**

a) **Energy and industrial engineering industries**

He is chairman of the board of directors of Scottish Power Limited and of Iberdrola USA, Inc., the country subholding companies carrying out the duty of organisation and strategic coordination of the businesses of the Iberdrola Group in the United Kingdom and in the United States of America, respectively. He was also chairman of Iberdrola Renovables, S.A. until its merger with the Company in 2011.

In the industrial engineering sector, he has served as chief operating officer of Industria de Turbo Propulsores, S.A. (ITP), where he drove the design, manufacture, and maintenance of aeroplane engines and gas turbines and brought onto the payroll
employees and technicians left unemployed after the restructuring of the shipbuilding industry in the Estuary of Bilbao, and chairman of the Eurojet aerospace consortium, headquartered in Germany, for the development and manufacture of the Eurofighter engine.

He has also held various management positions at Sociedad Española del Acumulador Tudor, S.A. (now, Exide Group), engaged in the manufacture and sale of batteries, and has been a director of Page Ibérica, S.A., a company engaged in the research, design, and development of engineering projects.

b) Other industries

He has served as chairman of Iberdrola Inmobiliaria, S.A.U. and of Desafío Español 2007, S.A., both belonging to the Iberdrola Group. He has also been chief executive officer of Airtel Móvil, S.A. (now, Vodafone España, S.A.U.) where he contributed to the liberalisation of the telecommunications sector in Spain, and a member of the supervisory board of Nutreco Holding N.V., a listed company in The Netherlands, active in the food industry. He was also a founder and director of the Matarrromera group, dedicated to viticulture and the production of wine and oil.

Other information:

In addition to being a founder trustee of Fundación Iberdrola, he is a member of the boards of trustees of the following institutions: Fundación Princesa de Asturias, Fundación Cotec, Aspen Institute, Fundación Carolina, Real Instituto Elcano, Real Patronato Museo del Prado, and Fundación Universitaria Comillas-ICAI.

He chairs the electricity cluster of the World Economic Forum (Davos), is a member of the Steering Committee of the European Round Table of Industrialists, and is also a member of the Global Sustainable Electricity Partnership (sponsored by the United Nations) and of the G10, a group that brings together the main electric companies in Europe. He is also a member of GlobalScot, a worldwide network under the auspices of the Scottish government that brings together the businesspersons most fully committed to economic development in Scotland. In Spain, he is a member of Círculo de Empresarios Vascos, Círculo de Empresarios (Madrid), Círculo de Economía, Asociación para el Progreso de la Dirección (APD), and Consejo Empresarial para la Competitividad.

In addition to the recognitions mentioned above, in May 2014 he was distinguished with the award of Commander of the Most Excellent Order of the British Empire for his work to promote the British energy sector and trade relations and investment between the United Kingdom and Spain. He received the distinction of Lagun Onari (Friend of the Basques), bestowed by the Basque Government in 2011, and the Gold Medal from the Province of Salamanca in 2009, a year in which he was also named Consul of Bilbao by the Bilbao Chamber of Commerce and Industry.
2008 he received the Business Leader of the Year Award from the Spain-US Chamber of Commerce and the International Economy Prize from Fundación Cristóbal Gabarrón. In 2006 he was recognised as Best CEO of the Year, as part of the Platts Global Energy Awards.

Throughout his journey, he has always stood by his commitment to corporate governance and to the long-term sustainability of Iberdrola, which has been distinguished by the publication Ethical Boardroom in 2015 as the company with the best corporate governance practices among European utilities, and which was given the same recognition among Spanish companies in the 2014 presentation of the Corporate Governance Awards. Iberdrola has also been distinguished as one of the world’s most ethical companies by the Ethisphere Institute, and is the only electric company in Europe to have been selected for inclusion on the Dow Jones Sustainability Index (DJSI) over the last fifteen years.

4. **Rationale for the Proposal**

4.1. Evaluation by independent directors

The independent directors, under the chairmanship of the coordinating director, without the presence of the other directors, have unanimously expressed their favourable opinion on his re-election as executive director of the Company.

4.2. Report of independent expert

The conclusions of the report by PriceWaterhouseCoopers Asesores de Negocio, S.L., issued at the request of the Appointments and Remuneration Committee, are as follows:

(a) Good corporate governance practices recommend separating the duty of supervision from that of management. This avoids an “agency conflict”. The market might penalise the company if this conflict is not successfully resolved, based on the understanding that it endangers the creation of value for the shareholders.

(b) Multiple studies empirically demonstrate that there are various tools and factors affecting the actual existence of an agency conflict, and thus affecting the appropriate (or inappropriate) separation of duties.

On the one hand, they identify tools linked to the companies’ governance system, and on the other external factors that do not depend on the governance model (such as the profile of the shareholders or the competitive environment).

Each company should choose the model and the measures that best conform to their circumstances at any particular time, business model, and external factors.
(c) There is no empirical evidence that leads to a conclusion as to the best alternative to ensure the effective separation of the duties of supervision and management.

(d) Iberdrola has a decentralised governance model that separates the duty of management from that of supervision, and also has a governance system with an executive chairman that is counterbalanced, determined on the basis of a set of governance practices expressly designed to respond to the demands of widely-dispersed shareholders and a high level of foreign institutional investors.

The decentralisation of Iberdrola’s governance model requires a permanent and sophisticated supervision function. This function, attributed to a holding company, requires leadership that absolutely involves a high level of professional commitment, with a level of depth, presence and involvement in his work. Thus, whomever assumes such work musts be considered an “executive” of the Company.

(e) The practical application of Iberdrola’s governance model is proof of its validity, reflecting economic/financial performance that is better than its comparable companies, with this model historically being supported by the shareholders at the General Shareholders’ Meetings and by the capital markets.

4.3. Summary of the annual evaluations of the activities of the chairman of the Board of Directors since his last re-election

The performance of the chairman of Iberdrola’s Board of Directors has been assessed as outstanding in the annual evaluation directed by the coordinating director, which was advised by an independent external adviser.

In particular, the report of the coordinating director regarding the directors’ evaluation of the work of the chairman of Iberdrola’s Board of Directors during 2014 emphasised his leadership, his vision, and his dedication to the Company, also taking into account that he is managing well in the economic environment of the countries in which the Group does business, and that he has adopted the strategic measures most appropriate to the corporate interest at all times.

4.4. Report of the Appointments and Remuneration Committee

As provided by section 529 decies of the Companies Act, article 12.2 of the Regulations of the Board of Directors, and articles 3 f) and 5 e) of the Regulations of the Appointments and Remuneration Committee, the Appointments and Remuneration Committee must report to the Board of Directors on the proposed re-election of the directors and the chairman.

As regards the proposal regarding the re-election of Mr José Ignacio Sánchez Galán, the Appointments and Remuneration Committee has verified that he meets the
requirements of respectability, capability, expertise, competence, experience, qualifications, training, availability, and commitment to the duties of the position and that he is not affected, directly or indirectly, by any of the instances of incompatibility with or prohibition against holding such office or by having interests that conflict with or are contrary to the corporate interest as set forth in provisions of a general nature or in the Corporate Governance System.

In its report regarding the proposed re-election of Mr Sánchez Galán, the Appointments and Remuneration Committee emphasises his activities during the term now ending, the fit of his professional profile to the particular aspects of the business carried out by the Company, his knowledge of the industries in which it operates, and its international nature, appropriately combined with the abilities and competencies needed to lead the supervisory function that Iberdrola’s governance model assigns to the Board of Directors.

4.5. Proposal of the Board of Directors.

In view of the external and internal reports received, the Company’s Board of Directors has found in preparing the proposal for re-election of Mr José Ignacio Sánchez Galán as executive director that:

(a) The existence of an executive chairman is the alternative deemed most appropriate and effective to successfully carry out the businesses of the Company and its Group, given the special complexity thereof, in which in-depth engagement and dedication to high-level decision-making is a key factor, the demonstrated leadership ability of Mr José Ignacio Sánchez Galán, and the specificities of Iberdrola’s Corporate Governance System.

(b) The system of counterbalances set out in Iberdrola’s Corporate Governance System has functioned effectively: it has permitted the coexistence of strong leadership and the coordination of all the businesses of the Group, in all the territories in which it operates, with effective separation of the powers of management and supervision.

(c) The counterbalances have recently been strengthened at the initiative of the chairman of the Board of Directors himself with measures such as:

- Increased presence of independent directors within the Board of Directors (approximately 77% of the non-executive directors are independent); which is at the level of the most prominent international companies, and above all of its comparable European counterparts.

- A more diverse and balanced Board of Directors, with members of various nationalities and 36% of female directors, and in which almost all of the directors have experience on other boards and significant knowledge of
industry and the Group.

- Strengthening of the position of coordinating director, expanding the duties thereof beyond those required by law.

- Formalisation of a succession plan for the chairman in the General Corporate Governance Policy.

- Culmination of the process of corporate reorganisation of the Group and the resulting decentralisation of executive duties.

In this regard, last year the implementation of the group’s structure culminated with the creation of “Iberdrola España, S.A.” (Sociedad Unipersonal), the Spanish subholding company for the energy-related businesses.

Iberdrola is thus already a pure holding company to which is exclusively reserved the general duties of supervision and coordination of the businesses, which it exercises together with the country subholding companies, assigning the power of effective management to the business subholding companies. Both the country subholding companies and the business subholding companies have boards of directors with the presence of independent directors and their own management teams.

(d) At Iberdrola, the duty of supervision is not performed only by the Board of Directors and its committees, but rather the Company itself, based on the Group’s governance model, and together with the country subholding companies, continuously supervises the management of the businesses by the business subholding companies and by their management teams.

A fundamental part of the mission of the chairman of the Board of Directors is to lead this supervisory function, the intensity and level of sophistication of which require a level of commitment, depth, presence, and involvement that make it appropriate for the implementation thereof to be allocated to an executive director.

(e) The effectiveness of the model has been validated by the shareholders of the Company, who have approved the Board of Directors’ management by an immense majority at the latest General Shareholders’ Meetings, receiving only 0.11 % (2014), 0.09 % (2013), and 0.16 % (2012) of votes against, all within a context of extremely high participation (approximately 80 %), which is the result of an on-going policy to involve the shareholders in the corporate governance of the Company and its strategy of social responsibility, which is made explicit in the Shareholder Engagement Policy approved by the Board of Directors on the date this report is issued.
(f) The activities of the chairman of the Board of Directors has each year been assessed as outstanding, following a demanding process of evaluation pre-established in the Corporate Governance System, and which was supported by the collaboration of a prestigious independent external adviser. These evaluations have highlighted the good management performed within a difficult economic environment, which has translated into the good stock market performance of the Company’s shares.

(g) The conclusions above are supported by the Group’s financial indicators, which objectively prove the good performance of Iberdrola’s business model. Since his appointment, the chairman of the Board of Directors has increased the Company’s value by a multiple of 2.7, doubled profit per share, and grew EBITDA at an average rate of 8% annually, to cite only the most significant data. In all cases, these achievements are far above comparable companies, as described in the report prepared by PriceWaterhouseCoopers Asesores de Negocio, S.L.

(h) The financial success has been accompanied by the decisive wager on Iberdrola’s independence and the sustainable creation of long-term value, to the benefit of its shareholders and all of the stakeholders with which the Group relates in the various communities and territories in which it operates.

(i) Iberdrola has strengthened its position as a global leader in the application of the most advanced corporate governance practices, as shown by the Company’s Corporate Policies, which are constantly being updated and improved, and the across-the-board concept of corporate interest included in the most recent amendment of the Corporate Governance System, which will culminate with the potential approval of a new text of the By-Laws and a new Regulations for the General Shareholders’ Meeting at the next General Shareholders’ Meeting.

(j) From this viewpoint, the strategy led by the chairman of Iberdrola’s Board of Directors has not only been successful in business management, in terms of shareholder remuneration and sustainable growth, but has also been able to extend the success of its management model to all the other stakeholders.

(k) Iberdrola has become a leader in renewable energy and has positioned itself at the forefront of the fight against climate change, committing itself to biodiversity and the protection of the environment and promoting the refocusing of its innovative activities towards energy generation sources that are sustainable and not aggressive towards the environment, which allows for a reduction in emissions and the excellent management of strategic resources, like water.

(l) In the area of human resources, the chairman of the Board of Directors has achieved a good labour climate and has driven a human resources policy focused on promoting equal opportunity, regardless of gender and any other physical, social or cultural circumstance, establishing as a primary goal the health and
safety of the workers and all persons forming part of Iberdrola’s value chain, from suppliers to the end customer. He has promoted reconciliation and the maintenance of high-quality labour conditions, consistently placing the Company among the most valued companies to work out according to the main surveys and professional ratings in this area.

(m) He has created an ethical culture that is based on respect for human rights, by complying with legal provisions and adopting the strictest internationally recognised practices, promoting the approval of a Code of Ethics, establishing an autonomous and decentralised compliance structure capable of supervising the entire Group, and leading risk management systems that allow Iberdrola’s Board of Directors to determine the Group’s risk guidelines and supervise the application thereof.

(n) In the area of transparency, he has strongly driven the quality of public information, using international standards, with pioneering initiatives such as the publication of the Integrated Report, and strengthening the credibility of the information in all aspects by use of external verifications.

(a) Finally, under the chairmanship of Mr José Ignacio Sánchez Galán, a series of foundations and non-profit organisations linked to companies of the Group have been created in the principal territories in which it operates, and through which the Company’s social responsibility strategy is implemented and coordinated, strengthening the Group’s relationships with the communities in which it does business.

5. Membership on other Boards of Directors of Listed or Unlisted Companies

Mr José Ignacio Sánchez Galán is chairman of the board of directors of Scottish Power, Ltd. and of Iberdrola USA, Inc., the country subholding companies carrying out the duty of organisation and strategic coordination of the businesses of the Iberdrola Group in the United Kingdom and the United States of America, respectively.

6. Statement of Category of Director to Which He Belongs or Should Belong

Mr José Ignacio Sánchez Galán should be assigned to the category of executive director, as he holds the status of chief executive of the Company.

7. Shares of the Company and Derivative Financial Instruments whose Underlying Assets are Shares of the Company

Mr José Ignacio Sánchez Galán is the direct and indirect holder of 7,209,645
shares of the Company, is not a holder of derivative financial instruments of which the shares are underlying assets, and does not have any ties with holders of significant interests.

8. **Date of First and Subsequent Appointments as a Director of the Company.**

Mr José Ignacio Sánchez Galán was appointed as a director of the Company by its Board of Directors on 21 May 2001, and was re-elected to his position by the shareholders on 16 June 2001, 18 March 2005, and 26 March 2010.

9. **Proposed Resolution Submitted to the Shareholders at the General Shareholders’ Meeting**

The proposed resolution unanimously submitted to the shareholders for approval at the General Shareholders’ Meeting reads as follows:

“**H.- Re-election of Mr José Ignacio Sánchez Galán as director, with the status of executive director.**

To re-elect Mr José Ignacio Sánchez Galán as director, after a report from the Appointments and Remuneration Committee, for the by-law mandated four-year term, with the status of executive director.”

* * *

Bilbao, 17 February 2015