

**SPECIMEN ANNEX I
ANNUAL CORPORATE GOVERNANCE REPORT
OF LISTED COMPANIES**

Data identifying issuer

Ending date of reference financial year	31/12/2014
Tax Identification Code	A-48010615
Registered name	IBERDROLA, S.A.
Registered address	Plaza Euskadi número 5, Bilbao 48009 Bizkaia España

A. OWNERSHIP STRUCTURE

A.1. Complete the following table about the share capital of the company:

Date of last change	Share capital (€)	Number of shares	Number of voting rights
16/12/2014	4,791,362,250	6,388,483,000	6,388,483,000

State whether there are different classes of shares with different rights attaching thereto:

Yes No

Class	Number of shares	Nominal value per share	Number of voting rights per share	Different rights

A.2. Breakdown of direct and indirect holders of significant shareholdings in the company as of the end of the financial year, excluding directors:

Individual or company name of the shareholder	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Direct holder of the interest	Number of voting rights	
QATAR INVESTMENT AUTHORITY	-	QATAR HOLDING LUXEMBOURG II, S.À.R.L.	599,911,474	9.647
QATAR INVESTMENT AUTHORITY	-	DGIC LUXEMBOURG, S.À.R.L.	16,395,153	
ACTIVIDADES DE CONSTRUCCIÓN Y SERVICIOS, S.A.	-	NATIXIS, S.A.	164,352,702	3.965
ACTIVIDADES DE CONSTRUCCIÓN Y SERVICIOS, S.A.	-	FUNDING STATEMENT, S.A.	164,352,702	
ACTIVIDADES DE CONSTRUCCIÓN Y SERVICIOS, S.A.	-	STATEMENT STRUCTURE, S.A.	36,656,815	
KUTXABANK, S.A.	-	KARTERA 1, S.L.	230,034,187	3.601
BLACKROCK, INC.	-	BLACKROCK GROUP	193.123.841	3,023

State the most significant changes in the shareholding structure that have occurred during the financial year:

Individual or company name of the shareholder	Date of transaction	Description of transaction
ACTIVIDADES DE CONSTRUCCIÓN Y SERVICIOS, S.A.	18-12-2014	EQUITY INTEREST DECREASED BELOW 5%
BANCO FINANCIERO Y DE AHORROS, S.A.	03-02-2014	EQUITY INTEREST DECREASED BELOW 5%
BANCO FINANCIERO Y DE AHORROS, S.A.	10-04-2014	SOLD 100% OF ITS EQUITY INTEREST
SOCIÉTÉ GÉNÉRALE, S.A.	02-01-2014	EQUITY INTEREST INCREASED ABOVE 5%
SOCIÉTÉ GÉNÉRALE, S.A.	03-01-2014	EQUITY INTEREST DECREASED BELOW 5%
SOCIÉTÉ GÉNÉRALE, S.A.	29-01-2014	EQUITY INTEREST DECREASED BELOW 3%
SOCIÉTÉ GÉNÉRALE, S.A.	03-02-2014	EQUITY INTEREST INCREASED ABOVE 3%
SOCIÉTÉ GÉNÉRALE, S.A.	06-02-2014	EQUITY INTEREST DECREASED BELOW 3%
SOCIÉTÉ GÉNÉRALE, S.A.	07-02-2014	EQUITY INTEREST INCREASED ABOVE 3%
SOCIÉTÉ GÉNÉRALE, S.A.	25-03-2014	EQUITY INTEREST INCREASED ABOVE 5%
SOCIÉTÉ GÉNÉRALE, S.A.	26-03-2014	EQUITY INTEREST DECREASED BELOW 5%
SOCIÉTÉ GÉNÉRALE, S.A.	08-04-2014	EQUITY INTEREST DECREASED BELOW 3%
SOCIÉTÉ GÉNÉRALE, S.A.	11-04-2014	EQUITY INTEREST INCREASED ABOVE 3%
SOCIÉTÉ GÉNÉRALE, S.A.	16-04-2014	EQUITY INTEREST DECREASED BELOW 3%
SOCIÉTÉ GÉNÉRALE, S.A.	23-06-2014	EQUITY INTEREST INCREASED ABOVE 3%
SOCIÉTÉ GÉNÉRALE, S.A.	24-06-2014	EQUITY INTEREST DECREASED BELOW 3%
COMMERZBANK, AG.	21-03-2014	EQUITY INTEREST INCREASED ABOVE 3%
COMMERZBANK, AG.	24-03-2014	EQUITY INTEREST DECREASED BELOW 3%

A.3. Complete the following tables about members of the board of directors of the company who have voting rights attaching to shares of the company:

Individual or company name of the director	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Direct holder of the interest	Number of voting rights	
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	6,950,772	-	258,873	0.11
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	-	MS ISABEL GARCÍA-TABERNERO RAMOS	235,238	
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	-	MR PABLO IGNACIO SÁNCHEZ-GALÁN GARCÍA-TABERNERO	23,635	
MR JULIO DE MIGUEL AYNAT	230,775	-	-	0.00
MR SEBASTIÁN BATTANER ARIAS	180,000	-	-	0.00
MR XABIER DE IRALA ESTÉVEZ	232,314	-	-	0.00
MR IÑIGO VÍCTOR DE ORIOL IBARRA	1,222,863	-	-	0.02
MS INÉS MACHO STADLER	56,934	-	-	0.00
MR BRAULIO MEDEL CÁMARA	26,111	-	-	0.00
MS SAMANTHA BARBER	1,634	-	-	0.00
MS MARÍA HELENA ANTOLÍN RAYBAUD	2,868	-	-	0.00
MR SANTIAGO MARTÍNEZ LAGE	14,984	-	-	0.00
MR JOSÉ LUIS SAN PEDRO GUERENABARRENA	633,510	-	-	0,01
MR ÁNGEL JESÚS ACEBES PANIAGUA	5,632	-	-	0.00
MS GEORGINA KESSEL MARTÍNEZ	10	-	-	0.00
MS DENISE MARY HOLT	204	-	-	0.00

Total percentage of voting rights held by the board of directors	0.13
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Complete the following tables about members of the company's board of directors who hold rights to shares of the company:

Individual or company name of the director	Number of direct rights	Indirect rights		Number of equivalent shares	% of total voting rights
		Direct holder	Number of voting rights		

A.4. State, if applicable, the family, commercial, contractual, or corporate relationships between significant shareholders, to the extent known to the company, unless they are immaterial or result from the ordinary course of business:

Related individual or company name	Type of relationship	Brief description
ACTIVIDADES DE CONSTRUCCIÓN Y SERVICIOS, S.A. NATIXIS, S.A.	Corporate	There is an equity swap contractual relationship, providing for the assignment of voting rights, between Natixis, S.A. (" Natixis ") and Actividades de Construcción y Servicios, S.A. (" ACS "), because, although ACS includes it as an indirect holder in its statement of significant interest, Natixis (which does not belong to the ACS Group) is required to issue (unlike the subsidiaries of ACS, Statement Structure, and Funding Statement), and does issue, its own statement of significant interest. It should be noted that this situation already existed in 2010, 2011, 2012, and 2013. Such equity swap contract, expiring on 30 March 2018, was amended by both parties in December 2012 such that it may only be paid in shares or cash at the option of ACS.

A.5. State, if applicable, the commercial, contractual, or corporate relationships between significant shareholders and the company and/or its group, unless they are immaterial or result from the ordinary course of business:

Related individual or company name	Type of relationship	Brief description
ACTIVIDADES DE CONSTRUCCIÓN Y SERVICIOS, S.A.	Corporate	1) Iberdrola, S.A. ("Iberdrola" or the "Company") and ACS both hold indirect interests in Electra de Montánchez, S.A, each with a stake of 40%.

		<p>2) Iberdrola and ACS both hold indirect interests in Sistema Eléctrica de Conexión Huéneja, S.L. with stakes of 47.37% and 5.34%, respectively.</p> <p>3) Iberdrola and ACS both hold indirect interests in Tirme, S.A., each with a stake of 20%.</p> <p>4) Iberdrola and ACS both hold indirect interests in Neotec Capital Riesgo Sociedad de Fondos, S.A., S.C.R. de régimen simplificado, with stakes of 7.92% and 1.58%, respectively.</p>
KUTXABANK, S.A.	Corporate	<p>1) Iberdrola and Kutxabank, S.A. both hold interests in Euskaltel, S.A., (2% and 42.83%, respectively).</p> <p>2) Iberdrola and Kutxabank, S.A. both hold interests in Fiuna, S.A. (70% and 30%, respectively).</p> <p>3) Iberdrola and Kutxabank, S.A. both hold interests in Operador del Mercado Ibérico de Energía-Polo Español, S.A. (5.5% and 0.76%, respectively).</p> <p>4) Iberdrola and Kutxabank, S.A. both hold interests in Seed Capital de Bizkaia, SGECR, S.A. (5% and 10%, respectively).</p> <p>5) Iberdrola and Kutxabank, S.A. both hold interests in Torre Iberdrola, A.I.E. (68.1% and 31.9%, respectively).</p> <p>6) Iberdrola and Kutxabank, S.A. both hold interests in Norapex, S.A. (each with a stake of 50%).</p> <p>7) Iberdrola and Kutxabank, S.A. both hold indirect interests in Sociedad Promotora Bilbao Gas Hub, S.A. (5.71% and 21.71%, respectively).</p>
BLACKROCK, INC.	Corporate	<p>1) Iberdrola and BlackRock, Inc. both hold interests in Gamesa Corporación Tecnológica, S.A., with stakes of 19.69% and 3.21%, respectively.</p>

A.6. State whether any private (paracorporate) shareholders' agreements affecting the company pursuant to the provisions of sections 530 and 531 of the Companies Act (*Ley de Sociedades de Capital*) have been reported to the company. If so, briefly describe them and list the shareholders bound by the agreement:

Yes No

Participants in the private shareholders' agreement	% of share capital affected	Brief description of the agreement

State whether the company is aware of the existence of concerted actions among its shareholders. If so, briefly describe them:

Yes No

Participants in concerted action	% of share capital affected	Brief description of the concerted action

Expressly state whether any of such agreements, arrangements, or concerted actions have been modified or terminated during the financial year:

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A.7. State whether there is any individual or legal entity that exercises or may exercise control over the company pursuant to section 4 of the Securities Market Act (*Ley del Mercado de Valores*). If so, identify it:

Yes No

Individual or company name

Comments

A.8. Complete the following tables about the company's treasury shares:

As of year-end:

Number of direct shares	Number of indirect shares (*)	Total % of share capital
60,985,277	-	0.955

(*) Through:

Individual or company name of direct holder of the interest	Number of direct shares
Total:	

Describe any significant changes, pursuant to the provisions of Royal Decree 1362/2007, which have occurred during the financial year:

Date of notice	Total direct shares acquired	Total indirect shares acquired	Total % of share capital
04/02/2014	57,665,581	-	0.905
24/04/2014	64,802,456	-	1.017

09/05/2014	5,080,526	-	0.081
25/07/2014	26,377,350	-	0.418
30/12/2014	32,848,911	-	0.514

A.9. Describe the terms and conditions and the duration of the powers currently in force given by the shareholders to the board of directors in order to issue, repurchase, or transfer the shares of the company:

The shareholders acting at the General Shareholders' Meeting held on 28 March 2014 resolved to expressly authorise the Board of Directors, with the power of substitution, pursuant to the *Companies Act (Ley de Sociedades de Capital)*, to carry out the derivative acquisition of the shares of Iberdrola, S.A. on the following terms:

- a) Purchases may be made by Iberdrola directly, or indirectly through its subsidiaries. Subsidiaries carrying out regulated activities are excluded pursuant to the provisions of the *Electricity Industry Act (Ley del Sector Eléctrico)* and the *Hydrocarbons Act (Ley de Hidrocarburos)*.
- b) Purchases shall be made by means of a purchase and sale agreement, a swap arrangement, or any other transaction permitted by law.
- c) Purchases may be made up to the maximum sum permitted by law (i.e. 10% of the share capital).
- d) Purchases may not be made at a higher price than that quoted on the Stock Exchange or at a price lower than the share's nominal value.
- e) The authorisation was granted for a period not to exceed five years as from the approval of the resolution.
- f) In the net worth of the acquiring company there shall be established a restricted reserve equal to the amount of the shares of the controlling company recorded under assets. Such reserve shall be maintained for so long as the shares are not transferred or redeemed, in compliance with the provisions of the Companies Act.

The shares, if any, purchased as a result of the aforementioned authorisation could be used both for transfer or redemption or could be applied to the remuneration systems provided for in the Companies Act; added to the foregoing alternatives was the possible development of programmes fostering the acquisition of interests in the Company such as, for example, dividend reinvestment plans, loyalty bonds, or similar instruments.

A.10. State whether there are any restrictions on the transfer of securities and/or any restriction on voting rights. In particular, disclose the existence of any restrictions that might hinder a takeover of the company through the acquisition of its shares in the market.

Yes No

Description of restrictions
<p>Those having an interest equal to or greater than 3% of the capital or voting rights of two or more companies that have the status of Principal Operator in certain markets or sectors (including the generation and supply of electricity) may not exercise rights in excess of such percentage in more than one entity.</p> <p>Article 29.2 of the <i>By-Laws</i> provides that no shareholder may cast a number of votes greater than those corresponding to shares representing 10%. According to article 30.1, shareholders affected by a conflict of interest may not exercise their voting rights at the General Shareholders' Meeting with respect to the matters or proposed resolutions with respect to which the conflict refers.</p> <p>Section 527 of the restated text of the Companies Act provides that at listed companies (<i>sociedades anónimas cotizadas</i>), the by-law provisions that directly or indirectly set, as a general rule, the maximum</p>

number of votes that may be cast by the same shareholder, by the companies belonging to the same group, or by those acting in concert with the foregoing shall be of no effect when, following a takeover bid, the bidder has reached a percentage that is equal to or greater than 70% of the voting share capital, unless such bidder is not subject to equivalent breakthrough measures or has not adopted them.

Article 56 of the *By-Laws* provides that the restrictions described above shall have no effect upon the occurrence of certain circumstances.

As a consequence of the merger of Energy East Corporation (now Iberdrola USA, Inc.), the acquisition of an interest that may give rise to the holding of a percentage equal to or greater than 10% of the share capital of Iberdrola shall be subject to the prior approval of the regulatory authorities of the states in which Iberdrola USA, Inc. carries out its activities.

A.11. State whether the shareholders acting at a general shareholders' meeting have approved the adoption of breakthrough measures in the event of a takeover bid pursuant to the provisions of Law 6/2007:

Yes No

If applicable, describe the approved measures and the terms on which the restrictions will become ineffective.

A.12. State whether the company has issued securities that are not traded on a regulated market within the European Community.

Yes No

If applicable, specify the different classes of shares, if any, and the rights and obligations attaching to each class of shares.

B. GENERAL SHAREHOLDERS' MEETING

B.1. State and, if applicable, explain whether there are differences with the minimum requirements set out in the Companies Act in connection with the quorum needed to hold a valid general shareholders' meeting.

Yes No

	Quorum % different from that established as a general rule in section 193 of the Companies Act	Quorum % different from that established in section 194 of the Companies Act for the special circumstances described in section 194
Required quorum upon 1st call	-	66.67
Required quorum upon 2nd call	-	60.00

Description of differences
As the only exception to the rules provided for in the Companies Act (<i>Ley de Sociedades de Capital</i>), article 21.2 of the <i>By-Laws</i> increases the quorum required to hold a valid meeting "in order to adopt resolutions regarding a change in the object of the Company, transformation, total split-off, dissolution of the Company, and the amendment of this section 2", in which case "shareholders representing two-thirds (2/3) of subscribed share capital with voting rights must be in attendance at the first call to the General Shareholders' Meeting, and shareholders representing sixty (60%) per cent of such share capital must be in attendance at the second call".

B.2. State and, if applicable, explain any differences from the rules set out in the Companies Act for the adoption of corporate resolutions:

Yes No

Describe how they differ from the rules provided by the Companies Act.

	Qualified majority other than that established in section 201.2 of the Companies Act for the cases set forth in section 194.1 of the Companies Act	Other instances in which a qualified majority is required
% established by the entity for the adoption of resolutions	75.00%	75.00%

Description of differences
Article 58 of the <i>By-Laws</i> provides that all resolutions intended to eliminate or amend the provisions contained in title III (neutralisation of limitations in the event of takeover bids), in sections 3 to 5 of article 29 (limitation upon the maximum number of votes that a shareholder may cast), and in article 30 (conflicts of interest) shall require the affirmative vote of three-fourths (3/4) of the share capital present in person or by proxy at a General Shareholders' Meeting.

B.3. State the rules applicable to the amendment of the by-laws of the company. In particular, disclose the majorities provided for amending the by-laws, and any

rules provided for the protection of the rights of the shareholders in the amendment of the by-laws.

In addition to the provisions of section 285 *et seq.* of the Companies Act, the *By-Laws* of Iberdrola contain articles 21.2 (qualified quorum) and 58 (qualified majority) mentioned in sections B.1 and B.2 above.

B.4. State the data on attendance at the general shareholders' meetings held during the financial year referred to in this report and those of the prior financial year:

Date of General Shareholders' Meeting	Attendance data				
	% of shareholders present in person	% of shareholders represented by proxy	% absentee voting		Total
			Electronic voting	Others	
28/03/2014	5.99	76.13	0.06	0.05	82.24
22/03/2013	15.73	65.24	0.04	0.08	81.09

B.5. State whether there are any by-law restrictions requiring a minimum number of shares to attend the general shareholders' meeting.

Yes No

Number of shares required to attend the general shareholders' meeting	1
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B.6. State whether it has been resolved that certain decisions involving a structural modification of the company ("subsidiarisation", purchase/sale of core operating assets, transactions equivalent to the liquidation of the company, etc.) must be submitted to the shareholders for approval at a general shareholders' meeting, even if not expressly required by commercial law.

Yes No

B.7. State the address and method for accessing the company's website to access information regarding corporate governance and other information regarding general shareholders' meetings that must be made available to the shareholders through the company's website.

www.iberdrola.com > Information for Shareholders and Investors > Corporate Governance.

On this website, one can also access information regarding past general shareholders' meetings of the Company: www.iberdrola.com > Information for Shareholders and Investors > Corporate Governance > General Shareholders' Meeting.

C. STRUCTURE OF THE COMPANY'S MANAGEMENT

C.1 Board of directors

C.1.1. Maximum and minimum number of directors set forth in the by-laws:

Maximum number of directors	14
Minimum number of directors	9

C.1.2. Complete the following table identifying the members of the board:

Individual or company name of the director	Representative	Position on Board	Date of first appointment	Date of last appointment	Election procedure
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	-	CHAIRMAN/CEO	21/05/2001	26/03/2010	GENERAL SHAREHOLDERS' MEETING
MR JULIO DE MIGUEL AYNAT	-	DIRECTOR	29/10/2003	26/03/2010	GENERAL SHAREHOLDERS' MEETING
MR SEBASTIÁN BATTANER ARIAS	-	DIRECTOR	26/05/2004	26/03/2010	GENERAL SHAREHOLDERS' MEETING
MR XABIER DE IRALA ESTÉVEZ	-	DIRECTOR	20/04/2005	22/06/2012	GENERAL SHAREHOLDERS' MEETING
MR IÑIGO VÍCTOR DE ORIOL IBARRA	-	DIRECTOR	26/04/2006	22/06/2012	GENERAL SHAREHOLDERS' MEETING
MS INÉS MACHO STADLER	-	DIRECTOR	07/06/2006	22/06/2012	GENERAL SHAREHOLDERS' MEETING
MR BRAULIO MEDEL CÁMARA	-	DIRECTOR	07/06/2006	22/06/2012	GENERAL SHAREHOLDERS' MEETING
MS SAMANTHA BARBER	-	DIRECTOR	31/07/2008	22/06/2012	GENERAL SHAREHOLDERS' MEETING
MS MARÍA HELENA ANTOLÍN RAYBAUD	-	DIRECTOR	26/03/2010	26/03/2010	GENERAL SHAREHOLDERS' MEETING
MR SANTIAGO MARTÍNEZ LAGE	-	DIRECTOR	26/03/2010	26/03/2010	GENERAL SHAREHOLDERS' MEETING
MR JOSÉ LUIS SAN PEDRO GUERENABARRENA	-	DIRECTOR	24/04/2012	22/06/2012	GENERAL SHAREHOLDERS' MEETING
MR ÁNGEL JESÚS ACEBES PANIAGUA	-	DIRECTOR	24/04/2012	22/06/2012	GENERAL SHAREHOLDERS' MEETING
MS GEORGINA KESSEL MARTÍNEZ	-	DIRECTOR	23/04/2013	28/03/2014	GENERAL SHAREHOLDERS' MEETING
MS DENISE MARY HOLT	-	DIRECTOR	24/06/2014	24/06/2014	INTERIM APPOINTMENT

Total number of directors	14
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State the vacancies on the board of directors during the reporting period:

Individual or company name of the director	Status of the director at time of vacancy	Date of vacancy
MR MANUEL LAGARES GÓMEZ-ABASCAL	Proprietary director	10/04/2014

C.1.3. Complete the following table about the members of the board and each member's status:

EXECUTIVE DIRECTORS

Individual or company name of director	Committee that has reported on the director's appointment	Position within the company's structure
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	APPOINTMENTS AND REMUNERATION COMMITTEE	Chairman & CEO

Total number of executive directors	1
Total % of the board	7.14

EXTERNAL PROPRIETARY DIRECTORS

Individual or company name of director	Committee that has reported on the director's appointment	Individual or company name of the significant shareholder represented by the director or that has proposed the director's appointment
MR XABIER DE IRALA ESTÉVEZ	APPOINTMENTS AND REMUNERATION COMMITTEE	Kutxabank, S.A.

Total number of proprietary directors	1
Total % of the board	7.14

EXTERNAL INDEPENDENT DIRECTORS

Individual or company name of director	Profile
MR JULIO DE MIGUEL AYNAT	<p>Degree in Law from Universidad de Valencia.</p> <p>Throughout his career he has been a member of numerous boards of directors at companies in the infrastructure Abertis Infraestructuras S.A. y Autopistas del Mare Nostrum, S.A.), energy (Enagás, S.A.) and finance (Caja de Ahorros de Valencia, Castellón y Alicante, Bancaja, y Banco de Valencia, S.A.) sectors.</p> <p>NOTEWORTHY EXPERIENCE FOR THE HOLDING OF HIS POSITIONS AT IBERDROLA:</p> <p>Energy and industrial engineering industries</p> <p>He has been a member of the the boards of directors of Abertis Infraestructuras, S.A., of Autopistas del Mare Nostrum, S.A. (AUMAR), of Enagás S.A. (2002-2004), and of Áurea Concesiones de Infraestructuras, S.A.</p> <p>Other industries</p> <p>In the financial industry, he was chair of Caja de Ahorros de Valencia, Castellón y Alicante, Bancaja, Banco de Valencia, S.A., and Banco de Murcia, S.A. He was vice-chair of Federación Valenciana de Cajas de Ahorros, as well as a member of the Board of Directors of Confederación Española de Cajas de Ahorros (CECA) and of the Instituto Valenciano de Investigaciones Económicas (IVIE) (1998-2003).</p> <p>He has also been a member of the Board of Directors of Metrovacesa, S.A. (a listed company in the real estate industry) (2003-2007).</p> <p>He is currently a member of the Advisory Board of the Confederation of Business Organisations of the Valencian Community (<i>Confederación de Organizaciones Empresariales de la Comunidad Valenciana</i>) (CIERVAL).</p> <p>PREVIOUS EXPERIENCE IN CONNECTION WITH THE COMMITTEE OF WHICH HE IS A MEMBER:</p> <p>He has experience in areas connected to his position as a member of the Audit and Risk Supervision Committee, having been a member of the Audit and Compliance Committee of the Board of Directors of Enagás, S.A. He is currently a member of the Instituto Español de Analistas Financieros.</p> <p>OTHER INFORMATION:</p> <p>He has also been the chair of Fundación Bancaja, and a trustee of Fundación Premios Rey Jaime I, of Fundación de Estudios Financieros, and of Fundación Universidad-Empresa de la Universidad de Valencia (ADEIT).</p> <p>He is currently a member of the Board of Trustees of the Feria Muestrario Internacional de Valencia and vice-chair of Fundación Cañada Blanch.</p>
MR SEBASTIÁN BATTANER ARIAS	<p>Degree in Economics from the School of Economics and Business Administration (La Comercial) of Universidad de Deusto (Bilbao) and Degree in Law from Universidad de Valladolid.</p> <p>He has spent a large part of his professional career at companies within the industrial and financial sectors. In this regard, he has served as a director at Uralita, S.A. and has held management positions at financial institutions like Banco Atlántico, S.A. and Unicaja.</p> <p>He actively practices as an economist and a lawyer</p> <p>NOTEWORTHY EXPERIENCE FOR THE HOLDING OF HIS POSITIONS AT IBERDROLA:</p> <p>Energy and industrial engineering industries</p> <p>He was the founder and executive chair of Grupo de Negocios Duero, S.A.U.</p>

	<p>(2007-2011), a company with interests in the Spanish energy industry.</p> <p>In the industrial sector, he served as a member of the Board of Directors of Uralita, S.A. (2000-2002) and he began his professional career at Aceros de Llodio, S.A. and Tubos Especiales Olarra, S.A.</p> <p>Other industries</p> <p>In the financial industry, he was executive chair of Caja de Ahorros de Salamanca y Soria (Caja Duero) (2007-2011), and founder and executive chair of companies controlled by Caja Duero, such as Leasing del Duero, S.A., Unión del Duero de Seguros Generales, S.A., and Unión del Duero de Seguros de Vida, S.A. He also founded Gesduero, S.A., a financial risk analysis company, and was the co-founder of the European Group of Financial Institutions (EGFI) (leading European economic interest grouping) and of the Asociación Española de Banca de Negocios, and a member of the Board of Confederación Española de Cajas de Ahorro (CECA). He has also held management positions at other financial institutions such as Banco Atlántico, S.A., Unicaja, and Banco Europeo de Finanzas, of which he was chair.</p> <p>PREVIOUS EXPERIENCE IN CONNECTION WITH THE COMMITTEE OF WHICH HE IS A MEMBER:</p> <p>His professional experience in the management of financial and insurance entities puts him in an ideal position to discharge his duties at the helm of the Audit and Risk Supervision Committee</p> <p>OTHER INFORMATION:</p> <p>In addition to his extensive experience in the financial and insurance industries, he has taught at Universidad de Deusto and at the Instituto Internacional de Dirección de Empresas (INSIDE).</p> <p>He belongs to the board of trustees of various foundations, such as Fundación Duques de Soria and Fundación Santa María la Real de Aguilar de Campoo.</p> <p>He was a member of the board of trustees of other foundations and institutions, including Edades del Hombre, Museo de Madera Policromada de Valladolid, Archivo de la Guerra Civil, and Universidad Pontificia de Salamanca.</p>
<p>MR ÍÑIGO VÍCTOR DE ORIOL IBARRA</p>	<p>Bachelor of Arts in International Business, he has a graduate degree in the Executive Corporate Management Programme of the Management School of Instituto de Estudios Superiores de la Empresa de la Universidad de Navarra (IESE Business School), and holds the title of certified European financial analyst (CEFA) from the Instituto Español de Analistas Financieros.</p> <p>His professional career has been closely linked to the energy industry, in which he has been at the helm of the board of directors of companies in various countries, gaining extensive experience in Latin America. He boasts a long professional career at the Iberdrola group, which gives him broad and thorough knowledge of the Company.</p> <p>NOTEWORTHY EXPERIENCE FOR THE HOLDING OF HIS POSITIONS AT IBERDROLA:</p> <p>Energy and industrial engineering industries</p> <p>During his career as a senior officer at Iberdrola, he has chaired the board of directors of electric companies in which the Group has an interest in various countries (2001-2006). He has been chair of Electricidad de La Paz (Bolivia), of Empresa de Luz y Fuerza Eléctrica de Oruro (Bolivia), and of Iberoamericana de Energía Ibener (Chile), as well as a director of Neoenergía (Brazil) and of Empresa Eléctrica de Guatemala, S.A.</p> <p>He is also a member of the board of Empresa de Alumbrado Eléctrico de Ceuta, S.A.</p> <p>Other industries</p> <p>Between 2001 and 2006, he was chair of the board of Empresa de Servicios</p>

	<p>Sanitarios de Los Lagos (ESSAL) in Chile.</p> <p>Since 2013, he has been a member of the board of Soil Recovery, S.L., a company specialised in water and waste treatment and environmental consulting and engineering services.</p> <p>PREVIOUS EXPERIENCE IN CONNECTION WITH THE COMMITTEE OF WHICH HE IS A MEMBER:</p> <p>As regards his position on the Appointments and Remuneration Committee, he has the experience of holding the position of Director of Corporate Governance for the Americas (2001-2006), promoting the incorporation of the principles and values provided for in Iberdrola's Corporate Governance System within the subsidiaries and investee companies in this region..</p> <p>In addition, he boasts a long professional career with the Iberdrola Group, which gives him broad and thorough knowledge of the Company. Among other positions, he has served as director of management control at Amara, S.A. (1989-1992) and as financial analyst at the Financial Division (1992-1997) and the International Division (1997-2001) of Iberdrola, S.A.</p>
<p>MS INÉS MACHO STADLER</p>	<p>Degree in Economics from Universidad del País Vasco, Masters in Economy from l'École des Hautes Études en Sciences Sociales (Paris), and Doctorate in Economics (Ph.D.) from the same academic institution and from l'École Nationale de la Statistique et de l'Administration Économique (ENSAE) (Paris, France).</p> <p>Throughout her academic career, she has taught at universities in Germany, Belgium, Brazil, Denmark, France, and Portugal, in addition to Spain, and has been elected as a member of noted associations in the academic, economic, and business environment, like the European Economic Association.</p> <p>NOTEWORTHY EXPERIENCE FOR THE HOLDING OF HER POSITIONS AT IBERDROLA:</p> <p>Energy and industrial engineering industries</p> <p>She is a member of the International Scientific Advisory Committee of the Basque Centre for Climate Change (bc3) (climate change research centre linked to Ikerbasque) and has served as chair of the Scientific Committee of the 2011 Conference of the Asociación Española para la Economía Energética (the Spanish affiliate of the International Association for Energy Economics – IAEE).</p> <p>Other industries</p> <p>She is currently a Professor of Economics in the Economics and Economic History Department of Universidad Autónoma de Barcelona, as well as Professor of the Barcelona Graduate School of Economics, where she has taught post-graduate studies within the "Competition and Market Regulation Programme". She has been a visiting professor at universities in America, Europe, and Asia.</p> <p>She is currently a member of the Executive Committee of the European Association for Research in Industrial Economics, as well as of the Board of the French Economic Observatory (OFCE) since 2013. In addition, she is an honorary member of the European Economic Association and of the Asociación Española de Economía, has been an elected member of the Board of the European Economic Association (2006-2010), and has formed part of the Advisory Board of the Research Service of Caja de Ahorros y Pensiones de Barcelona, "la Caixa" (2008-2011).</p> <p>She has been president of Asociación Española de Economía, as well as coordinator of Agencia Nacional de Evaluación y Prospectiva and representative at the European Science Foundation.</p> <p>PREVIOUS EXPERIENCE IN CONNECTION WITH THE COMMITTEE OF WHICH SHE IS A MEMBER:</p> <p>She is an expert in scientific research on incentives and contracts, business strategy, and industrial organisation, matters of specific interest for the positions she holds on the Executive and Appointments and Remuneration Committees, to which she has dedicated various publications (including</p>

	<p>“Competition for Managers and Market Efficiency” and “Mergers, Investment Decisions and Internal Organization”).</p>
<p>MR BRAULIO MEDEL CÁMARA</p>	<p>Degree in Economics and Business Administration from Universidad Complutense de Madrid and Doctorate in Economics and Corporate Sciences from Universidad de Málaga.</p> <p>He has pursued a career primarily in the financial sector and in the academic world as a professor of Public Finance. He is chair of Fundación Bancaria Unicaja, executive chair of Unicaja Banco, S.A. and vice-chair of Confederación Española de Cajas de Ahorros (CECA), of which he was CEO. He has also served as Deputy Minister for Economy and Finance of the Autonomous Government of Andalusia and as chair of Consejo Andaluz de Colegios de Economistas</p> <p>NOTEWORTHY EXPERIENCE FOR THE HOLDING OF HIS POSITIONS AT IBERDROLA:</p> <p>Energy and industrial engineering industries</p> <p>He has been a member of the Board of Directors of the listed company Acerinox, S.A. since 2008 and was a member of the Board of Directors of Abertis Infraestructuras, S.A. from 2005 through 2010.</p> <p>Other industries</p> <p>He has been executive chair of Monte de Piedad y Caja de Ahorros de Ronda, Cádiz, Almería, Málaga, Antequera y Jaén (Unicaja) since 1991, and has led the process of transformation of the Caja and its adjustment to the new regulatory framework through its transformation into Fundación Bancaria Unicaja, of which he is chair. He is also currently the executive chair of Unicaja Banco, S.A. In addition, he is chair of Hidralia, S.A., of Alteria Corporación Unicaja and of Federación de Cajas de Ahorros de Andalucía. Furthermore, he is vice chair of Confederación Española de Cajas de Ahorros (CECA), of which he was CEO until 1998, and a member of the board of Caja de Seguros Reunidos, Compañía de Seguros y Reaseguros, S.A. He has been chair of Ahorro Corporación, S.A. and a member of the governance bodies of Agrupación Europea de Cajas de Ahorros, of which he was vice-chair between 1992 and 1998.</p> <p>PREVIOUS EXPERIENCE IN CONNECTION WITH THE COMMITTEE OF WHICH HE IS A MEMBER:</p> <p>He also has experience in areas connected to his position as a member of the Corporate Social Responsibility Committee. He is an active member of various boards of trustees and foundations for social and cultural purposes, like Fundación CIEDES (Centro de Investigaciones Estratégicas y Desarrollo Económico y Social), and has been a member of Fundación Tres Culturas del Mediterráneo, of Fundación El Legado Andalusi, and of Fundación Doñana 21.</p> <p>OTHER INFORMATION:</p> <p>He was Deputy Minister for Economy and Finance of the Autonomous Government of Andalucía (1984-1987) and chair of Consejo Andaluz de Colegios de Economistas (2003-2009).</p> <p>He is a Professor of Public Finance at Universidad de Málaga and has published over a hundred scientific works, including many books and articles in specialised publications.</p>
<p>MS SAMANTHA BARBER</p>	<p>Bachelor of Arts in Applied Foreign Languages and European Politics from the University of Northumbria, Newcastle (England, United Kingdom). She has also studied for three years at various French universities, obtaining degrees that include a Post-Graduate Degree Course in European Union Law from the University of Nancy.</p> <p>She has spent her professional career in the fields of corporate business and corporate social responsibility. She has been a consultant within the European Parliament, a board member of Business for Scotland, and the chief executive of Scottish Business in the Community.</p>

	<p>In 2014 and 2013, she was selected as one of the “Top 100 Women to Watch” according to the FTSE list and Cranfield University and is a member of the prestigious Global Scot Network. In addition, she was a finalist and earned second place in the annual Director of the Year Awards 2012 of IoD Scotland NED.</p> <p>PREVIOUS EXPERIENCE IN CONNECTION WITH THE COMMITTEE OF WHICH SHE IS A MEMBER:</p> <p>She possesses management experience at business organisations that promote corporate social responsibility. She began her professional career as a consultant within the European Parliament providing support to the Economic and Monetary Affairs Committee, a position she held for four years. Prior to that she was appointed as a board member of Business for Scotland (1998-2000, and was also the chief executive of Scottish Business in the Community (2000-2009), an organisation chaired by HRH The Prince of Wales.</p> <p>Between 2007 and 2008 she was a member of the Advisory Council of Scottish Power following the integration of the Scottish company into the Iberdrola Group.</p> <p>During nine years, she was a member of the Board of Directors of Right Track Scotland, an organisation dedicated to advancing educational, training, and employment opportunities for youths at risk of social exclusion, which has afforded her wide experience in corporate social responsibility matters.</p> <p>OTHER INFORMATION:</p> <p>She is chair of Scottish Ensemble, vice-chair of Scotland's 2020 Climate Group, a member of the Advisory Board for Breakthrough Breast Cancer, and undertakes consultancy and business coaching.</p>
<p>MS MARÍA HELENA ANTOLÍN RAYBAUD</p>	<p>Degree in International Business & Business Administration from Eckerd College, St. Petersburg, Florida (United States of America) and Master's in Business Administration from Anglia University, Cambridge (United Kingdom) and from Escuela Politécnica de Valencia (Spain).</p> <p>She has spent her career in the industrial sector and is currently a director, a member of the Managing Board, and corporate director of Marketing, Communication, and Institutional Relations of Grupo Antolin.</p> <p>NOTEWORTHY EXPERIENCE FOR THE HOLDING OF HER POSITIONS AT IBERDROLA:</p> <p>Energy and industrial engineering industries</p> <p>She has experience as a member of the board of energy and industrial companies as an external independent director of Iberdrola Renovables, S.A. and a member of its Related-Party Transactions Committee from 2007 through 2010.</p> <p>She is currently a member of the Managing Board of Sernauto (Asociación Española de Fabricantes de Equipos y Componentes para Automoción) since 2011.</p> <p>She has been in charge of the corporate Industrial and Strategy divisions of Grupo Antolin, where she is currently a board member, a member of the Management Committee, and corporate director of Marketing, Communication, and Institutional Relations.</p> <p>PREVIOUS EXPERIENCE IN CONNECTION WITH THE COMMITTEE OF WHICH SHE IS A MEMBER:</p> <p>She has domestic and international experience in areas relating to her position as a member of the Corporate Social Responsibility Committee. At Grupo Antolin-Irausa, she held the positions of director of Human Resources Development and head of Total Quality, and as a corporate director has performed her duties at the global level within the group, where she began her career taking on successive responsibilities at subsidiaries based in Germany, France, and Italy.</p> <p>OTHER INFORMATION:</p>

	<p>She is a member of the Permanent Commission of the Club Excelencia en Gestión and a board member of France Foreign Trade (Comercio Exterior de Francia), Spain section</p>
<p>MR SANTIAGO MARTÍNEZ LAGE</p>	<p>Degree in Law from Universidad Complutense de Madrid. He continued his studies at the Escuela de Funcionarios Internacionales de Madrid, the Escuela Diplomática, The Hague Academy of International Law, the “Europa Institut” in Amsterdam (The Netherlands), and INSEAD in Fontainebleau (France).</p> <p>A career diplomat on leave, he is the chairman of the law firm Martínez Lage, Allendesalazar & Brokelmann.</p> <p>NOTEWORTHY EXPERIENCE FOR THE HOLDING OF HIS POSITIONS AT IBERDROLA:</p> <p>Energy and industrial engineering industries</p> <p>He has experience as a board member in the engineering and energy industries. In the energy sector, he was an external independent director of Iberdrola Renovables, S.A. between 2007 and 2010. In the industrial sector, he is secretary of the boards of directors of companies belonging to multinational groups like SKF Española, S.A. In the past, he was a member of the boards of other companies such as Fujitsu Services y Telettra España.</p> <p>Other industries</p> <p>He has also served in the position of secretary of the Board of Directors of Empresa Nacional Elcano de la Marina Mercante, S.A.</p> <p>PREVIOUS EXPERIENCE IN CONNECTION WITH THE COMMITTEE OF WHICH HE IS A MEMBER:</p> <p>A career diplomat on leave, he has wide experience and expertise in the area of institutional relations at the international level. He has been posted to Algiers (Algeria), Libreville (Gabon), Sofia (Bulgaria), and Paris (France), and has also served at the Office of the Secretary of State for Relations with the European Community, where he provided advice to the Spanish Delegation in the negotiations for accession to the European Communities.</p> <p>He has a profound knowledge of EC Law and was the founder and director, for twenty-eight years, of the Gaceta Jurídica de la Unión Europea y de la Competencia.</p> <p>In 1985 he established the law firm Martínez Lage & Asociados (now, Martínez Lage, Allendesalazar & Brokelmann), a leading law firm in Spain specialised in European Union and Competition Law.</p> <p>He served as a member of the Executive Committee of Iberdrola Renovables, S.A., and as chair of its Appointments and Remuneration Committee.</p> <p>Prior to joining Iberdrola’s Appointment’s and Remuneration Committee, he was a member and the secretary of its Audit and Risk Supervision Committee.</p> <p>OTHER INFORMATION:</p> <p>He is vice-chair of the Spanish Association for the Study of European Law (Asociación Española para el Estudio del Derecho Europeo) and the European Law Section of the Royal Academy of Jurisprudence and Legislation (Real Academia de Jurisprudencia y Legislación). In addition, he is a Trustee of Fundación España México and a member of the Arbitrator Appointment Committee of the Spanish Court of Arbitration.</p> <p>In 2013, he was distinguished with the APTISSIMI professional career award by ESADE Alumni.</p>
<p>MR ÁNGEL JESÚS ACEBES PANIAGUA</p>	<p>Degree in Law from Universidad de Salamanca and lawyer, with almost twenty years of practice experience. He has also discharged high-level duties in the institutional sphere, including his position as member of the Council of Ministers of the Spanish Government. He experience is complemented by being a member of the boards of directors of Caja Madrid Cibeles, S.A. and</p>

	<p>of Banco Financiero y de Ahorros, S.A. (“BFA”).</p> <p>He divides his time between his position at Iberdrola and his work as chair and founding member of Grupo MA Abogados Estudio Jurídico</p> <p>NOTEWORTHY EXPERIENCE FOR THE HOLDING OF HIS POSITIONS AT IBERDROLA:</p> <p>Energy and industrial engineering industries</p> <p>A practicing lawyer between 1982 and 1994, specialising in commercial law. He returned to law practice in 2008 and founded Grupo MA Abogados Estudio Jurídico (of which he is chair), a law firm based in six Spanish Autonomous Communities with more than forty lawyers working in different areas, such as corporate law, corporate governance, competition, mergers and acquisitions, and regulated industries</p> <p>He has been a member of the board of BFA between 27 July 2011 and 24 April 2012, chairing its Audit and Compliance Committee.</p> <p>Through these positions, he has had relationships with affiliates of BFA active in the energy (Iberdrola itself and the Comsa Ente, S.A. group) and industrial/technological (Indra, S.A., active in technological services, and Mecalux, S.A., active in logistics solutions), which companies, in most cases, have a strong international presence.</p> <p>In addition, he has significant knowledge of the regulatory area and regarding the operation of government agencies, as he was Minister for Public Administrations (1999-2000), Minister of Justice (2000-2002), and Minister of the Interior (2002-2004) of the Spanish Government. During his political career, he has also been a national senator and deputy, acquiring in-depth knowledge of the regulatory framework.</p> <p>Other industries</p> <p>He also possesses experience in the management of companies with an international profile, as a result of having served on the board of Caja Madrid Cibeles, S.A. (2008 - 2011), which manages the investments of Grupo Caja Madrid in other companies with activities in the financial, insurance (like Mapfre Internacional, S.A.) and retail banking industries outside of Spain.</p> <p>OTHER INFORMATION</p> <p>He is also a trustee of Fundación Universitaria de Ávila, UCAV, and gives courses, workshops, and lectures on various matters relating to law, politics, and social matters.</p>
<p>MS GEORGINA KESSEL MARTÍNEZ</p>	<p>Holder of a degree in Economics from Instituto Tecnológico Autónomo de México and holds Master’s and Doctor’s degrees in Economics from Columbia University in New York (United States of America).</p> <p>She has spent her career primarily in the energy and financial sectors in Mexico. She has been chair of the Energy Regulatory Commission (<i>Comisión Reguladora de Energía</i>), State Secretary for Energy, chair of the Board of Directors of Pemex and of the Board of Directors of CFE, general manager of Banobras and of the National Mint of Mexico, and a board member at Nafinsa and Bancomext.</p> <p>She divides her time between her position at Iberdrola and her work as a director of the subsidiary of Scotiabank in that country.</p> <p>NOTEWORTHY EXPERIENCE FOR THE HOLDING OF HER POSITIONS AT IBERDROLA:</p> <p>Energy and industrial engineering industries</p> <p>She possesses extensive experience in the energy industry. She was State secretary at the Office of the Energy Secretary (Sener) of the Government of Mexico (2006-2011) and first chair of the Energy Regulatory Commission (1996), which positions have equipped her with in-depth knowledge of regulatory and institutional matters as a result of her direct involvement in the energy transition process and in the design and implementation of the regulation of the country’s electricity industry.</p>

	<p>Between 2006 and 2011, she also served as chair of the boards of directors of two large corporations, Petróleos Mexicanos (PEMEX) and the Federal Electricity Commission (<i>Comisión Federal de Electricidad</i>) (CFE), from which she led the design of policies and the supervision of financial progress and infrastructure investment programmes.</p> <p>Her participation in the Energy Council of the World Economic Forum (WEF) and in the United Nations Organization Secretary General's advisory group (Sustainable Energy for All) has also allowed her to gain expertise and a global view of the energy industry.</p> <p>Other industries</p> <p>She has knowledge and experience in other sectors, especially in the financial infrastructure investment sector, in both the institutional and the executive areas. She is an independent director of Grupo Financiero Scotiabank Inverlat, S.A. de C.V. and has been general manager of Banco Nacional de Obras y Servicios Públicos (Banobras), a development bank engaged primarily in financing infrastructure projects (2011-2012); a member of the governance bodies of Nacional Financiera (Nafinsa) and of Banco Nacional de Comercio Exterior (Bancomext) (2006-2011); adviser to the chair of the Federal Competition Commission (<i>Comisión Federal de Competencia</i>) (CFC) (1995-1996); head of the Quasi-Autonomous Non-Governmental Organisations Investment and Divestment Unit of the Office of the Secretary of Finance and Public Credit of Mexico (1997-2001), and general manager of the National Mint of Mexico (2002-2006).</p> <p>PREVIOUS EXPERIENCE IN CONNECTION WITH THE COMMITTEE OF WHICH SHE IS A MEMBER:</p> <p>Her training in the field of economics and her professional experience in the management of institutions in the financial sector make her an ideal member of the Audit and Risk Supervision Committee.</p> <p>Her teaching practice and performance of executive roles in economic/financial matters cause her profile to be even more appropriate for her work on this Committee.</p> <p>OTHER INFORMATION:</p> <p>In the academic field, she has been a professor in the Economics Department of Instituto Tecnológico Autónomo de México (ITAM), acting as deputy chair of the course towards a Degree in Economics, and first deputy chair and chair of the Alumni Association. She was also holder of the Quintana Chair for Research in International Trade and has authored many papers and specialised articles.</p>
<p>MS DENISE MARY HOLT</p>	<p>Degrees in Spanish Philology, French Philology, and Political Sciences from the University of Bristol and Doctor of Laws from the University of Bristol (England, United Kingdom).</p> <p>A career diplomat, she has spent a large part of her professional life at the United Kingdom diplomatic service, which has provided her with extensive international experience. In the business field, she possesses experience in the finance, health, and energy sectors.</p> <p>She divides her time between her position as a director of Iberdrola and her activities in international organisations, academic institutions, and her position as a director of HSBC Bank plc.</p> <p>NOTEWORTHY EXPERIENCE FOR THE HOLDING OF HER POSITION AT IBERDROLA:</p> <p>Energy and industrial engineering industries</p> <p>She possesses experience and expertise in the energy industry, having been a director at Scottish Power Renewable Energy Ltd from 2011 to 2012 and at Scottish Power Networks Holdings Ltd from 2012 to 2014.</p> <p>Other industries</p> <p>She also possesses experience as a member of the board of directors of international companies and institutions in other sectors, like the financial and</p>

	<p>health industries. In the financial sector, she has been an independent director and member of the Risk Committee of HSBC Bank plc since 2011, and is also chair and independent director of its subsidiary M&S Financial Services Ltd. In the health sector, she is an independent director of Nuffield Health and a member of the Quality and Safety Committee and Remuneration Committee of the Board of Directors of such institution.</p> <p>Also noteworthy is the vast experience as a manager she has gained during her extensive diplomatic career. She has been first secretary of the Embassy of the United Kingdom in Brazil (1990-1993, director of Human Resources (1999-2002) and Migration (2005-2007) and for the Overseas Territories (2at the UK Foreign and Commonwealth Office (2005-2007) and British ambassador to Mexico (2002-2005) and to Spain and Andorra (2007-2009).</p> <p>OTHER INFORMATION:</p> <p>A former chair of the Anglo-Spanish Society (2010-2013), Ms Holt currently has ties with international organisations like Wilton Park International Conference Centre and academic institutions like the Cañada Blanch Centre for Contemporary Spanish Studies of the London School of Economics and Political Science, the Institute of Latin American Studies of the University of London, and the University of Bristol. She chairs the Nominations Committee of the British Alzheimer's Society.</p> <p>She has been distinguished as Dame Commander of the Order of Saint Michael and Saint George (DCMG) in recognition of her contribution to the British diplomatic service.</p>
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Total number of independent directors	11
Total % of the board	78.57

State whether any director classified as independent receives from the company or its group any amount or benefit for items other than director remuneration, or maintains or has maintained during the last financial year a business relationship with the company or with any company of its group, whether in the director's own name or as a significant shareholder, director, or senior officer of an entity that maintains or has maintained such relationship. If applicable, include a reasoned statement of the director regarding the reasons for which it is believed that such director can carry out the duties thereof as an independent director.

Individual or company name of the director	Description of the relationship	Reasoned statement

OTHER EXTERNAL DIRECTORS

Individual or company name of director	Committee that has reported on or proposed the director's appointment
MR JOSÉ LUIS SAN PEDRO GUERENABARRENA	APPOINTMENTS AND REMUNERATION COMMITTEE

Total number of other external directors	1
Total % of the board	7.14

Describe the reasons why they cannot be considered proprietary or independent directors as well as their ties, whether with the company, its management, or its shareholders.

Individual or company name of the director	Reasons	Company, officer, or shareholder with which the director has ties
MR JOSÉ LUIS SAN PEDRO GUERENABARRENA	<p>Mr San Pedro Guerenabarrena held the position of chief operating officer (<i>consejero-director general</i>) until 24 June 2014, the date on which he voluntarily ceased executive duties, but continues to serve as a member of the Board of Directors and of the Executive Committee.</p> <p>Pursuant to the current Companies Act and Iberdrola's Corporate Governance System, Mr San Pedro Guerenabarrena cannot be classified as an independent director until 5 years have passed since he ceased to serve as chief operating officer.</p>	IBERDROLA

State the changes, if any, in the type of director during the period:

Individual or company name of the director	Date of change	Former status	Current status
MR JOSÉ LUIS SAN PEDRO GUERENABARRENA	24/06/2014	Executive director	Other external director

C.1.4. Complete the following table with information regarding the number of female directors for the last 4 financial years, as well as the status of such directors:

	Number of female directors				% of total directors each class			
	Year t	Year t-1	Year t-2	Year t-3	Year t	Year t-1	Year t-2	Year t-3
Executive	-	-	-	-	-	-	-	-
Proprietary	-	-	-	-	-	-	-	-
Independent	5	4	3	3	45.45	40	33.33	27.27
Other external	-	-	-	-	-	-	-	-
Total	5	4	3	3	35.71	28.57	21.42	21.42

C.1.5. Describe any measures adopted to include on the board of directors a number of women that allows for a balanced presence of men and women.

Description of measures
The Company's Corporate Governance System entrusts the Appointments and Remuneration Committee with the duty to ensure that when new vacancies are filled or new directors are appointed, the selection procedures are free from any implied bias entailing any kind of discrimination and, in particular, that such procedures do not hinder the selection of female directors.

Since 2006, Iberdrola has consistently increased the number of female directors on its Board of Directors.

On 7 June 2006, the Board of Directors appointed the director Ms Inés Macho Stadler on an interim basis to fill a vacancy; such appointment was ratified by the shareholders at the General Shareholders' Meeting held on 29 March 2007, where the shareholders also approved her re-election for a five-year period. It should also be noted that on 22 September 2009, Ms Inés Macho Stadler was appointed as lead independent director (*consejera independiente especialmente facultada*), a position governed by the provisions of article 38 of the *By-Laws* and article 21 of the *Regulations of the Board of Directors*.

Thereafter, at its meeting of 31 July 2008, the Board of Directors resolved to appoint the director Ms Samantha Barber on an interim basis to fill a vacancy; such appointment was ratified by the shareholders at the General Shareholders' Meeting held on 20 March 2009.

The shareholders at the General Shareholders' Meeting held on 26 March 2010 approved the proposal for appointment of Ms María Helena Antolín Raybaud, who is classified as an external independent director.

On 23 April 2013, Iberdrola's Board of Directors approved the interim appointment of Ms Georgina Kessel Martinez as an external independent director, which was subsequently ratified by the shareholders at the General Shareholders' Meeting held on 28 March 2014.

Finally, on 24 June 2014, the Board of Directors approved the interim appointment of Ms Denise Mary Holt as an external independent director. Such appointment will be submitted to the shareholders for ratification at the General Shareholders' Meeting to be held on 27 March 2015.

C.1.6. Describe any measures approved by the remuneration committee in order for selection procedures to be free of implicit biases that hinder the selection of female directors, and in order for the company to deliberately search for women who meet the professional profile that is sought and include them among potential candidates:

Description of measures
<p>The <i>General Corporate Governance Policy</i> provides in section 12 that "when new candidates for membership on the Board of Directors are selected, and in order to ensure at all times the pre-eminence of the corporate interest within the Board of Directors, the Appointments and Remuneration Committee ensures that nominees are upstanding and qualified persons widely recognised for their expertise, competence, experience, qualifications, training, availability, and commitment to their duties, seeking to ensure that the selection of candidates results in an appropriate equilibrium of the Board of Directors that enriches decision-making and contributes multiple points of view to the debate on the matters within its purview".</p> <p>In turn, the Board has entrusted to the Appointments and Remuneration Committee the responsibility of ensuring that when new vacancies are filled or new directors are appointed, the selection procedures are free from any implied bias entailing any kind of discrimination and, in particular, from any bias that may hinder the selection of female directors. This is expressly provided by articles 26.6.d) of the <i>Regulations of the Board of Directors</i> and 3.d) of the <i>Regulations of the Appointments and Remuneration Committee</i>.</p>

If there are few or no female directors despite any measures adopted, describe the reasons for such result:

Description of reasons

C.1.7. Explain the form of representation on the board of shareholders with significant holdings.

Mr Xabier de Irala Estévez has been a director since 24 April 2005 at the proposal of the significant shareholder Bilbao Bizkaia Kutxa, Aurrezki Kutxa eta Bahitetxea - BBK (now Kutxabank, S.A.) and was last re-elected by the shareholders at the General Shareholders' Meeting held on 22 June 2012.

C.1.8. Describe, if applicable, the reasons why proprietary directors have been appointed at the proposal of shareholders whose shareholding interest is less than 5% of share capital.

Individual or company name of the shareholder	Reason

State whether there has been no answer to formal petitions for presence on the board received from shareholders whose shareholding interest is equal to or greater than that of others at whose proposal proprietary directors have been appointed. If so, describe the reasons why such petitions have not been answered:

Yes No

Individual or company name of the shareholder	Explanation

C.1.9. State whether any director has withdrawn from the position as such before the expiration of the director's term of office, whether the director has given reasons to the board and by what means, and in the event that the director gave reasons in writing to the full board, describe at least the reasons given thereby:

Name of the director	Reason for withdrawal
MR MANUEL LAGARES GÓMEZ-ABASCAL	On 10 April 2014, Mr Manuel Lagares Gómez-Abascal submitted his resignation from the position he held as proprietary director at the request of the significant shareholder Banco Financiero y de Ahorros, S.A. His resignation was due to the sale by such institution of its shares in Iberdrola on that same date.

C.1.10. State any powers delegated to the CEO(s):

Individual or company name of the director	Brief description
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	The chairman & chief executive officer, as an individual decision-making body, has all the powers that may be delegated under the law and the <i>By-Laws</i> .

C.1.11. Identify any members of the board who are directors or officers of companies within the listed company's group:

Individual or company name of the director	Name of entity within the group	Position
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	SCOTTISH POWER, LTD.	Chair
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	IBERDROLA USA, INC.	Chair
MR JOSÉ LUIS SAN PEDRO GUERENABARRENA	IBERDROLA ESPAÑA, S.A.	Chair

C.1.12. Identify the directors of your company, if any, who are members of the board of directors of other companies listed on official stock exchanges other than those of your group, which have been reported to your company:

Individual or company name of the director	Name of listed company	Position
MR XABIER DE IRALA ESTÉVEZ	TUBACEX, S.A.	Director
MR BRAULIO MEDEL CÁMARA	ACERINOX, S.A.	Director
MS GEORGINA KESSEL MARTÍNEZ	GRUPO FINANCIERO SCOTIABANK INVERLAT, S.A. DE C.V.	Director
MS DENISE MARY HOLT	HSBC Bank plc	Director

C.1.13. State and, if applicable, explain whether the company has established rules regarding the number of boards of which its directors may be members:

Yes No

Description of rules
Pursuant to the provisions of articles 36.2 of the <i>By-Laws</i> and 13.b) of the <i>Regulations of the Board of Directors</i> , “individuals or legal entities serving as directors in more than three companies with shares trading on domestic or foreign stock exchanges” may not be appointed as directors or individuals representing a corporate director.

C.1.14. Indicate the company’s general policies and strategies reserved for approval by the full board:

	Yes	No
Investment and financing policy	x	
Definition of the structure of the group of companies	x	
Corporate governance policy	x	
Corporate social responsibility policy	x	

Strategic or business plan, as well as management objectives and annual budgets	x	
Policy regarding remuneration and evaluation of performance of senior management	x	
Risk control and management policy, as well as the periodic monitoring of the internal information and control systems	x	
Dividend policy, as well the treasury share policy and, especially, the limits thereto	x	

C.1.15. State the overall remuneration of the board of directors:

Remuneration of the board of directors (thousands of euros)	14,951
Amount of total remuneration corresponding to pension rights accumulated by the directors (thousands of euros)	-
Overall remuneration of the board of directors (thousands of euros)	14,951

C.1.16. Identify the members of the company's senior management who are not executive directors and state the total remuneration accruing to them during the financial year:

Individual or company name	Position(s)
MR FRANCISCO MARTÍNEZ CÓRCOLES	Group Chief Operating Officer
MR JOSÉ SÁINZ ARMADA	Chief Financial Officer
DON JULIÁN MARTÍNEZ-SIMANCAS SÁNCHEZ	General secretary and secretary of the Board of Directors
MR FERNANDO BECKER ZUAZUA	Corporate director - Spain
MR LUIS JAVIER ARANAZ ZUZA	Director of internal audit
DON PEDRO AZAGRA BLÁZQUEZ	Director of corporate development
MR JUAN CARLOS REBOLLO LICEAGA	Director of administration and control

Total senior management remuneration (in thousands of euros)	10,727
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C.1.17. State the identity of the members of the board, if any, who are also members of the board of directors of significant shareholders and/or in entities of their group:

Individual or company name of the director	Company name of the significant shareholder	Position
MR XABIER DE IRALA ESTÉVEZ	CAJASUR BANCO, S.A.	Director

Describe any significant relationships, other than the ones contemplated in the prior item, of the members of the board of directors linking them to significant shareholders and/or companies within their group:

Individual or company name of related director	Individual or company name of related significant shareholder	Description of relationship

C.1.18. State whether the regulations of the board have been amended during the financial year:

Yes No

Description of amendments
<p>On 29 April 2014, the Board of Directors of the Company approved an amendment of the <i>Regulations of the Board of Directors</i>, the new provisions of which are the following:</p> <ul style="list-style-type: none"> - Replacement of mention of the <i>Dividend Policy</i> with a broader reference to the <i>Shareholder Remuneration Policy</i>. - Amendment of the maximum term in office of the chair of the Audit and Risk Supervision Committee to four years. <p>On 24 June 2014, the Board of Directors of the Company approved the following changes:</p> <ul style="list-style-type: none"> - Adjustment of the text of its <i>Regulations</i> to the powers that, in the area of investee companies, are given to the Appointments and Remuneration Committee by the internal procedure for authorising the appointment of directors at companies in which the Iberdrola Group has an interest. - Adjustment of the powers and rules governing the operation of the Corporate Social Responsibility Committee pursuant to the new foundational structure of the Group. <p>Finally, the text of the <i>Regulations</i> was updated by the Board of Directors at its meeting of 16 December 2014 in order to adjust the text thereof following completion of the Group's corporate reorganisation through the creation of the country subholding company Iberdrola España, S.A.</p>

C.1.19. State the procedures for the selection, appointment, re-election, evaluation, and removal of directors. List the competent bodies, the procedures to be followed, and the criteria applied in each of such procedures.

<p>1. APPOINTMENT OF DIRECTORS</p> <p>The appointment, re-election and removal of directors is the purview of the shareholders at the General Shareholders' Meeting.</p> <p>Vacancies that occur may be filled by the Board of Directors on an interim basis until the next General Shareholders' Meeting.</p> <p>The Appointments and Remuneration Committee must advise the Board of Directors regarding the most appropriate configuration thereof and of its committees as regards size and equilibrium among the various classes of directors existing at any time.</p> <p>The following may not be appointed as directors or individuals representing a corporate director:</p> <ol style="list-style-type: none"> a) Domestic or foreign companies competing with the Company in the energy industry or other industries, or the directors or senior officers thereof, or such persons, if any, as are proposed by them in their capacity as shareholders. b) Individuals or legal entities serving as directors in more than three companies with shares trading on domestic or foreign stock exchanges. c) Persons who, during the two years prior to their appointment, have occupied high-level positions in
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the government that are incompatible with the simultaneous performance of the duties of a director of a listed company under national or autonomous community legislation, or positions of responsibility with entities regulating the energy industry, the securities markets, or other industries in which the Company or the Group operates.

- d) Individuals or legal entities that are under any other circumstance of incompatibility or prohibition governed by provisions of a general nature, including those that have interests in any way opposed to those of the Company or the Group.

The Board of Directors, and the Appointments and Remuneration Committee within the scope of its powers, shall endeavour to ensure that the candidates proposed to the shareholders at a General Shareholders' Meeting for appointment or re-election as directors, as well as the directors appointed directly to fill vacancies in the exercise of the power of the Board of Directors to make interim appointments, are respectable and qualified persons, widely recognised for their expertise, competence, experience, qualifications, training, availability, and commitment to their duties.

It falls upon the Appointments and Remuneration Committee to propose the independent directors, as well as to report upon the proposals relating to the other classes of directors.

When the Board of Directors deviates from the proposals and reports of the Appointments and Remuneration Committee, it shall give reasons for so acting and shall record such reasons in the minutes.

2. RE-ELECTION OF DIRECTORS

The proposals for re-election of directors that the Board of Directors resolves to submit to a decision of the shareholders at the General Shareholders' Meeting shall be subject to a process of preparation, which shall include a proposal (in the case of independent directors) or a report (in the case of the other directors) issued by the Appointments and Remuneration Committee.

For such purposes, the Committee must verify that the director to be re-elected continues to comply with the general requirements applicable to all directors of the Company pursuant to law and the Company's Corporate Governance System, as well as evaluate the quality of work and dedication to office of the director in question during the preceding term of office and, specifically, such director's respectability, capability, expertise, competence, experience, qualifications, availability, and commitment to the duties entrusted thereto.

3. EVALUATION OF DIRECTORS

The Board of Directors shall annually evaluate: (i) its operation and the quality of its work; (ii) the performance of their duties by the chairman of the Board of Directors and by the chief executive officer, based on the report submitted thereto by the Appointments and Remuneration Committee; and (iii) the operation of its committees, in view of the report submitted thereto by such committees. For such purpose, the chairman of the Board of Directors shall organise and coordinate the aforementioned evaluation process with the chair of each committee. The following section reports on the evaluation process during financial year 2014.

4. REMOVAL OF DIRECTORS

Directors "shall serve in their position for a term of four (4) years, so long as the shareholders acting at the General Shareholders' Meeting do not resolve to remove them and they do not resign from their position".

The Appointments and Remuneration Committee shall inform the Board of Directors regarding proposed removals due to breach of the duties inherent to the position of director or due to a director becoming affected by supervening circumstances of mandatory resignation or withdrawal. In addition, the Committee may propose the removal of directors in the event of incompatibility, structural conflict of interest, or any other reason for resignation or withdrawal, pursuant to law or the Company's Corporate Governance System.

The Board of Directors may propose the removal of an independent director before the passage of the period provided for in the *By-Laws* only upon sufficient grounds, evaluated by the Board of Directors after a report from the Appointments and Remuneration Committee, or as a consequence of public takeover bids, mergers, or other similar corporate transactions resulting in a significant change in the structure of the Company's share capital, as recommended by the *Unified Good Governance Code*.

C.1.20. State whether the board of directors has performed an evaluation of its activities during the financial year:

Yes No

If so, explain the extent to which the self-evaluation has given rise to significant changes in its internal organisation and regarding the procedures applicable to its activities:

Description of amendments
<p>For the evaluation of financial year 2014, the Company has decided to rely, once more, on "PricewaterhouseCoopers Asesores de Negocios, S.L." ("PwC"), which prepared the evaluation reports of which the Board of Directors has taken due note, endorsing the conclusions and the opportunities for improvement in trends identified by such consultant.</p> <p>The evaluation process covered more than 400 objectively quantifiable and measurable indicators, which are updated from year to year with the latest trends. This relates to both the Board of Directors and its committees as well as the performance of the directors individually. The evaluation of the chairman & chief executive officer has been led by the coordinating director.</p> <p>The conclusions of the evaluation reflected excellent results, with compliance with almost all of the critical indicators related to legal rules and regulations and good governance recommendations, and more than 80% alignment with the latest international trends. There has also been progress in the improvement areas identified in previous evaluations.</p> <p>The evaluation highlights its good practices in each of the specific pillars:</p> <ol style="list-style-type: none">Governance model In 2014 Iberdrola strengthened its governance model based on the separation of the functions of supervision and management with the creation of the subholding company Iberdrola España, S.A. It has also progressed in the level of independence of its Board of Directors.Suitable composition of the Board of Directors and effective operation During this financial year, Iberdrola progressed towards excellence in the composition of its Board of Directors with the inclusion of a foreign independent director with experience in the financial industry and in-depth knowledge of the British market.Shareholder engagement Iberdrola has recently approved a <i>Shareholder Engagement Policy</i>, which is a practice that puts it at the forefront of good governance.Social return Iberdrola has strengthened its commitment to and transparency towards society with the first-time publication of the Integrated Report that has been prepared on the basis of the recommendations of the International Integrated Reporting Council (IIRC). It has also deepened its involvement with the stakeholders with whom it relates and has improved the measurement of its corporate reputation. <p>Pursuant to the Action Plan of which the Board of Directors has taken note, in 2015 Iberdrola will continue to advance in the adoption of best good governance practices in the following key areas: (i) succession plan, (ii) shareholder engagement, (ii) best remuneration practices, and (iv) efficiency in the operation of the governance bodies.</p>

C.1.21. State the circumstances under which the resignation of directors is mandatory.

<p>Directors must submit their resignation from the position and formally resign from their position upon the occurrence of any of the instances of incompatibility or prohibition against performing the duties of director provided by law or by Iberdrola's Corporate Governance System.</p> <p>In this connection, article 16.2 of the <i>Regulations of the Board of Directors</i> provides that the directors must submit their resignation to the Board of Directors and formally resign from their position in the following cases:</p> <ol style="list-style-type: none">When, due to supervening circumstances, they are involved in any circumstance of incompatibility or prohibition governed by provisions of a general nature, the <i>By-Laws</i>, or these <i>Regulations</i>.When, as a result of any acts or conduct attributable to the director, serious damage is caused to the

value or reputation of the Company or there is a risk to the Company of criminal liability.

- c) When they cease to deserve the respectability or to have the capability, expertise, competence, availability, or commitment to their duties required to be a director of the Company.
- d) When they are seriously reprimanded by the Board of Directors because they have breached any of their duties as directors, by resolution adopted by a two-thirds majority of the directors.
- e) When their continuance in office on the Board of Directors may, for any reason, jeopardise directly, indirectly or through their related persons (pursuant to the definition of this term set forth in these *Regulations*), the faithful and diligent performance of their duties in furtherance of the corporate interest.
- f) When the reasons why the director was appointed cease to exist and, in particular, in the case of proprietary directors, when the shareholder or shareholders who proposed, requested, or decided the appointment thereof totally or partially sell or transfer their equity interest, with the result that such equity interest ceases to be significant or sufficient to justify the appointment.
- g) When an independent director is affected, at any time following the director's appointment as such, by any of the prohibitions against holding office provided for in article 10.2 of these *Regulations* (incompatibility for the position of independent director).
- h) When the condition of the activities carried out by the director, or of the companies directly or indirectly controlled by the director, or of the individuals or legal entities that are shareholders of or related to any of them, or of the individual representing a corporate director, may compromise the director's capacity to hold office as such.

The resignation provisions set forth under f) and g) above shall not apply when, after a report from the Appointments and Remuneration Committee, the Board of Directors believes that there are reasons that justify the director's continuance in office, without prejudice to the effect that the new supervening circumstances may have on the classification of the director.

C.1.22. State whether the powers of the top executive of the company are vested in the chair of the board. If so, describe the measures that have been taken to mitigate the risks of accumulation of powers in a single person:

Yes No

Measures to limit risks

It should first be noted that Iberdrola has a corporate structure and a governance model that make it possible to completely separate the duties of supervision and the duties of management, which avoids the risk of accumulation of powers.

The following aspects are particularly noteworthy:

- a) Attribution to the Board of Directors of the Company of the duties relating to establishing the Group's policies and strategies and the basic guidelines for the management thereof, as well as general supervision of the development of such policies, strategies, and guidelines, and of decisions on matters of strategic importance at the Group level.
- b) Attribution to the chairman of the Board of Directors & chief executive officer, with the technical support of the Operating Committee and the Business CEO (*director general de los negocios*) appointed by the Board of Directors (with overall responsibility for all of the businesses of the Group) and the rest of the management team, of the duty of organisation and strategic coordination within the Group through the dissemination, implementation, and monitoring of the general strategy and basic management guidelines established by the Board of Directors.
- c) The function of organisation and strategic coordination is also articulated through country subholding companies, which group together equity stakes in the business subholding companies at the head of the business conducted by the Group within the various countries in which it operates, taking into account the characteristics and unique aspects of each of them.

The country subholding companies also centralise the provision of services common to such companies and facilitate coordination among them. All of the foregoing is carried out in accordance with the provisions of applicable law and especially the legal provisions regarding the separation of regulated activities.

The country subholding companies have boards of directors that include independent directors and

their own audit committees, internal audit areas, and compliance units or divisions.

- d) Assumption of decentralised executive responsibilities by the business subholding companies of the Group, which assume the day-to-day control and administration and the effective management of each business.

The business subholding companies are organised through their respective boards of directors, which include independent directors, where appropriate, and their own management decision-making bodies; they may also have their own audit committees, internal audit areas, and compliance units or divisions.

In addition, other measures have been adopted in order to mitigate the risks of accumulation of powers:

- Eleven of the fourteen directors are independent, and all have served as directors for less than twelve years.
- The position of lead independent director (*consejero independiente especialmente facultado*), with broad powers of supervision regarding the performance of the executive chairman.
- The Board of Directors meets when so requested by one-fourth of the directors, by a vice-chair, or by the lead independent director, if any. The meeting must be held within ten days of the request.
- A meeting of the Board of Directors may be called by one-third of the directors, who must establish the agenda thereof, in order for the meeting to be held at the place where the registered office is located, if a prior petition has been submitted to the chairman and he has failed, without well-founded reasons, to call the meeting within one month.
- The powers recognised as belonging to the Board of Directors, both in the *By-Laws* and in its own *Regulations*.
- The duties attributed to the Executive Committee.
- The same purpose is served by the duties attributed to the Audit and Risk Supervision Committee, the Appointments and Remuneration Committee, and the Corporate Social Responsibility Committee.

Specifically, the Appointments and Remuneration Committee is responsible for the annual evaluation of the chairman's performance, which is submitted for the approval of the Board of Directors. Such evaluation is conducted by Ms Inés Macho Stadler, in the performance of her duties as lead independent director.

- The *General Risk Control and Management Policy* described in section E of this report.
- The activities of cooperation and support entrusted to the Operating Committee within the framework of the *General Risk Control and Management Policy*, as set forth in section E of this report.

Finally, the following powers granted to the directors under the *Regulations of the Board of Directors* are noteworthy:

- Each and every director may contribute to the scheduling of meetings of the Board of Directors.
- Any director may ask the chairman of the Board of Directors to include items on the agenda.
- A director has the broadest powers to obtain information regarding any aspect of the Company, to examine its books, records, documents, and other background information on corporate transactions, to inspect its facilities, and to communicate with the senior officers of the Company.
- Any director may request the hiring of legal, accounting, technical, financial, commercial, or other expert advisers, whose services shall be paid for by the Company.

State and, if applicable, explain whether rules have been established whereby one of the independent directors is authorised to request that a meeting of the board be called or that new items be included on the agenda, to coordinate and hear the concerns of external directors, and to direct the evaluation by the board of directors.

Yes No

Description of rules

As provided by article 38.2 of the *By-Laws* and article 21 of the *Regulations of the Board of Directors*, if the chairman of the Board of Directors performs executive duties, the Board of Directors shall, upon a

proposal of the Appointments and Remuneration Committee, authorise a lead independent director (*consejero independiente especialmente facultado*) to:

- a) Request the chairman of the Board of Directors to call a meeting thereof when such director deems it appropriate.
- b) Request the inclusion of matters in the agenda for meetings of the Board of Directors.
- c) Coordinate and reflect the concerns of the external directors.
- d) Lead the evaluation of the chairman of the Board of Directors.

C.1.23. Are qualified majorities, different from the statutory majorities, required to adopt any type of decision?

Yes No

If so, describe the differences.

Description of differences
<p>The <i>Regulations of the Board of Directors</i> (article 5.1 of the <i>Regulations of the Board of Directors</i>) require a majority of two-thirds of the directors present at the meeting in person or by proxy to approve the amendment thereof.</p> <p>The serious reprimand of a director for having breached any of the duties entrusted thereto as director (article 16.2.d) of the <i>Regulations of the Board of Directors</i>) requires a qualified majority of two-thirds of the directors.</p>

C.1.24. Explain whether there are specific requirements, other than the requirements relating to directors, to be appointed chairman of the board of directors.

Yes No

Description of requirements

C.1.25. State whether the chair has a tie-breaking vote:

Yes No

Matters on which a tie-breaking vote may be cast
<p>Pursuant to article 40.4 of the <i>By-Laws</i> and article 30.7 of the <i>Regulations of the Board of Directors</i>, the chairman shall, in the event of a tie, have a tie-breaking vote on any matter unless he becomes subject to a conflict of interest, in which case he must abstain from participating in the deliberation and voting stages of the respective resolution as provided in article 37 of the aforementioned <i>Regulations</i>.</p>

C.1.26. State whether the by-laws or the regulations of the board set forth any age limit for directors:

Yes No

Age limit for the chair	-
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Age limit for the CEO	-
Age limit for directors	-

C.1.27. State whether the by-laws or the regulations of the Board establish any limit on the term of office for independent directors that is different than the term provided by regulatory provisions:

Yes No

Maximum number of terms	
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C.1.28. State whether there are formal rules for proxy-voting at meetings of the board of directors, the manner of doing so, and especially the maximum number of proxies that a director may hold, as well as whether proxies must be given to a director of the same class. If so, briefly describe such rules.

Pursuant to article 40.2 of the *By-Laws*, all of the directors may cast their vote and give their proxy in favour of another director. Articles 30.2 and 34.2.b) of the *Regulations of the Board of Directors* require that directors attend the meetings of the Board of Directors. When directors are unable to attend in person for well-founded reasons, they shall endeavour to give a proxy to another director, to whom they shall give any appropriate instructions, but may not grant a proxy in connection with matters in respect of which they are involved in a conflict of interest.

The proxy granted shall be a special proxy for the Board meeting in question and may be communicated by any means allowing for the receipt thereof.

There is no maximum number of proxies provided per director or an obligation to give the proxy to the same class of director.

C.1.29. State the number of meetings that the board of directors has held during the financial year. In addition, specify the number of times the board has met, if any, at which the chair was not in attendance. Proxies granted with specific instructions shall be counted as attendance.

Number of meetings of the board	7
Number of meetings of the board at which the chair was not in attendance	0

State the number of meetings held by the different committees of the board of directors during the financial year:

Number of meetings of the Executive Committee	15
Number of meetings of the Audit and Risk Supervision Committee	10
Number of meetings of the Appointments and Remuneration Committee	14
Number of meetings of the Corporate Social Responsibility Committee	10

C.1.30. State the number of meetings that the board of directors has held during the financial year with the attendance of all of its members. Proxies granted with specific instructions shall be counted as attendance:

Attendance of the directors	7
% in attendance of total votes during the financial year	100%

C.1.31. State whether the annual individual accounts and the annual consolidated accounts that are submitted to the board for approval are previously certified:

Yes No

Identify, if applicable, the person/persons that has/have certified the annual individual and consolidated accounts of the company for preparation by the board:

Name	Position
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	Chairman & CEO
MR JUAN CARLOS REBOLLO LICEAGA	Director of administration and control

C.1.32. Explain the mechanisms, if any, adopted by the board of directors to avoid any qualifications in the audit report on the annual individual and consolidated accounts prepared by the board of directors and submitted to the shareholders at the general shareholders' meeting.

Articles 3 and 6 of the *Regulations of the Audit and Risk Supervision Committee* provide that it has the following functions, among others:

- Supervise the process of preparing and presenting regulated financial information.
- Establish appropriate relations with the auditor to receive information regarding matters that might risk the independence thereof, for examination by the Audit and Risk Supervision Committee, and any other information related to the development of the audit procedure as well as such other communications as are provided for in the laws on auditing of accounts and in other legal provisions on auditing. In any event, the Audit and Risk Supervision Committee must receive written confirmation from the auditor on an annual basis of their independence vis-à-vis the Company or entities directly or indirectly related thereto, as well as information on additional services of any kind provided to such entities by such auditor or by persons or entities related thereto, pursuant to the laws on auditing of accounts.
- On an annual basis, prior to the audit report, issue a report containing an opinion on the independence of the auditor. This report must in any case pass upon the provision of the additional services referred to in the preceding point.
- Report in advance to the Board of Directors regarding the financial information that the Company must disclose on a regular basis because of its status as a listed company; the Audit and Risk Supervision Committee shall make sure that the interim accounts are prepared in accordance with the same accounting standards as the annual accounts and, for such purpose, it shall consider the appropriateness of a limited review by the auditor.
- Review the contents of the audit reports on the accounts and of the reports on the limited review of interim accounts, if any, as well as other mandatory reports to be prepared by the auditor, prior to the issuance thereof, in order to avoid qualified reports.
- Act as a channel of communication between the Board of Directors and the auditors.

Article 48.5 of the *Regulations of the Board of Directors* provides that the Board of Directors shall use its best efforts to definitively prepare the accounts such that there is no room for qualifications by the auditor. However, when the Board of Directors believes that its opinion must prevail, it shall provide a public explanation of the content and scope of the discrepancy.

Pursuant to the above-cited articles, the Audit and Risk Supervision Committee reports on the financial information of the Company throughout the financial year and prior to the approval thereof by the Board of Directors and its submission to the National Securities Market Commission (*Comisión Nacional del Mercado de Valores*) (CNMV). The reports of the Audit and Risk Supervision Committee, which the chair thereof presents to the full Board of Directors, are mainly intended to disclose such aspects, if any, as

may give rise to qualifications in the audit report of Iberdrola and its consolidated group, making the appropriate recommendations to avoid any such qualifications.

Accordingly, the Audit and Risk Supervision Committee submitted to the Board of Directors the following reports regarding the annual and semi-annual financial reports and the interim management statements of the Company for financial year 2014:

- Report dated 28 April 2014 on the interim management statement for the first quarter of 2014.
- Report dated 21 July 2014 on the economic/financial report for the first half of 2014.
- Report dated 20 October 2014 on the interim management statement for the third quarter of 2014.
- Report dated 16 February 2015 on the annual accounts of Iberdrola and its consolidated group for financial year 2014.

As disclosed in the information about Iberdrola posted on the website of the CNMV (www.cnmv.es), the audit reports on the individual and consolidated annual accounts prepared by the Board of Directors have historically been issued without qualifications.

C.1.33. Is the secretary of the board a director?

Yes No

C.1.34. Describe the procedures for appointment and removal of the secretary of the board, stating whether the appointment and removal thereof have been reported upon by the appointments committee and approved by the full board.

Procedure for appointment and removal
Pursuant to the provisions of article 22.1 of the <i>Regulations of the Board of Directors</i> , the Board of Directors shall appoint its secretary at the proposal of the chairman and after a report from the Appointments and Remuneration Committee. The same procedure shall be followed to decide the removal of the secretary.

	Yes	No
Does the appointments committee report on the appointment?	x	
Does the appointments committee report on the removal?	x	
Does the full board approve the appointment?	x	
Does the full board approve the removal?	x	

Is the secretary of the board especially responsible for ensuring compliance with good governance recommendations?

Yes No

Comments
Under section 17.d) of the <i>General Corporate Governance Policy</i> , further developed by article 22.4.b) of the <i>Regulations of the Board of Directors</i> , the secretary has the duty to ensure the formal and substantive legality of all actions taken by the collective management decision-making bodies and conformity thereof with the Company's Corporate Governance System. To such end, the secretary of the Board of Directors shall take into account, among other things, the provisions issued by regulatory authorities and their recommendations, if any.
Among other duties, the secretary is also responsible for advising on the evaluation and update of the Corporate Governance System and for reporting on new corporate governance initiatives at the domestic and international levels.

C.1.35. State the mechanisms, if any, used by the company to preserve the independence of auditors, financial analysts, investment banks, and rating agencies.

1. MECHANISMS TO PRESERVE THE INDEPENDENCE OF THE AUDITOR

- The Audit and Risk Supervision Committee shall receive information from the auditor regarding matters that might risk the independence thereof.
- This Committee shall receive from the auditors, on an annual basis, written confirmation of their independence as well as information on additional services provided to the Company or entities related thereto.
- The auditor shall provide to the Audit and Risk Supervision Committee annual information regarding the profiles and the track record of the persons making up the audit teams, stating the changes in the composition of such teams compared to the preceding financial year and persons added to the Iberdrola Group.
- Such Committee shall issue, on an annual basis and prior to the issuance of the audit report, a report containing an opinion on the independence of the auditor. This report shall in any case pass upon the provision of the additional services referred to above.
- The Audit and Risk Supervision Committee shall monitor the quality assurance and independence safeguarding internal procedures implemented by the auditor.
- This Committee shall not submit a proposal to the Board of Directors, and the Board of Directors shall not submit a proposal to the shareholders at a General Shareholders' Meeting, for appointment of firms as auditor when it has evidence that they are affected by a circumstance of incompatibility or do not satisfy the independence requirements established by the Company's Corporate Governance System.

As a result thereof, during 2014:

- Iberdrola's auditor appeared on 8 occasions before the Audit and Risk Supervision Committee to report on various matters relating to the audit process; no issues arose during such appearances that might put its independence at risk.
- On 11 February 2014, the auditor sent written confirmation of its independence with regard to the audit of financial information for financial year 2013. In addition, on 21 July 2014, the auditor sent written confirmation of its independence with regard to the limited review of financial information through 30 June 2014. The auditor represented in such letters that it had implemented the internal procedures necessary to ensure its independence.
- Contracting of the auditor for services other than auditing is authorised in advance by the Audit and Risk Supervision Committee. Such contracting is supported by the respective letters of the partner responsible for the audit confirming the non-existence of restrictions on independence to perform this work.
- In its written confirmation of 11 February 2014, the auditor reported on the rotation of personnel of the audit team responsible for auditing the accounts of the Company, stating that none of them have joined the Company or its Group.
- On 17 February, the Audit and Risk Supervision Committee issued its report to the Board of Directors regarding the independence of the Company's auditor. The Committee concluded that the auditor performed its audit work with independence from the Company or entities related thereto.
- Finally, pursuant to the points above, on 17 February 2014, the Audit and Risk Supervision Committee proposed to the Company's Board of Directors, for submission to the shareholders at the General Shareholders' Meeting, the re-election of Ernst & Young as the Company's auditor for financial year 2014.

2. MECHANISMS TO PRESERVE THE INDEPENDENCE OF FINANCIAL ANALYSTS, INVESTMENT BANKS, AND RATING AGENCIES

The principles which form the basis of the relations of the Company with financial analysts, investment banks, and rating agencies are transparency, non-discrimination, truthfulness, and trustworthiness of the information supplied. The Finance and Resource Division, through the Investor Relations Division, manages their requests for information and requests submitted by institutional or retail investors (in the case of retail investors, through the Office of the Shareholder). The Finance and Resource Division gives mandates to investment banks. The Development Division gives the appropriate advisory mandates to

investment banks within the scope of its activities, in coordination with the Finance and Resource Division.

The independence of financial analysts is protected by the Investor Relations Division, which ensures the objective, fair, and non-discriminatory treatment thereof.

To actualise the principles of transparency and non-discrimination, always in strict compliance with regulations regarding the Securities Market, the Company has a number of communication channels:

- Personalised assistance for analysts, investors, and rating agencies.
- Publication of the information relating to quarterly results and other specific events, such as those relating to the submission of the Business Prospects or to corporate transactions.
- E-mail through the corporate website (accionistas@iberdrola.com) and a toll-free line for shareholders (+34 900 100 019).
- In-person and broadcast presentations.
- Release of announcements and news.
- Visits to Company facilities.

C.1.36. State whether the Company has changed the external auditor during the financial year. If so, identify the incoming and the outgoing auditor:

Yes No

Outgoing auditor	Incoming auditor

If there has been any disagreement with the outgoing auditor, provide a description thereof:

Yes No

Description of the disagreement

C.1.37. State whether the audit firm performs other non-audit work for the company and/or its group. If so, state the amount of the fees paid for such work and the percentage they represent of the aggregate fees charged to the company and/or its group:

Yes No

	Company	Group	Total
Amount of other non-audit work (thousands of euros)	205	849	1,054
Amount of non-audit work / Aggregate amount billed by the audit firm (%)	5.8	7.1	6.8

C.1.38. State whether the audit report on the annual accounts for the prior financial year has observations or qualifications. If so, state the reasons given by the chair of the audit committee to explain the content and scope of such observations or qualifications.

Yes No

Description of reasons

C.1.39. State the consecutive number of years for which the current audit firm has been auditing the annual accounts of the company and/or its group. In addition, state the percentage represented by such number of financial years audited by the current audit firm with respect to the total number of financial years in which the annual accounts have been audited:

	Company	Group
Number of continuous financial years	9	9

	Company	Group
Number of years audited by the current audit firm / Number of years in which the company has been audited (%)	41	41

C.1.40. State whether there is any procedure for directors to hire external advisory services, and if so, describe it:

Yes No

Describe the procedure
<p>Pursuant to the provisions of article 33 of the <i>Regulations of the Board of Directors</i>, in order to be assisted in the performance of the duties entrusted thereto, any director may request the hiring of legal, accounting, technical, financial, commercial, or other expert advisers, whose services shall be paid for by the Company.</p> <p>The assignment must deal with specific issues of certain significance and complexity arising during the performance of the director's duties.</p> <p>The request for an expert to be hired shall be channelled through the secretary of the Board of Directors, who may subject it to the prior approval of the Board of Directors; such approval may be denied in well-founded instances, including the following circumstances:</p> <ol style="list-style-type: none"> That it is not necessary for the proper performance of the duties entrusted to the directors. That the cost thereof is not reasonable in light of the significance of the issues and the assets and income of the Company. That the technical assistance sought may be adequately provided by the Company's own experts and technical personnel. That it may entail a risk to the confidentiality of the information that must be made available to the expert. <p>Furthermore, article 25.2 of the <i>Regulations of the Audit and Risk Supervision Committee</i>, article 19.2 of the <i>Regulations of the Appointments and Remuneration Committee</i>, and article 16.3 of the <i>Regulations of the Corporate Social Responsibility Committee</i> provide that such committees may seek advice from outside professionals, who shall submit their reports directly to the chair of the relevant committee.</p>

C.1.41. State whether there is any procedure for directors to obtain sufficiently in advance the information required to prepare for meetings of management-level decision-making bodies and, if so, describe it:

Yes No

Describe the procedure

Section 13 of the *General Corporate Governance Policy* provides that “the Company has a programme to provide directors with information and updates in response to the need for professionalisation, diversification, and qualification of the Board of Directors.

Furthermore, in order to improve their knowledge of the Group, presentations are made to the directors in connection with the business of this Group. In addition, at each meeting of the Board of Directors, a specific portion of the meeting may be devoted to a presentation on legal, economic, environmental, or social matters of significance to the Group.

The directors have access to a specific application, the directors’ website, that facilitates performance of their duties and the exercise of their right to receive information. Such information as is deemed appropriate for the preparation of meetings of the Board of Directors and the committees thereof in accordance with the agenda set forth in the respective calls, as well as materials relating to the director training programmes and the presentations made to the Board of Directors, shall be posted on such website.

In addition, the minutes of meetings of the Board of Directors and of the committees thereof, once duly approved, or an abstract or summary thereof, shall be posted on the directors’ website, as well as such information as the Board of Directors may decide to include therein”.

For its part, article 28.4 of the *Regulations of the Board of Directors*, in further development of article 39.2 of the *By-Laws*, provides that any information deemed necessary shall be sent or made available through the directors’ website together with the call to meetings of the Board of Directors, which shall always include the agenda for the meeting unless the requirement may be dispensed with upon duly justified grounds.

In addition, article 34.2.a) of the *Regulations of the Board of Directors* provides that a director is specifically required to “properly prepare the meetings of the Board of Directors and, if applicable, the meetings of the Executive Committee or of the committees of which the director is a member, for which purposes the director must diligently become apprised of the running of the Company and the matters to be discussed at such meetings”.

In order to facilitate the directors’ discharge of their duties, the following initiatives have been implemented:

- The approval by the Board of Directors of the *Directors’ Code of Ethics* of Iberdrola, which provides the directors with an overall view of the rights and duties inherent in their position and is continuously updated.
- The directors’ website, on which the call to and the documents for preparation of each meeting of the Board of Directors are published.
- The development of the programme for information to the directors of Iberdrola pursuant to article 12.4 of the *Regulations of the Board of Directors*, which seeks to achieve the ongoing update of directors and consists of presentations, informational notes, and posts that are included in the directors’ website regarding matters of interest to the directors of the Company, issues of general interest, and specific information on corporate governance and corporate social responsibility.
- The holding of informational meetings led by officers and employees of the Group, at which information is provided regarding activities related to the various business and corporate areas of the Company, as well as training presentations delivered by well-known professionals from outside the Company, at which the directors receive information on matters of topical interest.

C.1.42. State whether the company has established any rules requiring directors to inform the company —and, if applicable, resign from their position— in cases in which the credit and reputation of the company may be damaged, and if so provide a detailed description:

Yes No

Describe the rules

Section 14 of the *General Corporate Governance Policy* sets out the obligations and duties of the

directors, including, as a statement of the duty of loyalty, the duty to resign in the event of supervening incompatibility, lack of competence, prohibition against holding office as a director, and other instances provided for in the Company's Corporate Governance System. As provided by sub-sections c) and d) of article 42.2 of the *Regulations of the Board of Directors*, a director must inform the Company of any judicial, administrative, or other proceedings instituted against the director which, because of their significance or characteristics, may seriously reflect upon the reputation of the Company. In particular, if a director becomes subject to an order for further criminal prosecution upon indictment (*resultar procesado*) or an order for the commencement of an oral trial is issued against the director for the commission of any of the crimes contemplated in section 213 of the Companies Act (*Ley de Sociedades de Capital*), such director shall give notice thereof to the Company, in the person of its president. In such instance, the Board of Directors shall review the case as soon as practicable and shall adopt the decisions it deems fit taking into account the interests of the Company.

In addition, the director must inform the Company of any fact or event that may be relevant to the holding of office as a director.

In addition, directors must submit their resignation to the Board of Directors and formally resign from their position in the events set forth in article 16.2 of the *Regulations of the Board of Directors*, particularly:

- a) When, due to supervening circumstances, they are involved in any circumstance of incompatibility or prohibition governed by provisions of a general nature, the *By-Laws*, or these *Regulations*.
- b) When, as a result of any acts or conduct attributable to the director, serious damage is caused to the value or reputation of the Company or there is a risk to the Company of criminal liability.
- c) When they cease to deserve the respectability or to have the capability, expertise, competence, availability, or commitment to their duties required to be a director of the Company.
- d) When they are seriously reprimanded by the Board of Directors because they have breached any of their duties as directors, by resolution adopted by a two-thirds majority of the directors.
- e) When their continuance in office on the Board of Directors may, for any reason, jeopardise directly, indirectly or through their related persons (pursuant to the definition of this term set forth in these *Regulations*), the faithful and diligent performance of their duties in furtherance of the corporate interest.
- f) When the reasons why the director was appointed cease to exist and, in particular, in the case of proprietary directors, when the shareholder or shareholders who proposed, requested, or decided the appointment thereof totally or partially sell or transfer their equity interest, with the result that such equity interest ceases to be significant or sufficient to justify the appointment.
- g) When an independent director is affected, at any time following the director's appointment as such, by any of the prohibitions against holding office provided for in article 10.2 of these *Regulations*.
- h) When the condition of the activities carried out by the director, or of the companies directly or indirectly controlled by the director, or of the individuals or legal entities that are shareholders of or related to any of them, or of the individual representing a corporate director, may compromise the director's capacity to hold office as such.

In any of the instances set forth in section 2 of article 16 of the *Regulations of the Board of Directors*, the Board of Directors shall request the director to resign from such position and, if applicable, shall propose the director's removal from office to the shareholders at the General Shareholders' Meeting.

By way of exception, the resignation provisions set forth in letters f) and g) of article 16.2 of the *Regulations of the Board of Directors* cited above shall not apply when, after a report from the Appointments and Remuneration Committee, the Board of Directors believes that there are reasons that justify the director's continuance in office, without prejudice to the effect that the new supervening circumstances may have on the classification of the director.

C.1.43. State whether any member of the board of directors has informed the company that such member has become subject to an order for further criminal prosecution upon indictment or that an order for the commencement of a bench trial has been issued against such member for the commission of any of the crimes contemplated in section 213 of the Companies Act:

Yes No

Name of the director	Criminal case	Comments
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State whether the board of directors has analysed the case. If so, provide a duly substantiated explanation of the decision adopted regarding whether or not the director should remain in office or, if applicable, describe the actions taken by the board of directors through the date of this report or that it plans to take.

Yes No

Decision made / action taken	Duly substantiated explanation

C.1.44. Describe the significant agreements entered into by the company that go into effect, are amended, or terminate in the event of a change in control at the company as a result of a takeover bid, and effects thereof.

<p>Iberdrola and its dependent companies (reference to dependent company should be understood to mean that the change in control clause refers thereto) have loans and other agreements with financial institutions, the maturity of which may be affected in the event of a change in control, with the most significant of such agreements being the following:</p> <ol style="list-style-type: none"> i. There are loans that may be accelerated or require additional collateral if there is a change in control due to a public takeover bid, which as a whole represent approximately 1,711 million euros by agreements affected, unless the change in control is not considered to be prejudicial. ii. Similarly, approximately 1,039 million Brazilian reais in issuances and 729 million Brazilian reais in loans corresponding to Elektro would be affected by a change in control of the issuer, unless it occurs as a result of an intra-group reorganisation or is agreed to by the lenders. iii. Furthermore, approximately 9,054 million euros corresponding to the issue of securities in the euromarket would be susceptible to acceleration in the event of a change in control if Iberdrola's credit rating falls below "investment grade" or, if already below that level, falls a notch, provided that the rating agency states that the downgrade in credit rating is due to the change in control. iv. Finally, approximately 943 million euros, 568 million dollars corresponding to Iberdrola Mexico, 286 million Brazilian reais (Elektro) for loans, and 1,150 million dollars for issues by the Iberdrola Group in the USA would be susceptible to acceleration in the event of a change in control of the borrower.
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C.1.45. Identify on an aggregate basis and provide a detailed description of the agreements between the company and its management level and decision-making positions or employees that provide for indemnities, guarantee, or "golden parachute" clauses upon resignation or termination without cause, or if the contractual relationship is terminated as a result of a takeover bid or other type of transaction.

Number of beneficiaries	62
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Type of beneficiary	Description of agreement
Executive directors	Pursuant to the provisions of his contract, the chairman & chief executive officer has the right to receive a severance payment in the event of

	<p>termination of his relationship with the Company, provided that such termination is not the consequence of a breach attributable thereto or exclusively due to his own decision to withdraw. The amount of the severance payment is three times annual salary.</p> <p>Furthermore, in consideration for his two-year non-compete commitment, the chairman & chief executive officer is entitled to severance equal to the remuneration for that period.</p> <p>Since 2011, the <i>Director Remuneration Policy</i> provides that the limit on the amount of such severance under new contracts with executive directors shall be two times their annual salary.</p>
Senior officers	<p>Contracts with senior officers of Iberdrola include specific severance clauses. The purpose of such clauses is to obtain an effective and sufficient level of loyalty from senior officers who are necessary for the management of the Company and thus avoid a loss of experience and knowledge that might jeopardise the achievement of strategic objectives. The amount of the severance is determined based on length of service and the reasons for the senior officer's withdrawal from office, up to a maximum of five times annual salary.</p> <p>Notwithstanding the foregoing, the <i>Senior Officer Remuneration Policy</i> provides since 2011 that the limit on the amount of the severance under new contracts with senior officers shall be two times their annual salary.</p>
Employees	<p>The contracts of employees linked to Iberdrola by an ordinary employment relationship do not generally include specific severance clauses and, accordingly, the general provisions of labour law shall apply in the event of termination of the employment relationship.</p>

State whether such agreements must be reported to and/or approved by the decision-making bodies of the company or its group:

	Board of directors	General shareholders' meeting
Decision-making body approving the provisions	X	

	Yes	No
Is information about these provisions provided to the shareholders at the general shareholders' meeting?	x	

C.2. Committees of the board of directors

C.2.1. Describe all of the committees of the board of directors, the members thereof, and the proportion of proprietary and independent directors of which they are comprised:

EXECUTIVE COMMITTEE

Name	Position	Class
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	CHAIR	Executive director
MR XABIER DE IRALA ESTÉVEZ	MEMBER	Proprietary director
MS INÉS MACHO STADLER	MEMBER	Independent director
MR JOSÉ LUIS SAN PEDRO GUERENABARRENA	MEMBER	Other external director
MR ÁNGEL JESÚS ACEBES PANIAGUA	MEMBER	Independent director

% executive directors	20.00
% proprietary directors	20.00
% independent directors	40.00
% other external	20.00

AUDIT AND RISK SUPERVISION COMMITTEE

Name	Position	Class
MR JULIO DE MIGUEL AYNAT	CHAIR	Independent director
MR SEBASTIÁN BATTANER ARIAS	MEMBER	Independent director
MS GEORGINA KESSEL MARTÍNEZ	MEMBER	Independent director
MS DENISE MARY HOLT	MEMBER	Independent director

% executive directors	0
% proprietary directors	0
% independent directors	100.00
% other external	0

APPOINTMENTS AND REMUNERATION COMMITTEE

Name	Position	Class
MS INÉS MACHO STADLER	CHAIR	Independent director
MR IÑIGO VÍCTOR DE ORIOL IBARRA	MEMBER	Independent director

MR SANTIAGO MARTÍNEZ LAGE	MEMBER	Independent director
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% executive directors	0
% proprietary directors	0
% independent directors	100.00
% other external	0

CORPORATE SOCIAL RESPONSIBILITY COMMITTEE

Name	Position	Class
MS SAMANTHA BARBER	CHAIR	Independent director
MR BRAULIO MEDEL CÁMARA	MEMBER	Independent director
MS MARÍA HELENA ANTOLÍN RAYBAUD	MEMBER	Independent director

% executive directors	0
% proprietary directors	0
% independent directors	100.00
% other external	0

C.2.2. Complete the following table with information regarding the number of female directors comprising the committees of the board of directors for the last four financial years:

	Number of female directors			
	Year t %	Year t-1 %	Year t-2 %	Year t-3 %
Executive Committee	20.00	20.00	16.66	16.66
Audit and Risk Supervision Committee	50.00	33.33	0.00	0.00
Appointments and Remuneration Committee	33.33	33.33	33.33	33.33
Corporate Social Responsibility Committee	66.66	66.66	66.66	50.00

C.2.3. State whether the audit committee has the following duties:

	Yes	No
Supervise the process of preparation and the integrity of the financial information relating to the company and, if applicable, to the group, monitoring compliance with legal requirements, the proper delimitation of the scope of consolidation, and the correct application of accounting principles.	x	
Periodically review the internal control and risk management systems, in order for the main risks to be properly identified, managed, and made known.	x	
Ensure the independence and effectiveness of the internal audit area; make proposals regarding the selection, appointment, re-election, and withdrawal of the head of the internal audit area; propose the budget for such area; receive periodic information regarding its activities; and verify that senior management takes into account the conclusions and recommendations contained in its reports.	x	
Establish and supervise a mechanism whereby the employees may give notice, on a confidential basis and, if deemed appropriate, anonymously, of any potentially significant irregularities, especially of a financial and accounting nature, that they notice at the company.	x	
Submit to the board proposals for the selection, appointment, re-election, and replacement of the external auditor, as well as the contractual terms under which it should be hired.	x	
Regularly receive from the external auditor information regarding the audit plan and the results of the implementation thereof, and verify that senior management takes its recommendations into account.	x	
Ensure the independence of the external auditor.	x	

C.2.4. Describe the rules of organisation and operation of, and the duties assigned to, each of the board committees.

<p>1. EXECUTIVE COMMITTEE</p> <p>The Executive Committee shall be composed of the number of members decided by the Board of Directors, with a minimum of four and a maximum of eight. In all cases, members shall include the chairman of the Board of Directors, and the chief executive officer, if any. The secretary of the Board of Directors shall act as secretary for the meeting.</p> <p>The Executive Committee shall meet as many times as deemed necessary by the chair thereof. It shall also meet when so requested by a minimum of two of the directors sitting on the committee.</p> <p>Resolutions of the Committee shall be adopted by absolute majority of its members who are present at the meeting in person or by proxy.</p> <p>The duties of this Committee consist of making proposals to the Board regarding strategic decisions, investments, and divestitures that are significant for the Company or the Group, assessing their conformity to the budget and the strategic plans and analysing and monitoring business risks.</p> <p>2. AUDIT AND RISK SUPERVISION COMMITTEE</p> <p>The Audit and Risk Supervision Committee is an internal informational and consultative body.</p> <p>The Audit and Risk Supervision Committee shall be composed of a minimum of three and a maximum of five directors appointed from among the external directors who are not members of the Executive Committee. A majority of such directors shall be independent, and at least one of them shall be appointed taking into account the knowledge and experience thereof in the areas of accounting, audit, and risk management.</p> <p>The Board of Directors shall appoint a chair of the Committee from among the independent directors forming part thereof, as well as its secretary, who need not be a director.</p> <p>The members of the Audit and Risk Supervision Committee shall be appointed for a maximum term of four years and may be re-elected on one or more occasions for terms of the same maximum length. The</p>

chair shall hold office for a maximum period of four years, after which period the director who has held office as such may not be re-elected until the passage of at least one year from ceasing to act as such.

A valid quorum shall be established with the attendance at the meeting, in person or by proxy, of a majority of its members, and resolutions shall be adopted by an absolute majority of votes of the members present at the meeting in person or by proxy.

The duties of the Committee are provided in article 44 of the *By-Laws* and are further developed in article 25 of the *Regulations of the Board of Directors*, as well as in the *Regulations of the Audit and Risk Supervision Committee*.

3. APPOINTMENTS AND REMUNERATION COMMITTEE

The Appointments and Remuneration Committee is an internal informational and consultative body.

The Appointments and Remuneration Committee shall be composed of a minimum of three and a maximum of five directors appointed from among the external directors, and the majority thereof must be classified as independent. The Board of Directors also appoints the chair thereof from among the independent directors forming part thereof, as well as its secretary, who need not be a director.

The members of the Appointments and Remuneration Committee shall be appointed for a maximum term of four years and may be re-elected on one or more occasions for terms of the same maximum length.

A valid quorum shall be established with the attendance at the meeting, in person or by proxy, of a majority of its members, and resolutions shall be adopted by an absolute majority of votes of the members present at the meeting in person or by proxy.

The duties of the Committee are provided in article 45 of the *By-Laws* and are further developed in article 26 of the *Regulations of the Board of Directors*, as well as in the *Regulations of the Appointments and Remuneration Committee*.

4. CORPORATE SOCIAL RESPONSIBILITY COMMITTEE

The Corporate Social Responsibility Committee is an internal informational and consultative body.

The Committee shall be composed of a minimum of three and a maximum of five directors appointed from among the external directors, and the majority thereof must be classified as independent. The Board of Directors shall appoint a chair of the Committee from among the members forming part thereof, as well as its secretary, who need not be a director.

The members of the Corporate Social Responsibility Committee shall be appointed for a maximum term of four years and may be re-elected on one or more occasions for terms of the same maximum length.

A valid quorum shall be established with the attendance at the meeting, in person or by proxy, of a majority of its members, and resolutions shall be adopted by an absolute majority of votes of the members present at the meeting in person or by proxy.

The duties of the Committee are provided in article 46 of the *By-Laws* and are further developed in article 27 of the *Regulations of the Board of Directors*, as well as in the *Regulations of the Corporate Social Responsibility Committee*.

As a general rule, the chairs of the Appointments and Remuneration Committee, of the Corporate Social Responsibility Committee, and of the Audit and Risk Supervision Committee shall report to the Board of Directors on the business considered and the resolutions adopted at the meetings thereof at the first meeting of the Board of Directors following those of the respective committee.

C.2.5. State, if applicable, the existence of regulations of the board committees, where such regulations may be consulted, and the amendments made during the financial year. Also state if any annual report of the activities performed by each committee has been voluntarily prepared.

1. AUDIT AND RISK SUPERVISION COMMITTEE

The Audit and Risk Supervision Committee has its own *Regulations*, which may be viewed by interested parties on the Company's website (www.iberdrola.com).

Article 20.2 of the *Regulations of the Audit and Risk Supervision Committee* provides that within three

months following the end of each financial year of the Company, the Committee shall submit to the Board of Directors for approval a report describing its work during the financial year covered by such report, which shall be made available to the shareholders on occasion of the call to the annual General Shareholders' Meeting.

The Report for financial year 2014 was prepared by the Audit and Risk Supervision Committee at its meeting of 16 January 2015.

2. APPOINTMENTS AND REMUNERATION COMMITTEE

The Appointments and Remuneration Committee has its own *Regulations*, which may be viewed by interested parties on the Company's corporate website (www.iberdrola.com).

Article 21.2 of the *Regulations of the Appointments and Remuneration Committee* provides that within three months following the end of the Company's financial year, the Committee shall submit to the Board of Directors for approval a report detailing its work for the financial year covered by the report.

The Report for financial year 2014 was prepared by the Appointments and Remuneration Committee at its meeting of 19 January 2015.

3. CORPORATE SOCIAL RESPONSIBILITY COMMITTEE

The Corporate Social Responsibility Committee has its own *Regulations*, which may be viewed by interested parties on the Company's corporate website (www.iberdrola.com).

Article 18.2 of the *Regulations of the Corporate Social Responsibility Committee* provides that within three months following the end of each financial year of the Company, the Committee shall submit to the Board of Directors for approval a report on its activities during the financial year covered by the report.

The Report for financial year 2014 was prepared by the Corporate Social Responsibility Committee at its meeting of 19 January 2015.

An Activities Report of the Consultative Committees is published for purposes of the call to the General Shareholders' Meeting.

C.2.6. State whether the composition of the executive committee reflects the participation of the different directors within the board based on their category:

Yes No

If no, explain the composition of your executive committee

The Executive Committee of Iberdrola is made up of five directors, one being an executive director, one being a proprietary director, two being independent directors, and finally one classified as other external director.

Iberdrola believes it is essential for both the executive directors and the proprietary director to be part of the Executive Committee. The presence of two independent directors, including the lead independent director (*consejera independiente especialmente facultada*), provides an appropriate balance in the composition thereof, with representation of the various classes of directors of the Company, and also ensures that the duties of the Executive Committee may not be performed along lines different from those reflected by the composition of the Board of Directors.

D. RELATED-PARTY TRANSACTIONS AND INTRAGROUP TRANSACTIONS

D.1. Identify the competent decision-making body and describe any procedures for approving related-party and intragroup transactions.

Competent decision-making body for approving related-party transactions

The Board of Directors, or in urgent cases, the Executive Committee.
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Procedure for the approval of related-party transactions
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Article 41 of the *Regulations of the Board of Directors* provides that:

1. Any transaction by the Company or the companies forming part of its Group with directors, with shareholders that own a shareholding interest that is equal to or greater than that legally regarded as significant at any time or that have proposed the appointment of any of the directors of the Company, or with the respective related persons, shall be subject to the approval of the Board of Directors, or in urgent cases, of the Executive Committee, following a favourable report from the Appointments and Remuneration Committee. In the event that authorisation has been granted by the Executive Committee due to the urgency of the matter, the Executive Committee shall give notice thereof to the Board of Directors at the next meeting thereof.
2. The Board of Directors, through the Appointments and Remuneration Committee, shall ensure that transactions between the Company or the companies forming part of its Group and the directors, the shareholders mentioned in the preceding section, or the respective related persons are carried out under arm's length conditions and with due observance of the principle of equal treatment of shareholders in the same situation.
3. In the case of customary and recurring transactions in the ordinary course of business, it shall be sufficient for the Board of Directors to give prior generic approval of the kind of transaction and of the conditions for performance thereof, following a favourable report from the Appointments and Remuneration Committee.
4. However, no authorisation of the Board of Directors shall be required in connection with transactions that simultaneously satisfy the following three conditions: that they are conducted under contracts whose terms and conditions are standardised and apply on an across-the-board basis to a large number of customers; that they are conducted at prices or rates established generally by the party acting as supplier of the goods or services in question, and that the amount thereof does not exceed one per cent of the annual income of the Company, as reflected in the audited annual accounts for the most recent financial year closed prior to the date of the transaction in question.
5. The Company shall report the transactions mentioned in this article in the *Semi-annual Financial Report* and in the *Annual Corporate Governance Report*, in those cases and to the extent provided for by law. Likewise, the Company shall include in the notes accompanying the annual accounts information regarding the transactions by the Company or by the companies that form part of the Group with the directors and those persons who act for the account of the latter when such transactions are conducted other than in the ordinary course of the Company's business or other than under arm's length conditions.

Similar terms are provided in article 42 of the *Procedure for Conflicts of Interest and Related-Party Transactions with Directors, Significant Shareholders, and Senior Officers*. Articles 15 and 16 of this *Procedure* govern transactions with related persons other than directors and significant shareholders. In such cases, authorisation of the related-party transaction is within the purview of the Corporate Resources Division.

Explain whether the approval of related-party transactions has been delegated, and if so, state the body or persons to which the delegation has been made.

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D.2. Describe those transactions that are significant due to the amount or subject-matter thereof between the company or entities of its group and the company's significant shareholders:

Individual or company name of the significant shareholder	Individual or company name of the company or entity within its group	Nature of the relationship	Type of transaction	Amount (thousands of euros)
KUTXABANK, S.A.	IBERDROLA	Contractual	Interest charged	45
KUTXABANK, S.A.	IBERDROLA	Contractual	Receipt of services	479
KUTXABANK, S.A.	IBERDROLA	Contractual	Interest charged	11
KUTXABANK, S.A.	IBERDROLA	Corporate	Dividends and other distributed benefits	93,278
KUTXABANK, S.A.	IBERDROLA GROUP	Contractual	Interest charged	227
KUTXABANK, S.A.	IBERDROLA GROUP	Contractual	Receipt of services	56
KUTXABANK, S.A.	IBERDROLA GROUP	Contractual	Interest charged	11
KUTXABANK, S.A.	IBERDROLA GROUP	Contractual	Financing agreements: loans	6,601
KUTXABANK, S.A.	IBERDROLA GROUP	Contractual	Security and bonds	2,246
QATAR INVESTMENT AUTHORITY	IBERDROLA	Corporate	Dividends and other distributed benefits	244,543

D.3. Describe those transactions that are significant due to the amount or subject-matter thereof between the company or entities of its group and the company's directors or officers:

Individual or company name of directors or officers	Individual or company name of related party	Relation	Nature of the relationship	Amount (thousands of euros)
Mr Íñigo Íñigo Víctor de Oriol Ibarra	Soil Tratamiento de Aguas Industriales, S.L	Direct (23.4%) and indirect (39.4%) control	Receipt of services	1,695

D.4. Report the significant transactions made by the company with other entities belonging to the same group, provided they are not eliminated in the preparation of the consolidated accounts and they are not part of the ordinary course of business of the company as to their purpose and conditions.

Name of the entity within the group	Amount (thousands of euros)	Brief description of the transaction
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Name of the entity within the group	Amount (thousands of euros)	Brief description of the transaction
Gamesa Group	65,398	Receipt of services
Gamesa Group	200,277	Purchase of tangible assets
Gamesa Group	5	Operating lease agreements
Gamesa Group	1,550	Sale of goods (finished or in progress)

In any case, report any intragroup transaction with entities established in countries or territories considered to be tax havens:

Name of the entity within the group	Brief description of the transaction	Amount (thousands of euros)
Scottish Power Insurance Ltd	Financial interest income	297
Scottish Power Insurance Ltd	Loan	431
Damhead Creek Finance Ltd	Provision of loan	37,343

D.5. State the amount of transactions with other related parties.

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D.6. Describe the mechanisms used to detect, determine, and resolve potential conflicts of interest between the company and/or its group, and its directors, officers, or significant shareholders.

1. CONFLICTS OF INTEREST GENERALLY

As part of its Corporate Governance System, Iberdrola has adopted a *Procedure for Conflicts of Interest and Related-Party Transactions with Directors, Significant Shareholders, and Senior Officers* (in this section, the "Procedure").

The Procedure further develops the provisions of the *Regulations of the Board of Directors* and the *Internal Regulations for Conduct in the Securities Markets*, in order to specify the rules to be observed in conflict of interest situations. It applies to directors, significant shareholders, senior officers, other persons designated by the Compliance Unit, and their related persons, upon the terms expressly defined in the Procedure itself.

2. CONFLICTS OF INTEREST BETWEEN THE COMPANY AND THE DIRECTORS

Article 37 of the *Regulations* defines a conflict of interest as those cases in which there is a conflict, whether direct or indirect, between the interests of the Company or of the companies of the Group and (i) the personal interest of the director, (ii) the interest of a person related thereto, and (iii) in the case of a proprietary director, the interest of the shareholder or shareholders that proposed or made the director's appointment or persons directly or indirectly related thereto.

Such regulation contains a list of persons deemed to be related for such purposes, distinguishing between an individual and a corporate director.

Conflicts of interest shall be governed by the following rules:

- a) Communication: the director must give notice to the Board of Directors, in the person of the chairman or the secretary of the Board of Directors, of any conflict of interest in which the director is involved.
- b) Abstention: the director shall leave the meeting during the deliberation and voting on those matters in which the director is affected by a conflict of interest, and shall not be counted in the number of members attending for purposes of the calculation of a quorum and majorities.

c) Transparency: the Company will report, when appropriate in accordance with legal provisions in effect from time to time, any cases of conflict of interest in which the directors have been involved during the financial year in question and of which the Company is aware by reason of notice given thereto by the director affected by such conflict or by any other means.

However, if the conflict of interest situation is, or may reasonably be expected to be, of a structural and permanent nature, it shall be deemed that there is a loss of the competence required to hold office. In this regard, article 16 of the *Regulations* provides that a loss of competence is an event of resignation, removal, and withdrawal of the director.

3. CONFLICTS OF INTEREST BETWEEN THE COMPANY AND THE SENIOR OFFICERS AND OTHER PERSONS SUBJECT TO CONFLICT OF INTEREST RULES.

The *Procedure* also governs conflicts of interest with respect to senior officers, and subjects them to the same rules of reporting, abstention, and transparency applicable to directors.

4. CONFLICTS OF INTEREST BETWEEN THE COMPANY AND SIGNIFICANT SHAREHOLDERS

Transactions between companies forming part of the Group with significant shareholders or shareholders that have proposed the appointment of any of the Directors and their respective related persons are dealt with in article 41 of the *Regulations of the Board of Directors* mentioned in section D.1.

Finally, article 30 of the *By-Laws* (mentioned in section A.10) also refers to conflicts of interest in which the shareholders might be involved, as it contemplates that those “participating in a merger or split-off with the Company, or who are called to subscribe for an increase in capital with the exclusion of pre-emptive rights or to acquire by overall assignment all of the Company’s assets” may not exercise their voting rights to adopt such resolutions at the General Shareholders’ Meeting. This voting prohibition shall cease to have effect when the Company has been the target of a takeover bid and the circumstances mentioned in section A.10 of this *Report* are present.

5. CONFLICTS OF INTEREST WITH OTHER EMPLOYEES

The *Code of Ethics*, which dedicates a specific section to conflicts of interest, applies to all professionals within the Group, regardless of rank.

D.7. Is more than one company of the group listed in Spain?

Yes No

Identify the subsidiaries listed in Spain:

Listed subsidiaries

State whether they have publicly and accurately defined their respective areas of activity and any possible business relationships among them, as well as those between the listed dependent company and the other companies within the group:

Yes No

Describe the possible business relationships between the parent company and the listed subsidiary, and between the subsidiary and the other companies within the group

Describe the mechanisms established to resolve possible conflicts of interest between the listed subsidiary and the other companies within the group:

Mechanisms for the resolution of possible conflicts of interest

E. RISK CONTROL AND MANAGEMENT SYSTEMS

E.1. Explain the scope of the company's Risk Management System.

The *General Risk Control and Management Policy* and the Risk Policies that further develop it apply to all companies over which the Company has effective control, within the limits established by the laws applicable to the regulated activities carried out by the Group in the various countries in which it operates.

The *General Risk Control and Management Policy* and the basic principles underpinning it are implemented by means of a Comprehensive Risk Control and Management System, supported by a *Risk Committee* of the Group and based upon a proper definition and allocation of duties and responsibilities at the operating level and upon supporting procedures, methodologies, and tools, covering the following stages:

- a) The ongoing identification of significant risks and threats based on their possible impact on key management objectives and the accounts (including contingent liabilities and other off-balance sheet risks).
- b) The analysis of such risks, both at each corporate business or function and taking into account their combined effect on the Group as a whole.
- c) The establishment of a structure of policies, guidelines, and limits, as well as of the corresponding mechanisms for the approval and implementation thereof, which effectively contribute to risk management being performed in accordance with the Company's risk appetite.
- d) The measurement and monitoring of risks, by following consistent procedures and standards that are common to the Group as a whole
- e) The analysis of risks associated with new investments, as an essential element of decision-making based upon profitability/risk.
- f) The maintenance of an internal system for monitoring compliance with policies, guidelines, and limits, by means of appropriate procedures and systems, including the contingency plans needed to mitigate the impact of the materialisation of risks.
- g) The periodic monitoring and control of profit-and-loss account risks in order to control the volatility of the annual income of the Group.
- h) The ongoing evaluation of the suitability and efficiency of applying the system and the best practices and recommendations in the area of risks for eventual inclusion thereof in the model.
- i) The audit of the system by the Internal Audit Division.

Developed in accordance with the following basic action principles:

- a) Integrate the risk/opportunity vision into the Company's management, through a definition of the strategy and the risk appetite and the incorporation of this variable into strategic and operating decisions.
- b) Segregate functions, at the operating level, between risk-taking areas and areas responsible for the analysis, control, and monitoring of such risks, ensuring an appropriate level of independence.
- c) Guarantee the proper use of risk-hedging instruments and the maintenance of records thereof as required by applicable law.
- d) Inform regulatory agencies and the principal external players, in a transparent fashion, regarding the risks facing the Group and the operation of the systems developed to monitor such risks, maintaining suitable channels that favour communication.

- e) Ensure appropriate compliance with the corporate governance rules established by the Company through its Corporate Governance System and the update and continuous improvement of such system within the framework of the best international practices as to transparency and good governance, and implement the monitoring and measurement thereof.
- f) Act at all times in compliance with the law and the Company's Corporate Governance System and, specifically, with due observance of the values and standards of conduct reflected in the *Code of Ethics* and under the principle of *zero tolerance towards* the commission of unlawful acts and situations of fraud set forth in the *Crime Prevention and Anti-Fraud Policy*.

At those companies that are uncontrolled investees to which the Group's *Comprehensive Risk System* does not apply, the Company promotes consistent risk policies and limits and maintains appropriate channels of information to ensure a proper understanding of risks.

E.2. Identify the decision-making bodies of the company responsible for preparing and implementing the Risk Management System.

The Board of Directors of the Company undertakes to develop all of its capabilities in order for the significant risks to all the activities and businesses of the Group to be adequately identified, measured, managed, and controlled, and establishes through the *General Risk Control and Management Policy* the mechanisms and basic principles for appropriate management of the risk/opportunity ratio, at a risk level that makes it possible to:

- a) attain the strategic objectives formulated by the Group with controlled volatility;
- b) provide the maximum level of assurance to the shareholders;
- c) protect the results and reputation of the Group;
- d) defend the interests of customers, shareholders, other groups interested in the progress of the Company, and society in general; and
- e) ensure corporate stability and financial strength in a sustained fashion over time.

1. BOARD OF DIRECTORS

Within its area of authority, and with the support of the Audit and Risk Supervision Committee, it promotes the implementation of the mechanisms required to ensure the adequate identification, measurement, management, and control of all significant risks, defines the Company's strategy and risk profile, and approves the Group's *Risk Policies*.

2. EXECUTIVE COMMITTEE

In order to align the risk impact with the established risk appetite, the Executive Committee of the Board of Directors, acting at the proposal of the business or corporate divisions involved and upon a prior report from the Group's Risk Committee, annually reviews and approves specific guidelines regarding the risk limits from the *Corporate Policies of the Group and of Non-Energy Subsidiaries*.

Pursuant to established guidelines, the competent management decision-making bodies of each company of the Group, within such company's area of responsibility, approves the specific risk limits applicable to each of them and implements the control systems required to ensure compliance with the *General Risk Control and Management Policy* and with the limits thereunder.

3. AUDIT AND RISK SUPERVISION COMMITTEE

As a consultative body of the Board of Directors, it is charged with the following duties:

- a) Continuously review the internal control and risk management systems, such that the principal risks are properly identified, managed, and reported.
- b) Ensure that the Group's risk control and management system identifies at least:
 - The different types of risk (operational, technological, financial, legal, reputational, etc.) the Company is exposed to, including contingent liabilities and other off-balance sheet risks among financial or economic risks.
 - The establishment and review of the risk map and levels that the Company deems acceptable.
 - The measures planned in order to mitigate the impact of identified risks in the event that they

materialise.

- The information and internal control systems that will be used to monitor and manage the aforementioned risks, including contingent liabilities and other off-balance sheet risks.
- c) Maintain appropriate relationships with the Risk Division and with the audit and compliance committees of the other companies of the Group.
- d) Report in advance on the risks of the Group to be included in the Company's *Annual Corporate Governance Report* and give notice thereof to the Board of Directors, through the Corporate Social Responsibility Committee, for an assessment of its conclusions.

4. BOARDS OF DIRECTORS OF COUNTRY SUBHOLDING COMPANIES OF THE PRINCIPAL COUNTRIES IN WHICH THE GROUP OPERATES

They are assigned the power to approve the Risk Policies for the various business of the Group in the country in question as well as to establish the guidelines on limits and specific risk indicators applicable to such businesses, based on the nature and unique aspects of each country.

5. RISK COMMITTEE OF THE GROUP

The Risk Committee of the Iberdrola Group is a technical body chaired by the chief financial officer, which performs executive duties in connection with customary risk management and gives advice to the Group's governance bodies.

The Committee meets, at a minimum, one time per month, with the participation of the Group's director of Risk Management, those responsible for risks at the corporate businesses and areas that have a Risk Management function, the Internal Audit Division, and the Administration and Control Division.

The Group's Credit Risk and Market Risk Committees, which report to the Risk Committee, meet on a fortnightly and monthly basis, respectively.

E.3. Point out the principal risks that could affect the achievement of business goals.

The Group is subject to various risks inherent in the different countries, industries, and markets in which it does business and in the activities it carries out, which may prevent it from achieving its objectives and successfully implementing its strategies.

The section entitled "Main risk factors associated with the activities of the Iberdrola Group" of the Management Report within the Annual Report for financial year 2014 provides a detailed description of the principal risks associated with the activities carried out by the main businesses of the Group, as well as the risks of the corporation.

Owing to its universal and dynamic nature, the comprehensive risk system allows for the consideration of new risks that may affect the Group following changes in its operating environment or revisions of objectives and strategies, as well as adjustments resulting from ongoing monitoring, verification, review, and supervision activities.

Pursuant to the definitions established by the *General Risk Control and Management Policy*, at the Group level, risks are classified as follows:

- a) **Corporate Governance Risks:** the Company assumes the need to safeguard the interests of the Company and the strategy of sustained maximisation of the economic value of the Company and its long-term success, in accordance with the Group's corporate interest, culture, and corporate vision, taking into account the legitimate public and private interests that converge in the conduct of all business activities, particularly those of the various stakeholders and communities and regions in which the Company and its employees act. A fundamental requirement for the foregoing is compliance with the Company's Corporate Governance System, made up of the *By-Laws*, the *Corporate Policies*, the internal corporate governance rules, and the other internal codes and procedures approved by the competent decision-making bodies of the Company and inspired by the good governance recommendations generally recognised in international markets.
- b) **Market Risks:** defined as the exposure of the Group's results and assets to changes in market prices and variables, such as exchange rates, interest rates, commodity prices (electricity, gas, CO2 emission allowances, other fuel, etc.), prices of financial assets, and others.
- c) **Credit Risks:** defined as the possibility that a counterparty fails to perform its contractual obligations, thus causing an economic or financial loss to the Group. Counterparties can be end

customers, counterparties in financial or energy markets, partners, suppliers, or contractors.

- d) **Business Risks:** defined as the uncertainty regarding the performance of key variables inherent in the business, such as the characteristics of demand, weather conditions, the strategies of different players, and others.
- e) **Regulatory Risks:** defined as those arising from regulatory changes made by the various regulators, such as changes in compensation of regulated activities or in the required conditions of supply, environmental regulations, tax laws, and others.
- f) **Operational Risks:** defined as those related to direct or indirect economic losses resulting from inadequate internal procedures, technical failures, human error, or as a consequence of certain external events, including the economic, social, environmental, and reputational impact thereof, as well as legal risks and the risk of fraud.
- g) **Reputational Risks:** potential negative impact on the value of the Company resulting from conduct on the part of the Company that is below the expectations created among various stakeholders: shareholders, customers, media, analysts, Government, employees, and society in general.

E.4. Identify whether the entity has a risk tolerance level.

The Company's Board of Directors annually reviews and approves the acceptable risk tolerance level for the Group.

The *General Risk Control and Management Policy*, together with the specific Risk Policies and limits that develop it, qualitatively and quantitatively establish, in sufficiently detailed form, the risk appetite that is annually accepted at the Group level and at the level of each of its main businesses.

By way of complement, once such limits and guidelines are considered in order to verify the risk assumed globally in the annual profit and loss account, there is a comprehensive probability analysis of the remaining global risk for the year at the time of approving the annual budget, which analysis is updated for each of the three quarterly reviews thereof.

In addition, all new multi-year plans are accompanied by their associated risk analysis.

Corporate risk policies and limits reviewed and approved annually:

- *Corporate Credit Risk Policy*
- Corporate Market Risk Policy
- Operational Risk in Market Transactions Policy
- Insurance Policy
- Investment Policy
- Financing and Financial Risk Policy
- Treasury Share Policy
- *Risk Policy for Equity Interests in Listed Companies*
- Reputational Risk Framework Policy
- Procurement Policy

Risk policies of the various businesses of the Group reviewed and approved annually:

- *Risk Policy for the Liberalised Businesses of the Iberdrola Group*
- *Risk Policy for the Renewables Energy Businesses of the Iberdrola Group*
- *Risk Policy for the Networks Businesses of the Iberdrola Group*
- *Risk Policy for the Non-Energy Businesses of Grupo Iberdrola*

In general terms, the *Corporate Policies*, applicable to all of the Group's businesses, establish the framework and the proper practices for the control, management, and mitigation of the various types of risks and establish overall risk limits to be distributed among the various businesses, measured in the

form of physical, notional, and/or probability figures (VaR, CVaR, etc.), through measures such as:

- Limits to maximum global credit risk exposure by type of counterparty
- Limits to market risk proportional to the volume of activity of each business
- Strict global limit on discretionary energy trading
- Limits on operational risk through preventive maintenance programmes and insurance programmes
- Strict limits on activities not associated with the main energy business
- Other

The Risk Policies of each of the main businesses of the Group establish the framework and the authorised activities for each of them, together with the qualitative and quantitative risk guidelines, limits, and indicators that should be applicable thereto, adjusted to the specific nature of each of them.

The General Risk Control and Management Policy, as well as a summary of the *Corporate Risk Policies* and another summary of the *Specific Risk Policies for the Various Businesses of the Group*, are available on the corporate website (www.iberdrola.com).

E.5. State what risks have materialised during the financial year.

During 2014, the activities of the Iberdrola Group were subject to various risk factors in the countries and markets in which it does business and which, from a global standpoint, did not have a significant impact on the income for the financial year, thanks to the diversification of activities, markets, and geographical areas of the Group, which made it possible for the negative effects of some businesses to be offset by a favourable performance in others.

Risks that have materialised include:

- Publication of a Ministerial Order in Spain establishing the standard values applicable to production plants under the old special regime, which:
- Increases the exposure to market risk of our wind production in Spain (4.7 TWh/year) while assigning a reasonable return to the rest (7.3 TWh/year).
- Puts at risk the viability of all of our slurry treatment and some cogeneration plants, with a total provision of 20 million euros after taxes at the consolidated level.
- The provision for our interest in the Elcogas plant, in Spain, with a total impact of approximately 11 million euros after taxes at the consolidated level.
- Weakness in demand for electricity in Spain and the United Kingdom.
- Continuing low prices for electricity and gas in the United States.
- Write-down of assets and development costs at renewable energy projects in the United States, United Kingdom, and rest of world, in the total after-tax amount of 53 million euros.
- Decision by the FERC (U.S. federal regulator) reducing the future remuneration of our transmission assets in the State of Maine, with an estimated annual impact on EBITDA for Central Maine Power of approximately USD 14 million beginning next year.
- Continuing drought in Brazil, without a significant final impact during the financial year, after the measures adopted by the Brazilian government.
- Write-down of the value of interests of the company in the companies Vinzeo and Amara, in the respective after-tax amounts of 22 and 17 million euros.

Positive developments include:

- An improvement in the perception of Spain risk, which, together with a battery of monetary policy measures adopted by the ECB and improvements in the sovereign rating of our country, has allowed for a new relaxation of the risk premium to levels of around 100 bp and financial issuances on favourable terms.
- The good hydrological year in Spain, with hydroelectric production of approximately 5 TWh above average.
- A satisfactory rate review for our electricity distributor in the USA, Central Maine Power, for the

period September 2014 to September 2015.

- Satisfactory annual rate readjustments for our electricity distributors in Brazil, Elektro and our investee companies Coelba, Cosern, and Celpe, which satisfactorily recognise the increases in costs that they have experienced.
- A strengthening of the listing price for Gamesa above the current book value, which has allowed for a reversion of provisions in the amount of 58 million euros after taxes for the first half of 2014.

In the opinion of the Company, some risk factors, such as those relating to:

- The low international prices for petroleum and other commodities
- Possible new international financial turbulence
- Low prices for gas and electricity in the U.S.
- Low growth in the demand for electricity in Spain and the United Kingdom
- Strong media, regulatory, and political pressure in the United Kingdom against the electricity sector, and
- Possible prolongation of the drought in Brazil,

may continue to be seen during 2015, once again affecting its activities.

E.6. Describe the plans for responding to and supervising the entity's main risks.

The Comprehensive Risk System, together with the Company's control and management policies and systems that develop it, including the Group's Risk Committee and Operating Committee, have allowed for the identification of new risks and threats sufficiently in advance, and to establish appropriate mitigation plans.

The Group's Operating Committee meets on an approximately weekly basis.

The Group's Risk Committee meets on a monthly basis, reviews the various risks, and on a quarterly basis approves a *Quarterly Risk Report of the Group*, which includes the main risk positions, a report on compliance with policies and limits, and an update of the key risk maps.

The Audit and Risk Supervision Committee of the Board of Directors periodically monitors the evolution of the Company's risks at least on a quarterly basis:

- It reviews the *Quarterly Risk Reports of the Group*, which include monitoring compliance with risk limits and indicators and updated key risk maps, submitted by the Group's director of Corporate Risks.
- It coordinates and reviews *Risk Reports* sent periodically (at least semi-annually) by the audit and compliance committees of the country subholding companies and business subholding companies of the Group.
- It prepares a *Risk Report* for the Board of Directors at least semi-annually.

F. INTERNAL RISK CONTROL AND MANAGEMENT SYSTEMS IN CONNECTION WITH THE PROCESS OF ISSUING FINANCIAL INFORMATION (ICFRS)

Describe the mechanisms making up the risk control and management systems with respect to the process of issuing the entity's financial information (ICFRS)

F.1 Control environment at the entity

Indicate at least the following, specifying the main features thereof:

F.1.1. What bodies and/or functions are responsible for: (i) the existence and maintenance of an adequate and effective internal control over financial reporting system (ICFRS); (ii) the implementation thereof; and (iii) oversight thereof.

Based on article 34.5.C.b of the Company's *By-Laws*, the ultimate responsibility for the existence of an adequate and effective internal control over financial reporting system (ICFRS) lies with the Board of Directors of Iberdrola.

The persons in charge of the country subholding companies and the business subholding companies, together with the respective control officers, as well as the directors of the global corporate areas, are responsible for the design and implementation of the ICFRS. Such responsibility is expressly set forth in the certifications signed by such persons on a semi-annual basis in connection with the financial information for their respective areas of responsibility.

Pursuant to paragraphs b) and d) of article 44.4 of the *By-Laws*, as well as article 25.7.d of the *Regulations of the Board of Directors*, the Audit and Risk Supervision Committee is responsible for oversight of the ICFRS. The Committee draws on the support of the Internal Audit Division to discharge such responsibility.

F.1.2. Whether any of the following are in place, particularly as regards the financial information preparation process:

- **Departments and/or mechanisms in charge of: (i) the design and revision of the organisational structure; (ii) clearly defining the lines of responsibility and authority, with an appropriate distribution of work and duties; and (iii) ensuring that there are sufficient procedures for the proper dissemination thereof at the entity.**

The Board of Directors of Iberdrola defines the top-level organisational structure. The heads of such top-level organisations, together with the Human Resources Division, are responsible for deployment within their respective areas.

Each top-level division prepares a proposed organisation structure, including a description of the mission, duties, and responsibilities of the various organisations deployed, which must then be validated by the Human Resources Division and the Finance and Resources Division.

Primary responsibility for the preparation of financial information lies with the corporate Administration and Control Division. Such division establishes the structure of those responsible for Control at the country subholding companies and business subholding companies and is in charge of coordinating and supervising their activities.

- **Code of conduct, body that approves it, degree of dissemination and instruction, principles and values included (indicating whether the recording of transactions and the preparation of financial information are**

specifically mentioned), body in charge of reviewing breaches and of proposing corrective actions and penalties.

The Iberdrola Group has a *Code of Ethics*, approved by the Board of Directors.

According to article 2.1 thereof, “the principles and guidelines for conduct contained in the Code of Ethics apply to all of the Group’s professionals, regardless of seniority, geographic or functional location, or the company of the Group for which they provide their services”. The *Code of Ethics* is communicated to and disseminated among the professionals of the Iberdrola Group in accordance with the plan approved for such purpose by the Compliance Unit.

Article 32.2 of the *Code of Ethics* expressly provides as follows:

“The Group shall provide true, proper, useful, and consistent information regarding its programmes and actions. Transparency of information is a basic principle that must govern the actions of Group professionals.

The economic/financial information of the Group (especially the annual accounts) shall faithfully reflect its economic and financial position and its net worth, in accordance with generally accepted accounting principles and applicable international financial reporting standards. For such purposes, no professional shall conceal or distort the information set forth in the accounting records and reports of the Group, which shall be complete, accurate, and truthful.

A lack of honesty in the communication of information, whether internally within the Group (to employees, subsidiaries, departments, internal bodies, management decision-making bodies, etc.) or outside the Group (to auditors, shareholders and investors, regulatory entities, the media, etc.), is a breach of this *Code of Ethics*. This includes delivering incorrect information, organising it in an incorrect manner, or seeking to confuse those who receive it”.

Control of the application of the *Code of Ethics* is a duty of the Compliance Unit, a body linked to the Corporate Social Responsibility Committee of the Company’s Board of Directors, with duties in the area of regulatory compliance and the Company’s Corporate Governance System. This Unit evaluates and prepares an annual report on the level of compliance with the *Code of Ethics*. The report is transmitted to the Finance and Resources Division, to the Company’s Internal Audit Division, and to the Corporate Social Responsibility Committee. In turn, the latter transmits it to the competent governance bodies, to the Company’s chairman & chief executive officer, and to the Audit and Risk Supervision Committee.

The Compliance Unit also has the duty to determine whether a Group professional has conducted activities in violation of the law or of the *Code of Ethics* and, if applicable, to direct the Finance and Resources Division, or the Division responsible for the human resources function at the relevant Group company, to apply disciplinary measures in accordance with the rules on breach of duties and penalties contained in the collective bargaining agreement to which the professional belongs or in applicable labour law provisions.

Pursuant to article 41.1 of the *Code of Ethics*, the professionals of the Group expressly accept the vision, values, and rules of conduct established therein.

In addition, pursuant to article 41.2, professionals who join or become part of the Group in the future shall expressly accept the vision, values, and rules of conduct set forth in the *Code of Ethics*, which document shall be attached to their respective employment contracts.

- **Reporting channel that makes it possible to report any irregularities of a financial or accounting nature to the audit committee, as well as any possible breach of the code of conduct and irregular activities at the organisation, specifying, if appropriate, whether it is confidential.**

Iberdrola has a procedure in place that must be followed by all employees of the Group who wish to report potentially significant irregularities of a financial and accounting nature and that allows them to report such irregularities, by e-mail or regular mail, to the chair of the Audit and Risk Supervision Committee.

As established in the procedure itself, the Company’s Board of Directors guarantees that the name of the reporting person and the irregularity reported shall be treated in the strictest confidence, both in the reporting process and in any process for the assessment and clarification of the facts conducted by the Audit and Risk Supervision Committee and the organisations of the Company or third parties participating at the request of such Committee.

In accordance with the above-mentioned procedure, the chair of the Audit and Risk Supervision Committee receives and admits the report for further processing. Such admission is made on the basis of the requirements established in the procedure (name of the sender, sufficiently detailed information on the situation reported, need for the report to fall within the scope of the channel, confidentiality guarantee, personal data protection, etc.).

No reports were received during financial year 2014.

- **Regular training and update programmes for personnel involved in the preparation and review of financial information, as well as in the evaluation of the internal control over financial reporting system, covering at least accounting standards, auditing, internal control, and risk management.**

Personnel involved in the preparation and review of financial information, as well as in the evaluation of the internal control over financial reporting system, receives regular training on accounting standards, auditing, internal control, and risk management, according to its specific responsibilities.

In accordance with the organisational structure of the Iberdrola Group, the divisions that have a direct relationship with these types of duties are the Internal Audit Division, the Administration and Control Division, and the Finance and Resources Division.

During financial year 2014, the personnel involved in these duties in Spain received 9,711 hours of training, of which 5,203 hours were dedicated to technical training directly related to the responsibilities discharged by such personnel, which accounts for 53.25% of the training received.

A total of 108 technical courses were organised, most of them taught by external entities (business schools, universities, or specialist consulting firms).

Especially noteworthy is the receipt of the following certificates by Iberdrola professionals in these functional areas:

- Certified Fraud Examiner (CFE), 3 professionals.
- Certified Internal Auditor (CIA), 3 professionals
- Certified in Risk Management Assurance (CRMA), 1 professional

A total of 298 professionals participated in these training activities for personnel involved in the preparation and review of financial information and in the evaluation of the ICFRS.

Apart from the Certified Fraud Examiner (CFE), Certified Internal Auditor (CIA), and Certified in Risk Management Assurance (CRMA) trainings mentioned above, the technical training activities in which these professionals engaged include the following:

- *Tax Updates*
- *Financial Analysis: Profitability, Risk, and Principles of Valuation*
- *Consolidation of Balance Sheets*
- *Consolidation of Financial Statements*
- *Corporate Credit Rating*
- *Corporate Governance for Fraud Prevention*
- *II Bilbao Tax Forum 2013-2014*
- *III Energy and Competitiveness Course*
- *Internal Fraud and Auditory*
- *Tax Reform Seminar 2015*
- *XIX INTERNAL AUDIT CONFERENCE*
- *XXI MEETING ON CONSOLIDATED TAXATION*

F.2 Risk assessment of financial information

Indicate at least the following:

F.2.1. What are the main features of the risk identification process, including the process of identifying the risks of error or fraud, with respect to:

- **Whether the process exists and is documented.**

The process for the identification of risks of error in financial information is one of the most important steps in the method for the development of internal control of the financial information of Iberdrola, and the goals, implementation, and results thereof are documented.

The method starts with a review of financial information at the various business subholding companies and corporate areas, in order to select the most significant accounts and notes to the accounts, in accordance with both quantitative (materiality) and qualitative (business risk and visibility to third parties) standards. The selected accounts and notes are grouped into management cycles or large processes in which the selected information is generated. The cycles are analysed and a description of each is prepared, as a way of identifying possible risks of error in the financial information, in connection with attributes such as completeness, presentation, assessment, cut-off, recording, and validity. The identified risks are submitted to a process of prioritisation, such that the most significant ones are selected by applying professional judgement on a number of indicators (existence of documented processes and controls, existence of systems that automate the processes, whether there have been any incidents in the past, whether the process is known and mature, or whether judgements need to be made to make estimates). The risks of fraud are not explicitly identified, although they are taken into account to the extent that they might generate material errors in financial information.

Once the most significant risks have been selected, the controls needed to mitigate or manage them are selected and designed; such controls are monitored, documented, and systematically reviewed by internal audit.

The risks selected are reviewed at least on an annual basis, within the framework of the assessment of the effectiveness of internal control carried out by the persons or divisions responsible therefor. The purpose of such review is to adjust the risks to the changing circumstances in which the Company operates, particularly in the event of changes in the organisation, information technology systems, regulations, products, or the situation of the markets.

- **Whether the process covers all the objectives of financial information (existence and occurrence; completeness; assessment; presentation, breakdown and comparability, and rights and obligations), whether it is updated, and how often.**

As mentioned above, the cycles or large processes in which financial information is generated are reviewed at least on an annual basis in order to identify possible risks of error, in connection with attributes such as validity (existence and authorisation), completeness, assessment, presentation, cut-off, and recording.

- **The existence of a process for the identification of the scope of consolidation, taking into account, among other matters, the possible existence of complex corporate structures, holding entities, or special purpose entities.**

The scope of consolidation is identified on a monthly basis, and the result thereof is the updated corporate map, which expressly identifies the changes that occurred in each period.

This review covers all companies in which Iberdrola or any of its subsidiaries has an interest, no matter how small.

Furthermore, recommendation 8 of the *Unified Good Governance Code* provides that the Board of Directors must reserve, among other matters, the power to approve the creation or acquisition of equity

interests in special purpose entities or entities registered in countries or territories regarded as tax havens (SPEs), as well as any other transactions or operations of a similar nature that, due to their complexity, might diminish the transparency of the Group. Recommendation 47 of such *Code* provides that the Audit Committee must report to the Board of Directors prior to such decisions being adopted.

These recommendations have been included in the *Regulations of the Board of Directors* and in the *Regulations of the Audit and Risk Supervision Committee* of Iberdrola.

Accordingly, whenever the Company intends to create a special purpose entity or an entity registered in a tax haven, or to acquire an interest in one, the transaction must first be submitted to the Audit and Risk Supervision Committee for it to issue a report and then to the Board of Directors for approval.

There is a specific procedure for such purpose, tailored to the current corporate governance model, according to which such initiative is to be taken by the Division or business subholding company that intends to create or acquire a special purpose company or a company registered in a tax haven. In the case of business subholding companies that have a board of directors and an audit committee, their corporate governance bodies must first review the proposed transaction.

- **Whether the process takes into account the effects of other types of risks (operational, technological, financial, legal, reputational, environmental, etc.) to the extent that they affect the financial statements.**

The process for the identification of risks of error in financial information takes into account the effects of other types of risks (operational, technological, legal, reputational, environmental, etc.) to the extent that they affect the accounts; such risks are assessed and managed by different corporate units such as the Risk Division or Legal Services, among others. However, no express identification of such other types of risks is carried out to identify financial information risks.

- **What governance body of the entity supervises the process.**

The governance body that supervises the process is the Audit and Risk Supervision Committee, which draws on the support of the Internal Audit Division to discharge this responsibility.

F.3 Control activities

Indicate whether at least the following are in place and describe their main features:

- F.3.1. **Procedures for review and authorisation of financial information, and description of the internal control over financial reporting system to be published in the securities market, indicating the persons or divisions responsible therefor, as well as documentation describing the flows of activities and controls (including those relating to risk of fraud) of the various types of transactions that could materially affect the financial statements, including the closing process and the specific review of significant judgements, estimates, assessments, and projections.**

The process or structure of certification of financial information, conducted formally on a semi-annual basis, on the dates of the year-end and interim closing processes, reflects the manner in which financial information is generated in the Group.

In such structure, the persons in charge of the country subholding companies and those responsible for the business subholding companies, together with the respective directors of control, as well as the heads of the global corporate areas, certify both the reliability of the financial information in the areas under their responsibility (which is the information they provide for purposes of consolidation at the group level) and the effectiveness of the internal control system established to reasonably ensure such reliability. Finally, the chairman & chief executive officer, as the highest executive authority, and the director of

Administration and Control, as the person responsible for the preparation of financial information, certify the reliability of the consolidated accounts to the Board of Directors.

The Audit and Risk Supervision Committee, with the support of the Internal Audit Division, supervises the entire certification process, and submits the conclusions of such review to the Board of Directors at the meetings at which the accounts are formally approved.

As regards the description of the internal control over financial reporting system to be published in the securities markets, the review and authorisation procedure is the same as that used for all contents of an economic and financial nature of the *Annual Corporate Governance Report*.

The documentation of the internal control over financial reporting system includes high-level descriptions of the cycles of generation of selected significant financial information, as well as detailed descriptions of the prioritised risks of error and of the controls designed to mitigate or manage them. The description of the controls includes the evidence to be obtained in the implementation thereof, which is necessary for its review.

Each of the closing processes performed at the business units is regarded as a cycle, and the same is true of all the closing activities performed at the corporate level, of the global consolidation process, and of the process for preparation of the notes to the accounts. As a result, all such activities are subject to the methodological process described in the section relating to risks.

The specific review of critical accounting judgements and significant estimates, assessments, and projections is subject to specific controls within the model, since this type of matter entails the identification of risks of error in the different cycles in which they are made. In many cases, the evidence of such specific controls is the media supporting such reviews.

Independently of the certification process followed in the countries, businesses, and corporate areas, the Audit and Risk Supervision Committee, again with the support of the Internal Audit Division, performs an overall review of financial information on a quarterly basis, ensuring that the semi-annual financial reports and the quarterly management statements are prepared using the same accounting standards as the annual financial reports, verifying the proper delimitation of the scope of consolidation as well as the proper application of generally accepted accounting principles and international financial reporting standards.

F.3.2. Policies and procedures of internal control over reporting systems (including, among others, security of access, control of changes, operation thereof, operational continuity, and segregation of duties) that provide support for the significant processes of the entity in connection with the preparation and publication of financial information.

The controls used to mitigate or manage the risks of error in financial information include controls relating to the most significant computer applications, such as controls of user access permissions or of the integrity of the transfer of information between applications.

In addition, the Iberdrola Group has guidelines or regulations as well as procedures for internal control over reporting systems in connection with software acquisition and development, the acquisition of system infrastructure, software installation and testing, change management, service level management, management of the services provided by third parties, system security and access thereto, management of incidents, operation management, continuity of operations, and segregation of duties.

Such guidelines and procedures (which, in some cases, differ according to geographical area or type of solution and are in the process of progressive standardisation) are applied across all information systems supporting significant financial information generation processes, and on the infrastructure required for the operation thereof.

The Systems director of Iberdrola certifies the effectiveness of the internal controls established on information systems on an annual basis.

F.3.3. Internal control policies and procedures designed to supervise the management of activities outsourced to third parties, as well as those aspects of assessment, calculation, or valuation entrusted to independent experts, which may materially affect the accounts.

Generally speaking, the Iberdrola Group has no significant duties outsourced to third parties that have a

direct impact on financial information. The assessments, calculations, or valuations entrusted to third parties that may materially affect the accounts are regarded as significant financial information generating activities that lead, if appropriate, to the identification of high-priority risks of error, which, in turn, entails the design of associated internal controls. Such controls cover the review and internal approval of the basic assumptions to be used, as well as the review of the assessments, calculations, or valuations made by outside parties, by verifying them against calculations made internally.

F.4 Information and communication

Indicate whether at least the following are in place and describe their main features:

F.4.1. A specific function charged with defining and updating accounting policies (accounting policy area or department) and with resolving questions or conflicts arising from the interpretation thereof, maintaining fluid communications with those responsible for operations at the organisation, as well as an updated accounting policy manual that has been communicated to the units through which the entity operates.

The Accounting Regulations Division, reporting directly to the director of Administration and Control, is responsible for defining and updating accounting policies, as well as for resolving questions or conflicts stemming from the interpretation thereof. It maintains fluid communications with those responsible for the operation of the organisation and, especially, with those responsible for accounting functions. It publishes a quarterly newsletter, widely disseminated within the Group, on new accounting developments in connection with IFRS, which includes regulation updates (laws and regulations that come into force, drafts issued, laws and regulations enacted, laws approved and pending approval by the European Union, and expected future laws and regulations) as well as accounting questions asked internally, together with the conclusions in respect thereof.

The Accounting Regulations Division is also responsible for continuously updating the Group's accounting practices manual and for the appropriate dissemination thereof.

The accounting manual is updated continuously. For this purpose, the Accounting Regulations Division analyses whether new developments or changes in accounting matters have an effect on the Group's accounting policies, as well as the effective date of each of such laws or regulations. When a new law or regulation, or interpretation thereof, is identified as having an effect on the Group's accounting policies, it is included in the manual and is also communicated to those responsible for preparing the Group's financial information by means of the quarterly newsletters mentioned above, and there is an update of the application in which the manual is maintained.

The updated version of the manual is available in an application on the Group's internal network. This application is also accessible by VPN over the internet and can be linked to e-mail. Any change or the inclusion of a document within the manual generates a notice by e-mail to all users.

F.4.2. Mechanisms to capture and prepare financial information with standardised formats, to be applied and used by all units of the entity or the group, supporting the principal accounts and the notes thereto, as well as the information provided on the internal control over financial reporting system.

The mechanism to capture and prepare the information supporting the principal accounts of the Iberdrola Group is based primarily on the use of a unified management consolidation tool (known as BPC) accessible from all geographical areas, currently deployed across the entire Group.

A large portion of the information supporting the breakdowns in and notes to the financial information is included in the consolidation tool, and the rest is captured on standardised spreadsheets known as reporting packages, which are prepared for the semi-annual and year-end closing processes.

F.5 Supervision of the operation of the system

Indicate and describe the main features of at least the following:

F.5.1. The activities of supervision of the internal control over financial reporting system performed by the audit committee, as well as whether the entity has an internal audit function whose duties include providing support to the committee in its work of supervising the internal control system, including the internal control over financial reporting system. Information is also to be provided concerning the scope of the assessment of the internal control over financial reporting system performed during the financial year and on the procedure whereby the person or division charged with performing the assessment reports the results thereof, whether the entity has an action plan in place describing possible corrective measures, and whether the impact thereof on financial information has been considered.

The activities of supervision of the internal control over financial reporting system carried out by the Audit and Risk Supervision Committee include basically: (i) monitoring compliance with the certification process by the various persons or divisions responsible for financial information, (ii) reviewing the design and operation of the internal control system, with the support of the Internal Audit Division, to assess the effectiveness thereof, and (iii) periodic meetings with external auditors, internal auditors, and senior management to review, analyse, and discuss financial information, the group companies covered, and the accounting standards applied, as well as, where appropriate, the significant internal control weaknesses detected.

It should be noted that on an annual basis, those responsible for the preparation of the financial information of each country subholding company, each business subholding company, and each corporate area carry out a review of the design and operation of the internal control system within their area of responsibility in order to assess the effectiveness thereof, in a process coordinated by the Internal Control Division.

To that end, an analysis is made of whether, as a result of the changing circumstances in which the Group operates (changes in organisation, systems, processes, products, regulation, etc.), changes in identified risks need to be included and prioritised. A review is also made of whether the design of the controls to mitigate or manage the risks that may have changed is appropriate, as well as whether the controls have functioned properly, in accordance with their design.

The conclusions of this annual review, both as regards the deficiencies detected (which are classified as serious, medium, or slight, according precisely to their possible impact on financial information) and with respect to the action plans to correct them, are submitted at an annual seminar session chaired by the director of Administration and Control, at which the Internal Audit Division is also in attendance. At such meeting, conclusions are reached concerning the effectiveness of the internal control system at each of the different areas for which they are responsible and, overall, at the Group as a whole.

The most significant conclusions of the review performed are subsequently submitted to the Audit and Risk Supervision Committee within the framework of the periodic meetings with the director of Administration and Control.

Independently of the foregoing, the Internal Audit Division (which reports to the chairman & chief executive officer and is functionally controlled by the Audit and Risk Supervision Committee, and which, as provided in the Basic Internal Audit Regulations of Iberdrola and the Companies of its Group, has the primary role of facilitating the review, assessment, and effective supervision of the internal control and significant risk management systems of the Company and its Group), conducts an independent review of the design and operation of the internal control system in support of the Audit and Risk Supervision Committee, identifies deficiencies, and draws up recommendations for improvement.

As a result thereof, the Internal Audit Division continuously monitors the various action plans agreed with the different organisations to correct the deficiencies detected and to implement the suggestions for improvement agreed with the organisations.

The period that the Internal Audit Division plans for an in-depth review of the entire internal control system is three years.

Specifically, during financial year 2014, various cycles of the companies Iberdrola Ingeniería y Construcción S.A., Iberdrola Inmobiliaria S.A, Iberdrola Distribución Eléctrica, S.A, Scottish Power, Ltd., Iberdrola Renovables Energía, S.A., Iberdrola Renewables Holding, Inc., Iberdrola USA Networks, Inc., Iberdrola Energía, S.A. and Elektro Electricidade e Serviços, S.A., were reviewed, as were the corporate areas of Administration and Control, Finance and Treasury, and Legal Services.

In addition, the Internal Audit Division performs a review of the operation of the internal controls regarded as most critical on a semi-annual basis, on the dates of the semi-annual and year-end closing.

The combination of the quarterly reviews and the semi-annual reviews of the most critical controls enables the Internal Audit Division to perform an assessment of the internal control system, as regards the design and operation thereof, and to issue an opinion on the effectiveness of the internal controls established to ensure the reliability of financial information, which it submits to the Audit and Risk Supervision Committee within the framework of their periodic meetings.

F.5.2. Whether it has a discussion procedure whereby the auditor (as provided in the Technical Auditing Standards), the internal audit function, and other experts can inform senior management and the audit committee or the directors of the entity of the significant internal control weaknesses detected during the review of the annual accounts or such other reviews as may have been entrusted to them. Information shall also be provided on whether it has an action plan to seek to correct or mitigate the weaknesses found.

Generally speaking, the procedure for discussion of significant internal control weaknesses detected is based on periodic meetings of the various agents.

Thus, the Audit and Risk Supervision Committee holds meetings, both at the semi-annual and at the year-end closing, with the external auditors, the internal auditors, and the division responsible for preparing financial information, in order to discuss any significant aspect of the preparation process and of the resulting financial information.

Specifically, pursuant to the provisions of its *Regulations* (scope of authority), the Audit and Risk Supervision Committee of Iberdrola has, among other duties, the duty of reviewing, together with the auditors, the significant weaknesses of the internal control system detected in the course of the audit. To such end, the auditor appears before such Committee on an annual basis to submit recommendations in connection with the internal control weaknesses identified during the review of the accounts. Any weaknesses described by the auditor are monitored on an ongoing basis by the Committee, with the support of the Internal Audit Division. The auditors did not highlight any significant internal control weaknesses during financial year 2014.

Furthermore, the division responsible for preparing the consolidated accounts also holds meetings with the external auditors and with the internal auditors, both at the semi-annual and at the year-end closing, to discuss significant issues relating to financial information.

F.6 Other significant information.

Iberdrola has an internal model or system for control over financial reporting, the purpose of which is to reasonably ensure the reliability of the financial information. It is important to note that the development of this model, which commenced in 2006, was not the product of a legal requirement, but rather derived from the firm belief of both the Board of Directors and the senior management of the Company that in a context of growth and internationalisation as the one that could already be envisaged for the Group, an explicit and auditable internal control system would contribute to maintaining and improving its control environment and the quality of financial information; it would also boost investors' trust because of its effects on the transparency, reputation, and good governance of Iberdrola and of the subsidiaries making up the Iberdrola Group.

The Internal Control over Financial Reporting Model or System (ICFRS) of the Iberdrola Group rests on two main pillars: certification and internal control proper.

Certification is a semi-annual process in which those responsible for financial information in the different areas of the Company certify that: (i) the financial information they deliver to Iberdrola for purposes of consolidation does not contain any material errors or omissions and provides a fair view of the results and

the financial condition within their area of responsibility, and (ii) they are responsible for establishing the ICFRS within their area of responsibility and have found, upon evaluation, that the system is effective. This content of the certifications is inspired by the certification model established in section 302 of the US Sarbanes-Oxley Act.

The culmination of the semi-annual process is a joint certification that the chairman & chief executive officer and the director of Administration and Control submit to the Board of Directors.

The other pillar supporting this model, i.e. internal control proper, is patterned on the reference framework described in the report entitled "Internal Control Integrated Framework" of the Committee of Sponsoring Organisations of the Treadway Commission (COSO), and is primarily aimed at providing a reasonable level of security in achieving the aim of reliability of the financial information.

The methodology used by Iberdrola for the development and continuous update of internal control consists of the following stages or steps: (i) analysis and selection of significant financial information, (ii) grouping such information into cycles or large processes in which it is generated, (iii) identification, assessment, and prioritisation of risks of error in financial information within selected cycles, (iv) design and operation of controls in order to mitigate or manage selected risks, and (v) monitoring and update of the previous steps in order to continuously adapt the model to the circumstances of corporate activities.

One of the salient features of the design of this model is that it seeks to guarantee the quality of financial information during all months of the year, such that it is not limited only to the periods of year-end or semi-annual closings.

This feature is strengthened through the use of a specific software application developed in-house by the Group that allows for monitoring of the status of controls at all times.

Another important feature of the model is that it extends the culture of internal control to all of the organisations, both corporate and business, that significantly contribute to generating financial information, by assigning personal responsibility for the implementation and documentation of controls.

All relevant documents in connection with Iberdrola's ICFRS, both regarding the certification process and internal control proper, are contained in the aforementioned computer application.

Those responsible for implementing the controls enter into the computer application evidence of such controls having been performed, and then evaluate the results obtained, which they rate as satisfactory or non-satisfactory. This allows for the internal control situation to be monitored in real time, and also makes it possible to act promptly on any deficiencies detected.

In addition, those responsible for control at the country subholding and business subholding companies, as well as those responsible for the corporate areas, carry out an annual review of the design and operation of the ICFRS, as a systematic process for updating such model in order to adapt it to the changing circumstances of corporate activities.

The annual review is coordinated by the Internal Control Division, which is also responsible for managing the computer application and coordinating the development of the ICFRS in the various business units and corporate areas of the Group.

Moreover, the Internal Audit Division, which is responsible for supervising internal control as part of its duty of support of the Audit and Risk Supervision Committee, performs an independent review of the design and operation of the ICFRS, identifying deficiencies and formulating recommendations for improvement. Such review is carried out in accordance with an established policy of rotation among the different cycles within the model over a period of three years.

The Internal Audit Division also performs a semi-annual independent review of the effectiveness of the internal controls established to guarantee the reliability of financial information. It also reviews the process for certification of financial information on a semi-annual basis. The conclusions of such reviews are submitted to the Audit and Risk Supervision Committee, which, if appropriate, adopts such conclusions and submits them in turn to the Board of Directors.

The current scope of the ICFRS is such that, based on materiality standards, it covers the entire Iberdrola Group. At present, more than 900 persons within the Group use the software application, both to document evidence of the performance of more than 2,100 controls (which mitigate or manage more than 900 risks of error in financial information that have been prioritised) and to monitor, analyse, adjust, and assess the ICFRS.

Furthermore, approximately 60 officers who participate in the process of certification of the accuracy of information under their responsibility do so by using an electronic signature directly on the computer application.

As a consequence of all of the foregoing, the final result of the certification process, which is based on the situation of internal control proper, can be reviewed by the Board of Directors of Iberdrola as one of the significant guarantees of reliability in connection with the preparation of the Group's annual and interim

financial information.

F.7 External audit report

Report on:

F.7.1. Whether the information on the internal control over financial reporting system has been reviewed by the external auditor, in which case the entity should include the respective report as an exhibit. Otherwise, it should provide the reasons therefor.

The information on the internal control over financial reporting system sent to the markets has not been reviewed by the external editor for reasons of consistency with the fact that the rest of the information set forth in the *Annual Corporate Governance Report* is only reviewed by the auditor in connection with the accounting information contained in such report. It is also believed that having the information on the internal control over financial reporting system reviewed externally would in a certain manner overlap the internal control review to be performed by the external auditor, according to technical auditing standards, within the context of the audit of the accounts.

G. DEGREE TO WHICH CORPORATE GOVERNANCE RECOMMENDATIONS ARE FOLLOWED

State the company's degree of conformance to the recommendations of the Unified Good Governance Code.

If the company does not comply with any recommendation or follows it partially, there must be a detailed explanation of the reasons providing shareholders, investors, and the market in general with sufficient information to assess the company's course of action. Generalised explanations will not be acceptable.

1. The By-Laws of listed companies do not limit the maximum number of votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of the acquisition of its shares on the market

See sections: A.10, B.1, B.2, C.1.23, and C.1.24.

Complies Explain

Article 29.3 of the *By-Laws* provides that "no shareholder may cast a number of votes greater than those corresponding to shares representing ten (10%) per cent of share capital, even if the number of shares held exceeds such percentage of the share capital. This limitation does not affect votes corresponding to shares with respect to which a shareholder is holding a proxy as a result of the provisions of article 23 above, provided, however, that with respect to the number of votes corresponding to the shares of each shareholder represented by proxy, the limitation set forth above shall apply".

Section 4 of such article adds: "The limitation set forth in the preceding section shall also apply to the maximum number of votes that may be collectively or individually cast by two or more shareholders that are entities or companies belonging to the same group. Such limitation shall also apply to the number of votes that may be cast collectively or individually by an individual and the shareholder entity, entities, or companies controlled by such individual. A group shall be deemed to exist under the circumstances provided by law, and also when a person controls one or more entities or companies".

Iberdrola believes that the limitation on the maximum number of votes that may be cast by a single shareholder, or by several shareholders belonging to the same group or, if applicable, acting in concert, is a measure to protect the many minority shareholders, whose investment is thus guarded from any transaction that is contrary to the corporate interest of Iberdrola. In this regard, it should be noted that approximately one-fourth of Iberdrola's capital is held by retail investors, who thus have little room to manoeuvre and respond to a possible influence-seeking shareholder that owns a non-controlling interest but does not reach the threshold requiring a takeover bid, and whose interest is not totally in line with the corporate interest.

It should also be noted that such voting limitation has been in effect since 16 June 1990, the date on which the General Shareholders' Meeting was held at which it was resolved, by unanimous vote of the attendees, to bring the *By-Laws* of the Company (then doing business as Iberduero, S.A.) into line with the restated text of the Companies Act approved by Royal Legislative Decree 1564/1989 of 22 December. This shows the level of corporate consensus that has existed on such voting limitation from the very beginning, which has been confirmed by the fact that such limitation has remained unchanged through various by-law amendments passed by the shareholders at General Shareholders' Meetings. In turn, it reflects the will of the shareholders to increase their bargaining power in the event of hostile offers or transactions.

In any event, article 56 of the current *By-Laws* establishes the instances of removal of such voting limitation in the event that the Company is the target of a takeover bid that receives the required shareholder approval, in which case the provisions of section 527 of the Companies Act prevail. Pursuant thereto, the limitation on the maximum number of votes that may be cast by a shareholder does not constitute an obstacle to a takeover bid.

2. When both the parent company and a company controlled by it are listed companies, they both provide detailed public disclosure on:

- a) Their respective areas of activity, and any business dealings between them, as well as between the controlled listed company and other companies belonging to the group;
- b) The mechanisms in place to resolve any conflicts of interest that may arise.

See sections: D.4 and D.7

Complies Complies in part Explain Not applicable

3. Even if not expressly required under applicable commercial laws, transactions involving a structural change of the company and, in particular, the following, are submitted to the shareholders at the general shareholders' meeting for approval:

- a) The transformation of listed companies into holding companies through "subsidiarisation", i.e. reallocating to controlled entities core activities that were previously carried out by the company itself, even if the latter retains full ownership of the former;
- b) The acquisition or disposal of key operating assets, when it involves an actual change in the object of the company;
- c) Transactions whose effect is tantamount to the liquidation of the company.

See section: B.6

Complies Complies in part Explain

4. Detailed proposals of the resolutions to be adopted at the general shareholders' meeting, including the information to which recommendation 27 refers, are made public at the time of publication of the announcement of the call to the general shareholders' meeting.

Complies Explain

5. Matters that are substantially independent are voted on separately at the general shareholders' meeting, in order to allow the shareholders to express their voting preferences separately. This rule applies, in particular:

- a) To the appointment or ratification of directors, which shall be voted on individually;
- b) In the event of amendments of the By-Laws, to each article or group of articles that are substantially independent of one another.

Complies Complies in part Explain

6. Companies allow split votes so financial intermediaries who are recorded as having shareholder status but act for the account of different clients can divide their votes in accordance with the instructions given by such clients.

Complies Explain

7. The board performs its duties with a unity of purpose and independent judgement, affording equal treatment to all shareholders in furtherance of the corporate interest, which shall be understood to mean the optimisation, in a sustained fashion, of the financial value of the company.

It likewise ensures that in its dealings with stakeholders, the company abides by the laws and regulations, fulfils its obligations and contracts in good faith, respects the customs and good practices of the industries and territories in which it carries on its business, and upholds any other social responsibility standards to which it has voluntarily adhered.

Complies Complies in part Explain

8. The board assumes responsibility, as its core mission, for approving the company's strategy and the organisation required to put it into practice, and to ensure that Management meets the objectives set while pursuing the company's interest and the object of the company. As such, the full Board reserves for itself the right to approve:

a) The company's policies and general lines of strategy, and in particular:

- i. Strategic or business plan, as well as management objectives and annual budgets;
- ii. Investment and financing policy;
- iii. Definition of the structure of the group of companies;
- iv. Corporate governance policy;
- v. Corporate social responsibility policy;
- vi. Policy regarding remuneration and evaluation of performance of senior management;
- vii. Risk control and management policy, as well as the periodic monitoring of the internal information and control systems.
- viii. Dividend policy, as well the treasury share policy and, especially, the limits thereto.

See sections: C.1.14, C.1.16, and E.2

b) The following decisions:

- i. At the proposal of the company's chief executive, the appointment and, if applicable, the removal of senior officers, as well as their severance provisions.
- ii. The remuneration of directors and, in the case of executive directors, the additional remuneration for their executive duties and other terms and conditions that must be included in their contracts.
- iii. The financial information that the company must periodically make public due to its status as listed company.

- iv. Investments or transactions of all kinds which are strategic in nature due to the large amount or special characteristics thereof, unless approval thereof falls upon the shareholders at the general shareholders' meeting.
 - v. The creation or acquisition of interests in special-purpose entities or entities registered in countries or territories regarded as tax havens, as well as any other transactions or operations of a similar nature whose complexity might impair the transparency of the group.
- c) Transactions made by the company with directors, with significant shareholders or shareholders with Board representation, or with other persons related thereto ("related-party transactions").

However, board authorisation need not be required in connection with related-party transactions that simultaneously meet the following three conditions:

1. They are governed by standard-form agreements applied on an across-the-board basis to a large number of clients;
2. They are conducted at prices or rates generally set by the party acting as supplier of the goods or services in question;
3. The amount thereof is no more than 1% of the company's annual revenues.

It is recommended that related-party transactions only be approved by the board upon a prior favourable report from the audit committee or such other committee handling the same function; and that the directors affected thereby should neither exercise nor delegate their votes, and should withdraw from the meeting room while the board deliberates and votes on the transaction.

It is recommended that the powers granted herein to the board are conferred without the power of delegation, except for those mentioned under b) and c) above, which may, for urgent reasons, be adopted by the executive committee subject to subsequent ratification by the full board.

See sections: D.1 and D.6

Complies Complies in part Explain

9. In order to operate effectively and in a participatory manner, the board ideally is comprised of no fewer than five and no more than fifteen members.

See section: C.1.2

Complies Explain

10. External directors, proprietary and independent, occupy an ample majority of the board and the number of executive directors is the minimum necessary number, bearing in mind the complexity of the corporate group and the percentage interest held by the executive directors in the company's share capital.

See sections: A.3 and C.1.3.

Complies Complies in part Explain

- 11. Among external directors, the relation between the number of proprietary directors and independent directors reflects the proportion existing between the share capital of the company represented by proprietary directors and the rest of its capital.**

This strict proportionality standard can be relaxed so that the weight of proprietary directors is greater than would correspond to the total percentage of the share capital that they represent:

- 1. In large cap companies where few or no equity stakes attain the legal threshold regarded as significant, but there are shareholders holding interests with a high absolute value.**
- 2. In companies with a plurality of unrelated shareholders represented on the board.**

See sections: A.2, A.3, and C.1.3

Complies Explain

- 12. The number of independent directors represents at least one-third of the total number of directors.**

See section: C.1.3

Complies Explain

- 13. The status of each director is explained by the board at the general shareholders' meeting at which the shareholders are to make or ratify their appointment and such status is confirmed or reviewed, as the case may be, annually in the Annual Corporate Governance Report, after verification by the appointments committee. Said report also discloses the reasons for the appointment of proprietary directors at the proposal of shareholders controlling less than 5% of the share capital, as well as the reasons for not having accommodated formal petitions, if any, for presence on the board from shareholders whose equity stake is equal to or greater than that of others at whose proposal proprietary directors have been appointed.**

See sections: C.1.3 and C.1.8

Complies Complies in part Explain

- 14. When the number of female directors is scant or nil, the appointments committee takes steps to ensure that when new vacancies are filled:**

- a) Selection procedures do not have an implied bias that hinders the selection of female directors;**
- b) The company deliberately looks for women with the target professional profile and includes them among the potential candidates.**

See sections: C.1.2, C.1.4, C.1.5, C.1.6, C.2.2, and C.2.4.

Complies Complies in part Explain Not applicable

- 15. The chair, as the person responsible for the effective operation of the board, ensures that directors receive adequate information in advance of board meetings; promotes debate and the active involvement of directors during board meetings; safeguards their rights to freely take a position and express their opinion; and, working with the chairs of the appropriate committees, organises and coordinates regular evaluations of the Board and, where appropriate, of the chief executive officer.**

See sections: C.1.19 and C.1 41

Complies Complies in part Explain

- 16. When the chair of the board is also the chief executive of the company, one of the independent directors is authorised to request the call to a board meeting or the inclusion of new business on the agenda; to coordinate and hear the concerns of external directors; and to lead the board's evaluation of the chair.**

See section: C.1.22

Complies Complies in part Explain Not applicable

- 17. The secretary of the board takes particular care to ensure that the board's actions:**

- a) Adhere to the letter and the spirit of laws and their implementing regulations, including those approved by the regulatory authorities;
- b) Comply with the company's By-Laws and the Regulations for the general shareholders' meeting, the Regulations of the board and other regulations of the company;
- c) Are informed by those good governance recommendations included in this Unified Code as the company has subscribed to.

And, in order to safeguard the independence, impartiality, and professionalism of the secretary, the appointment and removal thereof are reported upon by the appointments committee and approved by the full board; and that such appointment and removal procedures are set forth in the regulations of the board.

See section: C.1.34

Complies Complies in part Explain

- 18. The board meets with the frequency required to perform its duties efficiently, in accordance with the schedule and agendas set at the beginning of the financial year, and each director is entitled to propose items of the agenda that were not originally included therein.**

See section: C.1.29

Complies Complies in part Explain

19. Directors' absences are limited to unavoidable cases and quantified in the Annual Corporate Governance Report. And when there is no choice but to grant a proxy, it is granted with instructions.

See sections: C.1.28, C.1.29 and C.1.30

Complies Complies in part Explain

20. When directors or the secretary express concerns about a proposal or, in the case of the directors, regarding the running of the company, and such concerns have not been resolved at a board meeting, such concerns are recorded in the minutes at the request of the person expressing them.

Complies Complies in part Explain Not applicable

21. The full board evaluates the following on a yearly basis:

- a) The quality and efficiency of the board's operation;
- b) On the basis of a report submitted to it by the appointments committee, how well the chair of the board and the chief executive of the company have carried out their duties;
- c) The performance of its committees, on the basis of the reports furnished by them.

See sections: C.1.19 and C.1.20

Complies Complies in part Explain

22. All directors are able to exercise the right to request any additional information they require on matters within the board's purview. Unless the by-laws or the regulations of the board provide otherwise, such requests are addressed to the chair or the secretary of the board.

See section: C.1.41

Complies Explain

23. All directors are entitled to call on the company for the advice they need to carry out their duties. The company provides suitable channels for the exercise of this right, which, in special circumstances, may include external advice at the company's expense.

See section: C.1.40

Complies Explain

24. Companies organise induction programmes for new directors to rapidly and adequately acquaint them with the company and its corporate governance rules. Directors are also offered refresher training programmes when circumstances so advise.

Complies Complies in part Explain

25. Companies require that directors devote sufficient time and effort to perform their duties efficiently, and, as such:

- a) Directors apprise the appointments committee of their other professional duties, in case they might detract from the necessary dedication;**
- b) Companies lay down rules about the number of boards on which their directors may sit.**

See sections: C.1.12, C.1.13, and C.1.17

Complies Complies in part Explain

26. The proposal for the appointment or re-election of directors that the board submits to the shareholders at the general shareholders' meeting, as well as the interim appointment of directors to fill vacancies, are approved by the board:

- a) At the proposal of the appointments committee, in the case of independent directors.**
- b) Subject to a prior report from the appointments committee, in the case of other directors.**

See section: C.1.3

Complies Complies in part Explain

27. Companies post the following director information on their websites, and keep such information updated:

- a) Professional profile and biographical data;**
- b) Other boards of directors of listed or unlisted companies on which they sit;**
- c) Statement of the director's classification, specifying, for proprietary directors, the shareholder they represent or to whom they are related.**
- d) Date of their first and subsequent appointments as a company director; and**
- e) Shares held in the company and options thereon held by them.**

Complies Complies in part Explain

28. Proprietary directors tender their resignation when the shareholder they represent sells its entire shareholding interest. The appropriate number of them do likewise when such shareholder reduces its interest to a level that requires a reduction in the number of its proprietary directors.

See sections: A.2, A.3, and C.1.2

Complies Complies in part Explain

- 29. The board of directors does not propose the removal of any independent director prior to the expiration of the term set by the by-laws for which such director was appointed, except where good cause is found by the board upon a prior report from the appointments committee. In particular, good cause shall be deemed to exist whenever the director has failed to perform the duties inherent in the position held thereby or comes under any of the circumstances causing the director to no longer be independent pursuant to the provisions of Order ECC/461/2013.**

The removal of independent directors may also be proposed as a result of takeover bids, mergers, or other similar corporate transactions that entail a change in the equity structure of the company, when such changes in the structure of the board follow from the proportionality standard mentioned in Recommendation 11.

See sections: C.1.2, C.1.9, C.1.19, and C.1.27

Complies Explain

- 30. Companies establish rules obliging directors to report and, if appropriate, to resign in those instances as a result of which the credit and reputation of the company might be damaged and, in particular, they require that such directors report to the board any criminal charges brought against them, and the progress of any subsequent proceedings.**

If a director is indicted or tried for any of the crimes described in section 213 of the Companies Act, the board examines the matter as soon as practicable and, in view of the particular circumstances thereof, decides whether or not it is appropriate for the director to continue to hold office. And the board provides a substantiated account thereof in the Annual Corporate Governance Report.

See sections: C.1.42, C.1.43

Complies Complies in part Explain

- 31. All directors clearly express their opposition when they feel that any proposed resolution submitted to the board might be contrary to the best interests of the company. And in particular, independent directors and the other directors not affected by the potential conflict of interest do likewise in the case of decisions that could be detrimental to the shareholders lacking board representation.**

When the board adopts material or reiterated resolutions about which a director has expressed serious reservations, such director draws the pertinent conclusions and, if such director chooses to resign, sets out the reasons in the letter referred to in the next recommendation.

This Recommendation also applies to the secretary of the board, even if the secretary is not a director.

Complies Complies in part Explain Not applicable

- 32. Directors who give up their place before their tenure expires, through resignation or otherwise, explain the reasons in a letter sent to all members of the board. Without prejudice to such withdrawal being communicated as a significant event, the reason for the withdrawal is explained in the Annual Corporate Governance Report.**

See section: C.1.9

Complies Complies in part Explain Not applicable

- 33. Remuneration paid by means of delivery of shares in the company or companies that are members of the group, share options or instruments indexed to the price of the shares, and variable remuneration linked to the company's performance or pension schemes is confined to executive directors.**

This recommendation shall not apply to the delivery of shares when such delivery is subjected to the condition that the directors hold the shares until they cease to hold office as directors.

Complies Complies in part Explain Not applicable

- 34. The remuneration of external directors is such as is necessary to compensate them for the dedication, qualifications, and responsibility required by their position, but is not so high as to compromise their independence.**

Complies Explain Not applicable

- 35. The remuneration linked to company earnings takes into account any qualifications included in the external audit report that reduce such earnings.**

Complies Explain Not applicable

- 36. In the case of variable remuneration, remuneration policies include technical limits and safeguards required to ensure that such remuneration reflects the professional performance of the beneficiaries thereof and not simply the general performance of the markets or of the industry in which the company does business or other similar circumstances.**

Complies Explain Not applicable

- 37. When there is an executive committee (hereinafter, "executive committee"), the breakdown of its members by director category is similar to that of the board, and its secretary is the secretary of the board.**

See sections: C.2.1 and C.2.6

Complies Complies in part Explain Not applicable

The Executive Committee of Iberdrola is made up of five directors, and the secretary of the Board of Directors serves as secretary of such Executive Committee. As regards its composition, the Board of Directors of the Company has an executive director, an external director, and a proprietary director. Their membership in the Executive Committee causes their relative weight at such Committee to be necessarily greater than that on the Board of Directors. However, Iberdrola believes that it is essential for them to be a part of the Executive Committee. In any event, the Executive Committee has two independent directors, one of them being the coordinating director (*consejera coordinadora*), which provides adequate equilibrium in the composition thereof, with representation of the various classes of directors of the Company, and ensures that their duties may not be performed along lines different from those reflected by the composition of the Board of Directors.

38. The board is always kept informed of the matters dealt with and the resolutions adopted by the executive committee, and all members of the Board receive a copy of the minutes of the meetings of the executive committee.

Complies Explain Not applicable

39. In addition to the audit committee mandatory under the Securities Market Act, the board of directors forms a single appointments and remuneration committee as a separate committee of the board, or an appointments committee and a remuneration committee.

The rules governing the make-up and operation of the audit committee and the appointments and remuneration committee or committees are set forth in the regulations of the board, and include the following:

- a) The board appoints the members of such committees, taking into account the background knowledge, qualifications, and experience of the directors and the responsibilities of each committee, discusses its proposals and reports, and receives a report, at the first meeting of the full board following the meetings of such committees, on their activities and the work done.
- b) These committees are formed exclusively of external directors and have a minimum of three members. The foregoing is without prejudice to the attendance of executive directors or senior officers, when expressly resolved by the members of the committee.
- c) Committee chairs are independent directors.
- d) They may receive external advice, whenever they feel this is necessary for the discharge of their duties.
- e) Minutes are prepared of their meetings, and a copy is sent to all board members.

See sections: C.2.1 and C.2.4

Complies Complies in part Explain

40. Supervising compliance with internal codes of conduct and corporate governance rules is entrusted to the audit committee, the appointments committee or, if they exist separately, to the compliance or corporate governance committee.

See sections: C.2.3 and C.2.4

Complies Explain

- 41. The members of the audit committee and, particularly, the chair thereof, are appointed taking into account their background knowledge and experience in accounting, auditing, and risk management matters.**

Complies Explain

- 42. Listed companies have an internal audit function which, under the supervision of the audit committee, ensures the smooth operation of the information and internal control systems.**

See section: C.2.3

Complies Explain

- 43. The head of internal audit presents an annual work plan to the audit committee; reports to it directly on any issues arising in the execution of such plan; and submits an activities report to it at the end of each financial year.**

Complies Complies in part Explain

- 44. The risk control and management policy specifies at least:**

- a) The different types of risk (operational, technological, financial, legal, reputational, etc.) the company is exposed to, including contingent liabilities and other off-balance sheet risks among financial or economic risks;**
- b) The determination of the risk level the company sees as acceptable;**
- c) The measures planned in order to mitigate the impact of identified risks in the event that they materialise;**
- d) The internal reporting and control systems to be used to monitor and manage the above risks, including contingent liabilities and off-balance sheet risks.**

See section: E

Complies Complies in part Explain

- 45. The audit committee's role is to:**

- 1. With respect to the internal control and reporting systems:**

- a) Properly manage and disclose the main risks, if any, identified as a result of supervising the effectiveness of the internal control of the company and internal auditing.**
- b) Ensure the independence and effectiveness of the internal audit area; make proposals regarding the selection, appointment, re-election, and withdrawal of the head of the internal audit area; propose the budget for such area; receive periodic information regarding its activities; and verify that senior management**

takes into account the conclusions and recommendations contained in its reports.

- c) Establish and supervise a mechanism whereby the employees may give notice, on a confidential basis and, if deemed appropriate, anonymously, of any potentially significant irregularities, especially of a financial and accounting nature, that they notice at the company.

2. With respect to the external auditor:

- a) Regularly receive from the external auditor information regarding the audit plan and the results of the implementation thereof, and verify that senior management takes its recommendations into account.
- b) Ensure the independence of the external auditor, to which end:
- i. The company reports a change of auditor to the CNMV as a significant event, accompanied by a statement of any disagreements with the outgoing auditor and the reasons for the same.
 - ii. In the event of resignation of the external auditor, the committee investigates the circumstances that may have given rise thereto.

See sections: C.1.36, C.2.3, C.2.4, and E.2

Complies Complies in part Explain

- 46. The audit committee may cause any company employee or officer to appear before it, and even order their appearance without the presence of any other officer.**

Complies Explain

- 47. The audit committee reports to the board, prior to the adoption thereby of the corresponding decisions, on the following matters specified in Recommendation 8:**

- a) The financial information that the company must periodically make public due to its status as listed company. The committee should ensure that interim accounts are prepared under the same accounting standards as the annual accounts and, to this end, consider whether a limited review by the external auditor is appropriate.
- b) The creation or acquisition of interests in special-purpose entities or entities registered in countries or territories regarded as tax havens, as well as any other transactions or operations of a similar nature whose complexity might impair the transparency of the group.
- c) Related-party transactions, unless such prior reporting duty has been assigned to another supervision and control committee.

See sections: C.2.3 and C.2.4

Complies Complies in part Explain

- 48. The board of directors seeks to present the accounts to the shareholders at the general shareholders' meeting without reservations or qualifications in the audit report and, in the exceptional instances where they do exist, both the chair of the**

audit committee and the auditors give a clear account to the shareholders of the content and scope of such reservations or qualifications.

See section: C.1.38

Complies Complies in part Explain

49. The majority of the members of the appointments committee –or of the appointments and remuneration committee, if one and the same– are independent directors.

See section: C.2.1

Complies Complies in part Explain

50. The appointments committee has the following duties, in addition to those stated in the preceding recommendations:

- a) **To assess the qualifications, background knowledge, and experience necessary to sit on the Board, defining, accordingly, the duties and qualifications required of the candidates to fill each vacancy, and decide the time and dedication necessary for them to properly perform their duties.**
- b) **To examine or organise, in the manner it deems appropriate, the succession of the chair and the chief executive and, if appropriate, make proposals to the board for such succession to take place in an orderly and well-planned manner.**
- c) **To report on senior officer appointments and removals that the chief executive proposes to the board.**
- d) **To report to the board on the gender diversity issues discussed in Recommendation 14 of this Code.**

See section: C.2.4

Complies Complies in part Explain Not applicable

51. The appointments committee consults with the company’s president and the chief executive, especially on matters relating to executive directors.

And that any board member may request that the appointments committee consider possible candidates to fill vacancies for the position of director, if it finds them suitably qualified.

Complies Complies in part Explain Not applicable

52. The remuneration committee is responsible for the following duties, in addition to those set forth in the preceding recommendations:

- a) **To propose to the board of directors:**
 - i. **The remuneration policy for directors and senior officers;**
 - ii. **The individual remuneration of executive directors and other terms of their contracts.**

- iii. The basic terms and conditions of the contracts with senior officers.
b) To ensure compliance with the remuneration policy set by the company.

See sections: C.2.4

Complies Complies in part Explain Not applicable

53. The remuneration committee consults with the chair and the chief executive of the company, especially on matters relating to executive directors and senior officers.

Complies Explain Not applicable

H. OTHER INFORMATION OF INTEREST

- 1. If there are any significant aspects regarding corporate governance at the company or at entities of the group that is not included in the other sections of this report, but should be included in order to provide more complete and well-reasoned information regarding the corporate governance structure and practices at the entity or its group, briefly describe them.**

SECTION A.1

The shareholders acting at the General Shareholders' Meeting of the Company held on 22 March 2013 approved two increases in share capital by means of scrip issues in order to implement, for the fourth consecutive year, the shareholder compensation system called "Iberdrola Flexible Dividend" ("*Iberdrola Dividendo Flexible*"), which allows the shareholders to decide whether they prefer to receive all or part of their compensation in cash or in Iberdrola bonus shares.

The second increase in capital took place in January 2014, when the traditional interim dividend for financial year 2013 would otherwise have been paid, and the number of new shares that were issued and floated came to 133,492,000, par value 0.75 euro each, without a share premium, representing approximately 2.14% of the share capital prior to the increase.

The shareholders acting at the General Shareholders' Meeting held on 28 March 2014 approved a reduction in share capital by means of the retirement of 91,305,304 treasury shares of Iberdrola representing 1.43% of the share capital, and the acquisition of the Company's own shares representing a maximum of 0.66% of the share capital through a buy-back programme for the retirement thereof.

As a result of such resolution, the share capital of Iberdrola was reduced by the amount of 100,100,250.00 euros on 5 May 2014 through the retirement of 133,467,000 treasury shares (91,305,304 shares already in treasury and 42,161,696 shares acquired from the shareholders through the buy-back programme), representing approximately 2.09% of the share capital prior to the reduction. The share capital resulting from the reduction was set at 4,680,000,000.00 euros, corresponding to 6,240,000,000 shares.

The purpose of the reduction in capital was to retire treasury shares, for which reason there was no return of contributions as the Company itself was the holder of the retired shares.

In addition, the shareholders acting at the General Shareholders' Meeting of the Company held on 28 March 2014 approved, under item six on the agenda, two increases in share capital by means of a scrip issue in order to implement, for the fifth consecutive year, the shareholder compensation system known as Iberdrola Flexible Dividend.

The first increase in capital took place in July 2014, when the traditional supplementary dividend for financial year 2013 would otherwise have been paid, and the number of new shares that were issued and floated came to 67,239,000, par value 0.75 euro each, without a share premium, representing approximately 1.08% of the share capital prior to the increase.

The second increase in capital took place in December 2014, when the traditional dividend for financial year 2014 would have been paid. The number of new shares issued and floated came to 81,244,000, par value 0.75 euro each, without a share premium, representing approximately 1.29% of the share capital prior to the increase. The share capital of the Company came to 6,388,483,000 shares after this increase in capital.

SECTION A.2

Given that the shares are represented by book entries, no information is available on a daily basis about the interest of shareholders in the share capital. However, since 7 May 2014, Iberdrola is a member within Iberclear of the Communication Service for securities holdings and the balanced list of buyers and sellers upon the terms set forth in Circular No 5/2013 of 27 November. The sources of the information provided are the notices sent by the shareholders to the CNMV and to the Company itself, and the information contained in their respective annual reports and press releases, as well as the information that the Company obtains from Iberclear.

Pursuant to the provisions of section 23.1 of Royal Decree 1362/2007 of 19 October, further developing Law 24/1988 of 28 July on the Securities Market, in connection with the transparency requirements relating to the information on issuers whose securities have been admitted to trading on

an official secondary market or other regulated market in the European Union, it is deemed that significant shareholders are the holders of at least 3% of voting rights.

According to available information, the approximate breakdown of the interests in the share capital by type of shareholder is as follows:

- Foreign investors 60%
- Domestic entities 16%
- Domestic retail investors 24%

SECTION A.3

Data at the date of approval of this Report.

SECTION A.8

As of the end of financial year 2014, the number of own shares and derivatives on treasury shares is 121,966,897, representing 1.909% of share capital.

Of such amount, Iberdrola has 60,985,277 own shares and 43,685,403 shares accumulated through derivatives pending settlement and that are recorded as treasury shares in the consolidated financial statements at 31 December 2014, 1,996,422 shares in the Scottish Power Group, and 15,299,795 shares corresponding to share swaps.

Pursuant to the authorisations granted to the Board of Directors by the shareholders at the General Shareholders' Meeting, during financial year 2014 Iberdrola acquired 176,365,850 own shares for 896,183 thousand euros and 43,685,403 shares, in the amount of 238,719 thousand euros, through derivatives, although the latter are pending settlement as mentioned above. In addition, 7,783,210 own shares were sold for 41,529 thousand euros. Under such authorisations, Iberdrola has also repurchased 133,467,000 own shares.

In addition, the Scottish Power Group acquired 503,448 shares in the amount of 2,688 thousand euros during 2014, selling 877,590 shares for 3,455 thousand euros during the same period.

SECTION C.1.2

Composition of the Board of Directors at 31 December 2014.

SECTION C.1.3

The complete professional profiles of all the directors are available on the Company's corporate website (www.iberdrola.com).

Mr José Luis San Pedro Guerenabarrena was appointed director on 24 April 2012 with the status of executive director, as he performed executive duties within the Company. Pursuant to article 10.2 of the *Regulations of the Board of Directors*, those who have been employees or executive directors of companies of the Group cannot be classified as independent directors unless three or five years, respectively, have passed since the end of such relationship. Mr San Pedro Guerenabarrena held the position of chief operating officer (*consejero-director general*) until 24 June 2014, the date on which he ceased executive duties at his own request, but continues to serve as a member of the Board of Directors and of the Executive Committee thereof. For that reason, Mr José Luis San Pedro Guerenabarrena was reclassified as other external director on that date.

SECTION C.1.14

The general policies and strategies mentioned in this section have been approved by the Board of Directors and can be viewed on the Company's corporate website (www.iberdrola.com) together with the other *Corporate Policies* of Iberdrola.

SECTION C.1.30

Below is the data on attendance of each and every one of the directors at the meetings of the Board of Directors and its committees during financial year 2014:

Directors	Board	Committees			
		EC	ARSC	ARC	CSRC
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	7/7	15/15	----	----	----
MR JULIO DE MIGUEL AYNAT	7/7	----	10/10	----	----
MR SEBASTIÁN BATTANER ARIAS	7/7	----	10/10	----	----
MR XABIER DE IRALA ESTÉVEZ	7/7	15/15	----	----	----
MR IÑIGO VÍCTOR DE ORIOL IBARRA	7/7	----	----	14/14	----
MS INÉS MACHO STADLER	7/7	15/15	----	14/14	----
MR BRAULIO MEDEL CÁMARA	7/7	----	----	----	6/10
MS SAMANTHA BARBER	7/7	----	----	----	10/10
MS MARÍA HELENA ANTOLÍN RAYBAUD	7/7	----	----	----	10/10
MR SANTIAGO MARTÍNEZ LAGE	7/7	----	----	14/14	----
MR JOSÉ LUIS SAN PEDRO GUERENABARRENA	7/7	15/15	----	----	----
MR ÁNGEL JESÚS ACEBES PANIAGUA	7/7	15/15	----	----	----
MR MANUEL LAGARES GÓMEZ-ABASCAL	2/2	----	----	----	----
MS GEORGINA KESSEL MARTÍNEZ	7/7	----	10/10	----	----
MS DENISE MARY HOLT	4/4		3/3		

Notes:

- The denominator indicates the number of meetings held during the period of the year in which the director served as such or as a member of the respective Committee.
- EC: Executive Committee.
- ARSC: Audit and Risk Supervision Committee.
- ARC: Appointments and Remuneration Committee.
- CSRC: Corporate Social Responsibility Committee.

SECTION C.1.31

Iberdrola Group has been established a certification process in which the persons responsible for the financial information from the different areas of the company certify: (i) that the financial information they provide to Iberdrola for consolidation does not contain material errors or omissions and fairly presents the results and the financial condition within their area of responsibility, and (ii) that they are responsible for the establishment of the ICFRS within their area of responsibility and that they believe the system is effective. The text of these certifications is inspired by the form of certification established in section 302 of the U.S. Sarbanes-Oxley Act.

The culmination of the process is a joint certification that the chairman & chief executive officer and the director of Administration and Control submit to the Board of Directors.

The process is carried out by means of electronic signature in a software application which manages the areas of responsibility and time periods and which serves as a repository of all the documentation generated, allowing for periodic review by the supervisory bodies of the Group.

SECTION C.1.33

The secretary of the Board of Directors is a part of the executive team as the person responsible for the Office of the General Secretary and of the Office of the Secretary of the Board of Directors of the Company.

SECTION D

All the information regarding related-party transactions included in this *Annual Corporate Governance Report 2014* is consistent with that contained in the Company's annual financial report for financial year 2014.

SECTION D.2

Contracts for financial instruments are made in competition with various entities, with the one most beneficial for the Company at any time being selected. The *Financing and Financial Risk Policy* establishes a number of limits on derivatives contracts with a single financial institution in order to avoid excessive risk concentration, as well as to ensure a minimum creditworthiness level below which no contracts could be made. Such limits are complied with in respect of all counterparties, including the significant shareholders of the Company.

The amounts set forth as "profits and other dividends paid" correspond to the cash dividend distributed by the Company in July 2014 and to the free-of-charge allocation rights stemming from the two increases in share capital by means of a scrip issue approved by the shareholders at the General Shareholders' Meetings held on 22 June 2013 and 22 March 2014, which were sold to the Company at a guaranteed fixed price pursuant to the terms and conditions of such increases.

This information includes transactions with the shareholders ACS and Kutxabank, holders of significant interests at the close of financial year 2014.

All of these transactions were made in the ordinary course of business, were carried out on an arm's-length basis, and the information about them is not needed to give a true and fair view of the assets, the financial condition, and the results of operations of the Company.

The Iberdrola Group optimises its banking transactions management by selecting financial institutions based on their solvency, presence in the Group's markets, and capacity to provide the best service in terms of costs and quality. The selection of suitable financial institutions for each bank product is supplemented by a balanced allocation based on the financial institution's risk exposure toward the Iberdrola Group and the volume of business granted.

Kutxabank provides banking services to the Group in the management of the domestic and international business.

Kutxabank corresponds in terms of how it ranks in profits and risk exposure towards the Iberdrola Group, which shows Iberdrola's commitment to achieving a balanced risk/business distribution. Kutxabank ranks below 30th as to both risk exposure and profits; therefore, it does not have a significant position as a provider of financial services to the Iberdrola Group.

SECTION D.3

The company SOIL TRATAMIENTO DE AGUAS INDUSTRIALES, S.L. was awarded a contract for the supply, transport, assembly, and start-up of the COGENERACIÓN RAMOS water treatment plant in Mexico.

The contract award occurred within the framework of an international tender in which 15 companies were selected, with its offer being the most advantageous. Mr Íñigo Víctor de Oriol Ibarra indirectly controls 23.4% of SOIL TRATAMIENTO DE AGUAS INDUSTRIALES, S.L. Family members close to Mr Íñigo Víctor de Oriol Ibarra indirectly control 39.4%.

Mr Íñigo Víctor de Oriol Ibarra has not directly or indirectly participated in any of the stages of the tender. The award was made in compliance with the provisions of the procedure for conflicts of interests and related-party transactions with directors, significant shareholders, and senior officers.

SECTION D.4

Transactions with subsidiaries and companies in which the Company has an interest that have not been eliminated in the process of consolidation were made in the ordinary course of business of the

Company, were carried out under arm's-length conditions, and are of little significance to accurately reflect the assets, financial condition, and results of operations of the Company.

- 2. In this section, you may also include any other information, clarification, or comment relating to the prior sections of this report to the extent they are relevant and not repetitive.**

Specifically, state whether the company is subject to laws other than Spanish laws regarding corporate governance and, if applicable, include such information as the company is required to provide that is different from the information required in this report.

- 3. The company may also state whether it has voluntarily adhered to other international, industrial, or other codes of ethical principles or good practices. If so, identify the code in question and the date of adherence thereto.**

Pursuant to the provisions of section 2 of the annex of adherence to the *Good Tax Practices Code* and of sub-section 1.d) of the *Good Tax Practices Policy*, the Company reports that it has complied with the provisions of such *Code* as from the time of approval thereof. Specifically, it is reported that, during financial year 2014, the Company's head of tax matters appeared on 17 February and 21 July before Iberdrola's Audit and Risk Supervision Committee, all of which was reported to the Board of Directors. In addition, on 21 October the head of tax matters appeared before the Board of Directors at an informational meeting regarding compliance with the *Good Tax Practices Policy* and fiscal standards applied during financial year 2014.

This annual corporate governance report was approved by the Board of Directors of the company at its meeting of 17 February 2015.

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

Yes No

Individual or company name of the director that did not vote in favour of the approval of this report	Reasons (opposed, abstained, absent)	Explain the reasons