

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

**Data identifying issuer**

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

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

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

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

### Explain the remuneration policy

Pursuant to article 52.1 of the *By-Laws*, the overall limit to the amounts allocated by Iberdrola, S.A. ("Iberdrola" or the "Company") to the directors each year as remuneration, including, in the case of executive directors, remuneration payable for performing executive duties, as well as the funding of a reserve to meet the liabilities assumed by the Company in connection with pensions, payment of life insurance premiums, and payment of severance to former and current directors and the operating expenses of the Board of Directors, is a maximum of 2% of the consolidated group's profit for the financial year, after allocations to cover the legal and other mandatory reserves and after declaring a dividend to the shareholders of not less than 4% of the share capital. This amount was 19,000 million euros in 2014 (it was 25,718 million euros in 2013).

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

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

As far as executive directors are concerned, the *Remuneration Policy* follows the same standards as those of the *Senior Officer Remuneration Policy* and shares the same principles and guidelines as those of the Company's personnel remuneration policy, i.e. commitment to personal and corporate ethics, excellence in the selection process, constant training, gender equality, meritocracy and talent recognition, reconciliation, and significance of the variable remuneration component, all of which is intended to align the Company's remuneration policy with the corporate interest and shareholder return, within the framework of IBERDROLA's commitment to all stakeholders with whom it interacts. In this regard, the Board of Directors believes that one of the key factors that make the difference in the performance of utilities is, specifically, the success or failure of strategic decisions made by the Company's management team. All utilities may have access to the same business operations, markets, and technologies. However, their individual performance may be different. The Board of Directors reckons that such difference depends upon the talent, effort, creativity, leadership, and managing skills of each company. Therefore, IBERDROLA's *Remuneration Policy* seeks to retain, reward, and attract the most competent professionals. The investment in remuneration has a major impact on the creation of sustainable value for its shareholders and stakeholders. To this end, IBERDROLA has consistently better performance vis-à-vis comparable companies in recent years. In this respect, the conclusions of a comparative analysis performed by PricewaterhouseCoopers is included within the Integrated Report (section 2.7, page 31) published for purposes of the call to the General Shareholders' Meeting, which also sets forth the external recognition of the Company's performance and that of its executives in various fields.

The remuneration payable to the directors is structured, within the framework of the law and the *By-Laws*, in accordance with the provisions of the Director Remuneration Policy appearing as an Annex to this

report.

Finally, the final structure of the “remunerative mix” of executive directors is based on performance with respect to parameters predetermined as a benchmark in order to pay the variable remuneration, as well as the value of any shares to be delivered in payment of the medium- and long-term variable remuneration, and ultimately on the Board of Directors’ assessment of the performance of such directors.

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

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

**Explain the process for determining the remuneration policy**

As provided in the *By-Laws* and in the internal regulations of Iberdrola, the Board of Directors, at the proposal of the Appointments and Remuneration Committee, is the body with power to set the remuneration of directors, except for the remuneration consisting of the delivery of shares of Iberdrola or of options thereon or which is indexed to the price of the shares of Iberdrola, which must be approved by the shareholders at the General Shareholders’ Meeting.

Pursuant to the provisions of articles 34.5.D)c) of the *By-Laws* and 7.7.D)c) of its *Regulations*, Iberdrola’s Board of Directors formulates the Company’s *Director Remuneration Policy*, which forms part of the Corporate Governance System.

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

The Appointments and Remuneration Committee, which met on 14 occasions during 2014, is only made up of independent directors, and is comprised of the following:

- Ms Inés Macho Stadler (chair)
- Mr Íñigo Víctor de Oriol Ibarra (member)
- Mr Santiago Martínez Lage (member)
- Mr Rafael Mateu de Ros Cerezo (non-member secretary)

In all of their decision-making processes, this Committee and the Board of Directors have received information and advice from the internal services of the Company and from expert external consultants in this area, taking into consideration the most widely demanding remuneration recommendations and policies at the international level. This includes, in particular, the advice of PricewaterhouseCoopers.

They have also contrasted the relevant data with information corresponding to comparable markets and entities, taking into account size, international scope, and features. In this regard, MERCER, a consultant specialising in compensation matters, was requested to prepare a comparative study of the remuneration package of the executive directors last year. The annex to this report shows a sample of comparable entities that MERCER used as a reference. In summary, the conclusion is that the remuneration policy for Iberdrola’s executive directors is in line with international market practice. As stated in the preceding section, the remuneration package for the executive directors and senior officers reflects the quality of their performance and the goal of the Board of Directors to retain, reward, and attract talent and management skills, as this is one of the key and distinctive factors contributing to the better performance of a company like IBERDROLA.

**A.3. State the amount and nature of the fixed components, with a breakdown, if applicable, of remuneration for the performance by the executive directors of the duties of senior management, of additional remuneration as chair or member of a committee of the board, of attendance fees for participation on the Board and the committees thereof or other fixed remuneration as director, and an estimate of the annual fixed remuneration to which they give rise. Identify other benefits that are not paid in cash and the basic parameters upon which such benefits are provided.**

<b>Explain the fixed components of remuneration</b>
<p>For financial year 2015, at the proposal of the Appointments and Remuneration Committee, the Board of Directors has unanimously resolved to maintain the fixed remuneration, the fixed salaries of the executive directors, and attendance fee amounts. These amounts have been frozen since 2008.</p> <p>Fixed remuneration of the directors for belonging to the Board of Directors and to the committees thereof based on the position held in each case was as follows:</p> <ul style="list-style-type: none"> <li>• Chairman of the Board of Directors: 567 thousand euros</li> <li>• Chairs of the consultative committees: 440 thousand euros</li> <li>• Members of the consultative committees: 253 thousand euros</li> <li>• Members of the Board of Directors: 165 thousand euros</li> </ul> <p>Currently, all members of the Board of Directors take on responsibilities on one of the four committees of the Board.</p> <p>Attendance fees of the directors for belonging to the Board of Directors and to the committees thereof based on the position held in each case were as follows:</p> <ul style="list-style-type: none"> <li>• Chairman of the Board of Directors and chairs of the consultative committees: 4 thousand euros</li> <li>• Members of the Board of Directors and of the consultative committees: 2 thousand euros</li> </ul> <p>The Board of Directors has resolved to maintain the fixed remuneration for the performance of executive duties of the chairman &amp; chief executive officer for financial year 2015 at 2,250 thousand euros.</p>

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

**In particular:**

- **Identify each of the remuneration plans of which the directors are beneficiaries, the scope thereof, the date of approval thereof, the date of implementation thereof, the date of effectiveness thereof, and the main features thereof.**  
In the case of share option plans and other financial instruments, the general features of the plan shall include information on the conditions for the exercise of such options or financial instruments for each plan.
- **State any remuneration received under profit-sharing or bonus schemes, and the reason for the accrual thereof.**
- **Explain the fundamental parameters and rationale for any annual bonus plan.**
- **The classes of directors (executive directors, external proprietary directors, external independent directors, or other external directors) that are beneficiaries of remuneration systems or plans that include variable remuneration.**

- **The rationale for such remuneration systems or plans, the chosen standards for evaluating performance, and the components and methods of evaluation to determine whether or not such evaluation standards have been met, and an estimate of the absolute amount of variable remuneration to which the current remuneration plan would give rise, based on the level of compliance with the assumption or goals used as the benchmark.**
- **If applicable, information shall be provided regarding any payment deferral periods that have been established and/or the periods for retaining shares or other financial instruments.**

<b>Explain the variable components of the remuneration systems</b>	
<p>The only directors that receive variable remuneration are the executive directors. The Board of Directors has resolved to maintain the limit on the annual variable remuneration of the chairman &amp; chief executive officer in 2015 at 3,250 thousand euros.</p> <p>The payment of annual variable remuneration is linked to three types of 2015 parameters, which are focused on the Company's medium-term performance:</p>	
a)	<p><b>Economic and financial</b></p> <ul style="list-style-type: none"> <li>• Results: achieve recurring net profit above that obtained in 2014, in line with the announcement at Investor Day in London on 19 February 2014.</li> <li>• Shareholder return: achieve €0.27/share.</li> </ul>
b)	<p><b>Operational and industrial in each of the markets</b></p> <ul style="list-style-type: none"> <li>• Comply with regulatory requirements on service quality demanded in each of the markets in which the Company operates.</li> <li>• Labour climate.</li> </ul>
c)	<p><b>Corporate social responsibility</b></p> <ul style="list-style-type: none"> <li>• Presence on international indices, including FTSE4Good, Dow Jones Sustainability Index, and World's Most Ethical Company (Ethisphere Institute).</li> <li>• Publication of an integrated report.</li> <li>• Level of consensus received for the proposals of the Board of Directors at the General Shareholders' Meeting.</li> </ul>
<p>The Board of Director's evaluation will be conducted based on the proposal to be made thereto by the Appointments and Remuneration Committee, advised by an independent expert, which will take into account the individual performance of each of the executive directors.</p> <p>In addition, the shareholders acting at the General Shareholders' Meeting held on 28 March 2014 approved, as item seven on the agenda, a new Strategic Bonus 2014-2016 as a long-term incentive linked to the performance of the Company with respect to certain parameters, under the following guidelines:</p>	
<ul style="list-style-type: none"> <li>• Beneficiaries: a maximum of 350, including executive directors.</li> <li>• Parameters: net profit, share price performance, and financial strength.</li> <li>• Maximum number of shares to be delivered: 19,000,000, equal to 0.3% of share capital.</li> <li>• Maximum for all executive directors: 2,200,000 shares.</li> <li>• Term: evaluation period 2014-2016 and payment period 2017-2019.</li> </ul>	

**A.5. Explain the main features of the long-term saving systems, including retirement and any other survival benefit, either wholly or partially financed by the company, and whether funded internally or externally, with an estimate of the equivalent annual amount or cost thereof, stating the type of plan, whether it is a defined-contribution or benefit plan, the conditions for the vesting of economic rights in favour of the directors, and the compatibility thereof with any kind of indemnity**

**for early termination or severance of the contractual relationship between the company and the director.**

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

**Explain the long-term savings systems**

The Company pays the premiums under insurance policies that it has taken out with certain insurance companies for the coverage of the death and disability of directors caused by accidents, and the Company itself assumes coverage of benefits for the death or disability of directors due to natural causes. Furthermore, the Company pays the premiums under insurance policies providing coverage against civil liability deriving from holding the office of director. The total estimated cost of said premiums comes to 975 thousand euros.

The Company currently has no commitment to any long-term contribution or defined benefit retirement or savings system for any director. Past commitments were satisfied as set forth in prior remuneration reports submitted to the shareholders at the General Shareholders' Meeting.

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

**Explain the termination benefits**

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

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

Contracts with new executive directors and senior officers include, as from 2011, maximum severance equal to two times annual salary in the event of termination of their relationship with the Company, provided that termination of the relationship is not the result of a breach attributable thereto or solely due to a voluntary decision thereof.

The Company included guarantee clauses of up to five years in contracts with its key officers 15 years ago. Subsequently, in 2001, when the current chairman joined the Company, he received the treatment in effect for such officers, in order to achieve an effective and sufficient level of loyalty. As chairman & chief executive officer, he is currently entitled to three times annual salary.

The Board of Directors has analysed this situation, the treatment of which is necessarily collective in nature (the number of directors covered by these clauses is 62). Any reduction in the salary multiples used for termination purposes would carry high costs for the Company, for which reason the Board of Directors believes that it is most appropriate not to change the *status quo*. Any proposed reduction in the salary multiples would have a higher cost for the Company, as the amount of the contingency will gradually decrease due to the passage of time, resulting in payments far smaller than any possible reduction in the agreed termination benefit, taking into account the average age of the affected group and the low likelihood of the guarantees being enforced.

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

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

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

Explain the supplementary remuneration

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

Explain the advances, loans, and guarantees provided

**A.10. Explain the main features of remunerations in kind.**

Explain the remunerations in kind
<p>Remunerations in kind for all members of the Board of Directors are not significant and will not exceed 70 thousand euros (employee electricity rate and life and casualty insurance).</p>

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

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

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

<b>Explain the other items of remuneration</b>

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

<b>Explain actions taken to reduce risks</b>
<p>Annual and multi-year remuneration is tied to the performance of the executive directors and indexed to performance with respect to industrial, financial, and corporate social responsibility parameters. Performance is evaluated by the Board of Directors, upon a proposal of the Appointments and Remuneration Committee. This Committee is in turn advised by an independent firm (PricewaterhouseCoopers in recent years) that evaluates the various governance bodies of the Company.</p> <p>It should be noted that multi-year variable remuneration is related to the performance of the executive directors and of the Company itself over a three-year period, and does not accrue until the Board of Directors performs the corresponding evaluation. In addition, any payment thereof is deferred for the next 3 years.</p> <p>Prior to payment, all deferred variable remuneration requires a prior report from the Appointments and Remuneration Committee confirming that the rationale supporting such deferred variable remuneration still applies. If there has been a circumstance that requires a <i>posteriori</i> correction to the parameters taken into account in the initial assessment, the Board of Directors will decide whether it is appropriate to partially or completely cancel payment of the deferred variable remuneration (<i>Malus Clause</i>).</p>

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## B. REMUNERATION POLICY FOR FUTURE FINANCIAL YEARS

- B.1. Provide a general forecast of the remuneration policy for future financial years that describes such policy with respect to: fixed components and attendance fees and remuneration of a variable nature, relationship between remuneration and results, benefits systems, terms of the contracts of executive directors, and outlook for more significant changes in remuneration policy as compared to prior financial years.**

General forecast of remuneration policy
The <i>Director Remuneration Policy</i> to be applied in future years is attached in an annex to this report.

- B.2. Explain the decision-making process for configuring the remuneration policy for future financial years, and any role played by the remuneration committee.**

Explain the decision-making process for configuring the remuneration policy
No major changes from what is set forth in section A.2 of this report are expected.

- B.3. Explain the incentives created by the company in the remuneration system to reduce exposure to excessive risks and to align them with the long-term goals, values, and interests of the company.**

Explain the incentives created to reduce risks
The <i>Director Remuneration Policy</i> for future financial years does not differ from what is described in section A.13 of this report.

**C. OVERALL SUMMARY OF THE APPLICATION OF THE REMUNERATION POLICY DURING THE RECENTLY ENDED FINANCIAL YEAR**

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

<p><b>Explain the structure and items of remuneration from the remuneration policy applied during the financial year</b></p>
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<p>The structure and items of remuneration from the <i>Director Remuneration Policy</i> applied during financial year 2014 do not differ from the provisions of section A of this report.</p>
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#### D. BREAKDOWN OF INDIVIDUAL REMUNERATION ACCRUED BY EACH OF THE DIRECTORS

Name	Type	Accrual period – Financial Year 2014
SANTIAGO MARTÍNEZ LAGE	Independent	From 01/01/2014 to 31/12/2014
ÁNGEL JESÚS ACEBES PANIAGUA	Independent	From 01/01/2014 to 31/12/2014
MANUEL LAGARES GÓMEZ-ABASCAL	Proprietary	From 01/01/2014 to 10/04/2014
GEORGINA KESSEL MARTÍNEZ	Independent	From 01/04/2014 to 31/12/2014
JOSÉ IGNACIO SÁNCHEZ GALÁN	Executive	From 01/01/2014 to 31/12/2014
VÍCTOR DE URRUTIA VALLEJO	Independent	From 01/01/2013 to 23/04/2013
MARÍA HELENA ANTOLÍN RAYBAUD	Independent	From 01/01/2014 to 31/12/2014
SAMANTHA BARBER	Independent	From 01/01/2014 to 31/12/2014
SEBASTIÁN BATTANER ARIAS	Independent	From 01/01/2014 to 31/12/2014
XABIER DE IRALA ESTÉVEZ	Proprietary	From 01/01/2014 to 31/12/2014
JULIO DE MIGUEL AYNAT	Independent	From 01/01/2014 to 31/12/2014
IÑIGO VÍCTOR DE ORIOL IBARRA	Independent	From 01/01/2014 to 31/12/2014
INÉS MACHO STADLER	Independent	From 01/01/2014 to 31/12/2014
BRAULIO MEDEL CÁMARA	Independent	From 01/01/2014 to 31/12/2014
JOSÉ LUIS SAN PEDRO GUERENABARRENA	Other external	From 01/01/2014 to 31/12/2014
DENISE MARY HOLT	Independent	From 24/06/2014 to 31/12/2014

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

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

**i. Cash remuneration (thousands of €)**

Name	Salary	Fixed remuneration	Attendance fees	Short-term variable remuneration	Long-term variable remuneration	Remuneration for belonging to committees of the Board	Termination benefits	Other items	Total 2014	Total 2013
ÁNGEL JESÚS ACEBES PANIAGUA	0	165	44	0	0	88	0	2	299	317
MARÍA HELENA ANTOLÍN RAYBAUD	0	165	32	0	0	88	0	4	289	307
INÉS MACHO STADLER	0	165	76	0	0	275	0	3	519	553
JOSÉ LUIS SAN PEDRO GUERENABARRENA	500	165	44	500	0	88	0	22	1,319	2,315
SANTIAGO MARTÍNEZ LAGE	0	165	30	0	0	88	0	4	287	303
JULIO DE MIGUEL AYNAT	0	165	50	0	0	275	0	3	493	525
VÍCTOR DE URRUTIA VALLEJO	0	0	0	0	0	0	0	0	0	930
BRAULIO MEDEL CÁMARA	0	165	18	0	0	88	0	2	273	299
SAMANTHA BARBER	0	165	54	0	0	275	0	2	496	528
XABIER DE IRALA ESTÉVEZ	0	165	44	0	0	88	0	2	299	325
MANUEL LAGARES GÓMEZ-ABASCAL	0	45	4	0	0	0	0	2	51	214

SEBASTIÁN BATTANER ARIAS	0	165	30	0	0	88	0	2	285	309
JOSÉ IGNACIO SÁNCHEZ GALÁN	2,250	567	88	3,200	0	0	0	66	6,171	6,164
IÑIGO VÍCTOR DE ORIOL IBARRA	0	165	30	0	0	88	0	5	288	304
GEORGINA KESSEL MARTÍNEZ	0	165	32	0	0	88	0	1	286	176
DENISE MARY HOLT	0	14	0	0	0	<b>0</b>	0	0	139	?

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ii. Share-based remuneration systems

JOSÉ IGNACIO SÁNCHEZ GALÁN STRATEGIC BONUS 2011/2013												
Date of implementation	Ownership of options at beginning of financial year 2014				Options allocated during financial year 2014							
	No options	Shares affected	Exercise price (€)	Exercise period	No options	Shares affected	Exercise price (€)	Exercise period				
27/05/2011	0	0	0.00	There was no option plan at the beginning of the year	0	0	0.00	There is no option plan for the year				
Terms: There is no option plan												
Shares delivered during financial year 2014			Options exercised during financial year 2014				Options expired and not exercised	Options at end of financial year 2014				
No of Shares	Price	Amount	Exercise Price (€)	No of Options	Shares affected	Gross Profit (m€)	No of Options	No of Options	Shares affected	Exercise Price (€)	Exercise period	
536,359	5,514	2,957	0.00	0	0	0	0	0	0	0.00	There are no options at end of year	
Other requirements for exercise: there are no other requirements												

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

Date of implementation	Ownership of options at beginning of financial year 2014				Options allocated during financial year 2014			
	No options	Shares affected	Exercise price (€)	Exercise period	No options	Shares affected	Exercise price (€)	Exercise period
27/05/2011	0	0	0.00	There was no option plan at the beginning of the year	0	0	0.00	There is no option plan for the year

Terms: There is no option plan

Shares delivered during financial year 2014			Options exercised during financial year 2014				Options expired and not exercised	Options at end of financial year 2014			
No of Shares	Price	Amount	Exercise Price (€)	No of Options	Shares affected	Gross Profit (m€)	No of Options	No of Options	Shares affected	Exercise Price (€)	Exercise period
90,640	5,514	500	0.00	0	0	0	0	0	0	0.00	There are no options at end of year

Other requirements for exercise: there are no other requirements

iii. Long-term savings systems

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

i. Cash remuneration (thousands of €)

Name	Salaries	Fixed remuneration	Attendance fees	Short-term variable remuneration	Long-term variable remuneration	Remuneration for belonging to committees of the Board	Termination benefits	Other items	Total 2014	Total 2013
ÁNGEL JESÚS ACEBES PANIAGUA	0	0	0	0	0	0	0	0	0	0
MARÍA HELENA ANTOLÍN RAYBAUD	0	0	0	0	0	0	0	0	0	0
INÉS MACHO STADLER	0	0	0	0	0	0	0	0	0	0
JOSÉ LUIS SAN PEDRO GUERENABARRENA	0	0	0	0	0	0	0	0	0	0
SANTIAGO MARTÍNEZ LAGE	0	0	0	0	0	0	0	0	0	0
JULIO DE MIGUEL AYNAT	0	0	0	0	0	0	0	0	0	0
VÍCTOR DE URRUTIA VALLEJO	0	0	0	0	0	0	0	0	0	0
BRAULIO MEDEL CÁMARA	0	0	0	0	0	0	0	0	0	0
SAMANTHA BARBER	0	0	0	0	0	0	0	0	0	0
XABIER DE IRALA ESTÉVEZ	0	0	0	0	0	0	0	0	0	0
MANUEL LAGARES GÓMEZ-ABASCAL	0	0	0	0	0	0	0	0	0	0



SEBASTIÁN BATTANER ARIAS	0	0	0	0	0	0	0	0	0	0
JOSÉ IGNACIO SÁNCHEZ GALÁN	0	0	0	0	0	0	0	0	0	0
IÑIGO VÍCTOR DE ORIOL IBARRA	0	0	0	0	0	0	0	0	0	0
GEORGINA KESSEL MARTÍNEZ	0	0	0	0	0	0	0	0	0	0
DENISE MARY HOLT	0	0	0	0	0	0	0	0	0	0

ii. **Share-based remuneration systems**

iii. **Long-term savings systems**

c) Summary of remuneration (thousands of €):

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

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

Name	Accrued remuneration at the Company				Accrued remuneration at companies of the group				Total		
	Total cash remuneration	Amount of shares granted	Gross profit on options exercised	Total financial year 2014 company	Total cash remuneration	Amount of shares delivered	Gross profit on options exercised	Total financial year 2014 group	Total financial year 2014	Total financial year 2013	Contribution to savings systems during the year
ÁNGEL JESÚS ACEBES PANIAGUA	299	0	0	299	0	0	0	0	299	317	0
MARÍA HELENA ANTOLÍN RAYBAUD	289	0	0	289	0	0	0	0	289	307	0
INÉS MACHO STADLER	519	0	0	519	0	0	0	0	519	553	0
JOSÉ LUIS SAN PEDRO GUERENABARRENA	1,319	500	0	1,819	0	0	0	0	1,819	2,315	0
SANTIAGO MARTÍNEZ LAGE	287	0	0	287	0	0	0	0	287	303	0

JULIO DE MIGUEL AYNAT	493	0	0	493	0	0	0	0	493	525	0
VÍCTOR DE URRUTIA VALLEJO	0	0	0	0	0	0	0	0	0	930	0
BRAULIO MEDEL CÁMARA	273	0	0	273	0	0	0	0	273	299	0
SAMANTHA BARBER	496	0	0	496	0	0	0	0	496	528	0
XABIER DE IRALA ESTÉVEZ	299	0	0	299	0	0	0	0	299	325	0
MANUEL LAGARES GÓMEZ- ABASCAL	51	0	0	51	0	0	0	0	51	214	0
SEBASTIÁN BATTANER ARIAS	285	0	0	285	0	0	0	0	285	309	0
JOSÉ IGNACIO SÁNCHEZ GALÁN	6,171	2,957	0	9,128	0	0	0	0	9,128	7,443	0
IÑIGO VÍCTOR DE ORIOL IBARRA	288	0	0	288	0	0	0	0	288	304	0
GEORGINA KESSEL MARTÍNEZ	286	0	0	286	0	0	0	0	286	176	0
DENISE MARY HOLT	139	0	0	139	0	0	0	0	139	0	0
TOTAL	11,494	3,457	0	14,951	0	0	0	0	14,951	14,848	0

NOTICE. This document is a translation of a duly approved Spanish-language document, and is provided for informational purposes only. In the event of any discrepancy between the text of this translation and the text of the original Spanish-language document that this translation is intended to reflect, the text of the original Spanish-language document shall prevail.

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

The reference figures for determining annual variable remuneration of the executive directors for performance in 2014 were identified in the report approved by the shareholders at the General Shareholders' Meeting held on 28 March 2014, and are focused on the Company's medium-term performance, based on three parameters:

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

The performance of the Board of Directors and its consultative committees and the performance of the Executive Committee, of the chairman & CEO, and of the former chief operating officer were evaluated by PricewaterhouseCoopers Asesores de Negocios, S.L.

The financial year results, both at the operational and economic/financial levels, have exceeded the budget and the commitments undertaken with the financial community at the Investor Day presentation in London on 19 February 2014.

Due to the foregoing, the Board of Directors, upon a proposal of the Appointments and Remuneration Committee, believes that the goals for financial year 2014 were satisfactorily achieved. Below is a description of the Company's performance with respect to the aforementioned parameters:

- Net profit exceeded the 2,300 million euros announced at Investor Day and reflected in the director remuneration report 2013 approved at the 2014 General Shareholders' Meeting.
- EBITDA broadly exceeded the 6,600 million euros announced at Investor Day.
- Shareholder compensation reached 0.27 euro per share (and an attendance bonus has been paid for attending the 2014 General Shareholders meeting in the amount of 0.005 euro per share).
- As stated on Investor Day, debt has been reduced to 25,300 million euros.
- The FFO/Net Debt ratio has increased approximately 21.5%, two years earlier than that announced on Investor Day.
- The listing price of IBERDROLA's shares increased 20.8% in 2014, while the Eurostoxx Utilities increased 12.3% and the average for competitors increased by 4.2%. In addition, the main international investment banks recommend a price target of 6.35 euros/share (13.5% over the 2014 closing price).
- Operational and industrial parameters
  - Service quality and level: the positive trend has continued (record levels in Spain and above regulatory requirements in each of the countries in which the Company operates).
  - The availability of generation plants was higher than expected.
  - Accident rate: the accident rate continues to drop.
  - Labour climate: all aspects have improved within an environment of corporate and labour restructuring.
- Iberdrola's presence on the Dow-Jones Sustainability Index has been confirmed, and the Company has been chosen as the leading electric company with nuclear assets to form part of the FTS4Good index.
- Emissions-free installed capacity has increased over the average of recent years.
- The first integrated report has been published.
- The results of the voting at the General Shareholders' Meeting, both as regards the attendance quorum (above 82%) and support of the proposals of the Board of Directors, have been above those of the other Spanish companies with a high level of free-float. The item on the agenda with the most negative votes received did not exceed 1.37%.

The annex also reflects the level of compliance (93.20%) with the goals set with respect to the payment of

the Strategic Bonus 2011-2013, approved by the shareholders at the General Shareholders' Meeting held on 27 May 2011 under the following guidelines:

- Beneficiaries: 282, including the executive directors.
- Parameters: net profit, share price performance, and financial strength.
- Maximum number of shares to be delivered: 17,000,000, equivalent to 0.29% of the share capital.
- Maximum number of shares for each of the executive directors: 1,900,000 shares.
- Term of the evaluation period 2011-2013 and payment period 2014-2016.

On 25 June 2014, the first payment of the Strategic Bonus 2011-2013 was made; at that time, shares were valued at 5,514 euros, up 31% from the share value registered on 2 January 2013.

The Appointments and Remuneration Committee conducted the evaluation of the level of compliance with the goals with the assistance of PWC.

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

	<b>Number</b>	<b>% of total</b>
<b>Votes cast</b>	5,239,873,745	99.97%

	<b>Number</b>	<b>% of total</b>
<b>Votes against</b>	72,012,787	1.37%
<b>Votes in favour</b>	3,966,568,627	75.68%
<b>Abstentions</b>	1,201,292,331	22.92%

## **E. OTHER INFORMATION OF INTEREST**

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

At the end of June 2014, Mr José Luis San Pedro Guerenabarrena stepped down from his executive duties, while continuing to serve as a member of the Board of Directors with the status of "other external director".

Section D.3 of this form of the Annual Remuneration Report does not allow for a reflection of blank votes cast at the General Shareholders' Meeting, which were 0.03% of the total votes cast.

At 31 December 2014, the chairman & chief executive officer is the holder of 6,673,286 shares of Iberdrola, S.A., which is 0.104% of the capital. Since his appointment, he has not sold shares of the Company.

The directors as a group hold 0.14% of the capital.

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

**This annual remuneration report was approved by the board of directors of the company at its meeting of 18 February 2014.**

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

Yes  No

## ANNEX TO THE DIRECTOR REMUNERATION REPORT 2014

### 1. SAMPLE OF COMPARABLE ENTITIES (Section A.2)

<p><u>Domestic companies:</u></p> <ul style="list-style-type: none"><li>• BBVA</li><li>• Repsol</li><li>• Telefónica</li><li>• Indra</li><li>• Gas Natural</li><li>• Banco Santander</li></ul> <p><u>International companies:</u></p> <ul style="list-style-type: none"><li>• Centrica</li><li>• British American Tobacco Holdings</li><li>• E.ON</li><li>• National Grid</li><li>• Philips</li><li>• Sandvik</li><li>• Smith &amp; Nephew</li><li>• Trelleborg</li></ul>	<ul style="list-style-type: none"><li>• Volkswagen</li><li>• Volvo</li><li>• Alfa Laval</li><li>• Assa Abloy</li><li>• Alstom</li><li>• BP International</li><li>• BT Group</li><li>• RWE</li><li>• Total</li><li>• Tullow Oil</li><li>• BAE Systems</li><li>• Tele2</li><li>• Telefonaktiebolaget LM Ericsson</li><li>• VimpelCom</li><li>• Vodafone Group</li><li>• BNP Paribas</li><li>• Credit Suisse</li><li>• Deutsche Bank</li></ul>
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## 2. STRATEGIC BONUS 2011-2013 (SECTION D.2)

- The first goal refers to the changes in Iberdrola's net profit for the period 2011-2013 in comparison with that of its five key European competitors: Enel SpA, E.On AG, RWE AG, Electricité de France, S.A., and GDF Suez, S.A.

This goal is met if the progress in Iberdrola's net profit has been greater than the average for the aforementioned companies. Based upon the data at the end of financial year 2013, which were published by such companies and are included in the table below, and taking as a point of reference the net profit for financial year 2010, the Board of Directors believes that the goal has been achieved, since Iberdrola's progress in net profit proved to be greater than the average for its competitors:

<i>EUR millions</i>	<b>31-December- 2010</b>	<b>31- December - 2013</b>	<b>Change</b>
<b><i>Iberdrola</i></b>	<b>2,871</b>	<b>2,568</b>	<b>-10.6%</b>
<b><i>Average</i></b>	<b>3,837</b>	<b>2,777</b>	<b>-27.6%</b>

As can be seen from the data above, while the net profit of Iberdrola registered a 10.6% drop for this period, affected by the economic crisis and, in particular, due to the regulatory measures adopted in Spain, its progress was greater than the average for comparable companies. The results of the company-to-company comparison are also positive for Iberdrola.

- The second goal is linked to the performance of Iberdrola's share price compared to the DJ Eurostoxx Utilities index average and the share prices of the above-mentioned five European competitors.

The following table shows that the value of the Iberdrola share experienced a 19.6% decline over this period, while the Eurostoxx Utilities index recorded a 25.2% drop and the competitors' average registered a 31.2% decline:



<i>EUR millions</i>	<b>Share price performance between 31 December 2010 and 31 December 2013</b>
<b><i>Iberdrola</i></b>	<b>-19.6%</b>
<b><i>Average competitors</i></b>	<b>-31.2%</b>
<b><i>Eurostoxx Utilities</i></b>	<b>-25.2%</b>

Therefore, the Board of Directors believes the goal has been achieved.

- The third goal is related to the financial strength of the company, based on the ratios used by credit rating agencies and which are usually taken as a reference for capital markets.

The goal set on the date of approval of the strategic plan entailed obtaining a FFO/Net Debt ratio equal to or higher than 17%, or a RCF/Net Debt ratio within a range of 14-16%.

The date for year-end 2013 puts these ratios at 20.0% for FFO/Net Debt and 16.9% for RCF/Net debt.

In view of the foregoing, the Board of Directors believes that the goal of maintaining financial strength has been achieved.

282 people were the beneficiaries of this Strategic Bonus, to be paid in three stages in the years 2014, 2015, and 2016.

### 3. NOTE 46 TO THE 2014 CONSOLIDATED FINANCIAL STATEMENTS

#### 46. REMUNERATION OF BOARD OF DIRECTORS

##### 1. 2014 By-law stipulated remuneration

Article 52 of IBERDROLA's by-laws provides that the Company shall assign, as an expense, an amount equal to up to 2% of the profit obtained in the year by the consolidated Group for the following purposes:

- To remunerate directors in accordance with the positions they have held, their dedication and attendance at meetings of corporate bodies.
- To set up a fund to meet the Company's obligations in pensions, life insurance premiums and payment of indemnities to current and former directors.

Assignment of up to 2% may be accrued only if the yearly profit is sufficient to cover assignments to the legal reserves and any other obligatory charges, and if shareholders have been allotted a dividend equal to 4% of the share capital.

On the proposal of the Appointments and Remuneration Committee, the Board of Directors has decided to propose to the General Shareholders' Meeting to assign by-law stipulated remuneration of EUR 19,000 thousand.

The amounts of EUR 19,000 thousand and EUR 25,718 thousand assigned in this connection in 2014 and 2013, which have been registered under "Staff costs" in the Consolidated income statements (Note 35), break down as follows:

##### a) Fixed Remuneration

The fixed annual remuneration received by the board members depends on the duties assigned to them in the Board of Directors and its commissions in 2014 and 2013. The detail of which is as follows:

	<i>Thousands of euros</i>	
	<i>2014</i>	<i>2013</i>
Chairman	567	567
Committee chairmen	440	440
Committee members	253	253
Board members	165	165

The fixed remuneration earned by members of the Board of Directors with a charge to the by-law stipulated remuneration amounted to EUR 4,335 thousand and EUR 4,384 thousand in 2014 and 2013, respectively.

The detailed fixed remuneration accrued by the members of the Board of Directors, individually, during 2014 and 2013, respectively, is detailed as follows:

	<i>Thousands of euros</i>	
	<i>Fixed remuneration 2014 (*)</i>	<i>Fixed remuneration 2013</i>
<b>Chairman</b>		
Mr. José Ignacio Sánchez Galán	567	567
<b>Committee chairmen</b>		
Mr. Julio de Miguel Aynat	440	440
Mrs. Inés Macho Stadler	440	440
Mrs. Samantha Barber	440	440
<b>Committee members</b>		
Mr. Sebastián Battaner Arias	253	253
Mr. Xabier de Irala Estévez	253	253
Mr. Íñigo Víctor de Oriol Ibarra	253	253
Mr. Braulio Medel Cámara	253	253
Mrs. María Helena Antolín Raybaud	253	253
Mr. Santiago Martínez Lage	253	253
Mr. José Luis San Pedro Guerenabarrena	253	253
Mr. Ángel Jesús Acebes Paniagua	253	253
Mrs. Georgina Kessel Martínez <sup>(1)</sup>	253	152
Mrs. Denise Mary Holt <sup>(2)</sup>	126	-
<b>Directors that resigned</b>		
Mr. Víctor de Urrutia Vallejo <sup>(3)</sup>	-	136
Mr. Manuel Lagares Gómez-Abascal <sup>(4)</sup>	45	185
<b>Total remuneration</b>	<b>4,335</b>	<b>4,384</b>

(\*) Amounts accrued in 2014, not satisfied until the approval of 2014 by-law stipulated remuneration by the General Shareholders' Meeting 2015.

(1) Appointed external director by the Board of Directors at their meeting on 23 April 2013. Also, on 23 July 2013 her appointment was approved as a member of the Audit and Risk Supervision Committee.

(2) Appointed external director by the Board of Directors at its meeting on 24 June 2014. Also, on 22 July 2014 her appointment was approved as a member of the Audit and Risk Supervision Committee.

(3) Ceased as vice-chairman of Board of Directors at their meeting on 23 April 2013.

(4) Ceased as a director at the Board meeting on 10 April 2014.

Currently, all members of the Board of Directors of IBERDROLA assume responsibility for any of the four committees of the Board.

## b) Attendance fee

The attendance fees paid in 2014 and 2013 for attending the meetings of the Board of Directors and its commissions, based on the duties discharged in each case, were as follows:

	<i>Thousands of euros</i>	
	<i>2014</i>	<i>2013</i>
Chairman of the Board of Directors and committees chairmen	4	4
Committee members and members of the Board of Directors	2	2

The attendance fees paid to the members of the Board of Directors with a charge to the by-law stipulated remuneration amounted to EUR 590 thousand and EUR 938 thousand in 2014 and 2013, respectively.

Below are listed, individually, the attendance fees received by the members of the Board of Directors during 2014 and 2013, respectively:

	<i>Thousands of euros</i>	
	<u>Attendance fees 2014</u>	<u>Attendance fees 2013</u>
<b>Chairman</b>		
Mr. José Ignacio Sánchez Galán	88	140
<b>Committee chairmen</b>		
Mr. Julio de Miguel Aynat	50	82
Mrs. Inés Macho Stadler	76	110
Mrs. Samantha Barber	54	86
<b>Committee members</b>		
Mr. Sebastián Battaner Arias	30	54
Mr. Xabier de Irala Estévez	44	70
Mr. Íñigo Víctor de Oriol Ibarra	30	46
Mr. Braulio Medel Cámara	18	44
Mrs. María Helena Antolín Raybaud	32	50
Mr. Santiago Martínez Lage	30	46
Mr. José Luis San Pedro Guerenabarrena	44	70
Mr. Ángel Jesús Acebes Paniagua	44	62
Mrs. Georgina Kessel Martínez	32	22
Mrs. Denise Mary Holt	14	-
<b>Directors that resigned</b>		
Mr. Víctor de Urrutia Vallejo	-	28
Mr. Manuel Lagares Gómez-Abascal	4	28
<b>Total attendance fees</b>	<b><u>590</u></b>	<b><u>938</u></b>

**c) Remuneration of the executive directors for discharging their executive duties**

The remunerations earned in 2014 and 2013 by the chairman and chief executive officer and by the chief operating officer for their executive duties and which are also recognised with a charge to the by-law stipulated remuneration for the year are indicated below individually by remuneration components:

Remuneration components of chairman and chief executive officer:

	<i>Thousands of euros</i>	
	<u>2014</u>	<u>2013</u>
Fixed remuneration	2,250	2,250
Variable annual remuneration (1)	3,146	3,250
Compensation in kind	66	61

(1) Amount relates to variable remuneration received in years 2014 and 2013, respectively, based on attainment of targets and personal performance in 2013 and 2012, respectively.

The Board of Directors has resolved to maintain the fixed remuneration for the chairman and chief executive officer in 2015 at EUR 2,250 thousand. It also decided to maintain the limit of variable annual remuneration, which may not exceed EUR 3,250 thousand and which will be paid as far as been agreed in 2016.

Remuneration components of chief operating officer<sup>(1)</sup>:

	<i>Thousands of euros</i>	
	<u>2014</u>	<u>2013</u>
Fixed remuneration	484	1,000
Variable annual remuneration <sup>(2)</sup>	945	646
Compensation in kind	22	47
Other remuneration	16	-

(1) Amount of annual variable remuneration in 2014 and 2013, tied to the achievement of targets, and to personal performance, for the periods of 2013 and 2012 in which he was a member of the Board of Directors.

(2) Stepped down from his executive duties as Business CEO on 24 June 2014 but remains a member of the Board of Directors and its Executive Committee.

On the other hand, due to the cease of his executive functions on 24 June 2014, from that date onwards retributions will only apply as a member of the Board of Directors' committee.

#### **d) Provisions and guarantees provided by the Company for directors**

This account includes the following items:

- The premium incurred to cover benefits payable in the event of the death, disability and other insurance of current directors, amounting to EUR 869 thousand and EUR 908 thousand in 2014 and 2013, respectively.
- The premium paid to cover directors' Civil Liability Insurance amounts to EUR 86 thousand and EUR 101 thousand in 2014 and 2013, respectively.
- In 2014 a rebate was received in the amount of EUR 276 thousand in respect of adjustment of the pension insurance policies relating to former directors. In 2013, however, EUR 230 thousand was paid out of the allocation made under the Company bylaws.

In 2014 no contribution was made to provision schemes additional to the public Social Security system.

#### **e) Others**

The expenses of the Board of Directors related to external services and other items during 2014 and 2013 amounted to EUR 1,189 thousand and EUR 1,117 thousand, respectively.

Moreover, with a charge to the allocation under the by-laws, in 2013 commitments acquired by the Company totalling EUR 762 thousand were paid. No such payment was recorded in 2014.

The undistributed by-law stipulated remuneration for 2014 amounting to EUR 5,278 thousand can be externalized to cover the obligations incurred by the Company to ensure them, in the event they should be materialized.

At 31 December 2014 and 2013 there are no loan or advance granted by the IBERDROLA Group to the members of the Board of Directors of IBERDROLA.

## **2. Remuneration through the delivery of Company shares**

Section 2 of Article 52 of IBERDROLA's by-laws stipulates that independently of the provisions of the foregoing paragraph, and subject always to the approval of the General Shareholders' Meeting, the compensation of directors may also consist of the delivery of shares or options thereon, as well as a payment which takes as its reference the value of the Company's shares.

Consequently, remuneration through the delivery of Company's shares, or any other remuneration related to such shares is additional, compatible and independent of profit sharing, which is established in Section 1 article 52 of the by-laws of IBERDROLA.

**a) 2011-2013 Strategic Bonus**

On 24 June 2014, based on a proposal from the Appointments and Remuneration Committee, the Board of Directors resolved to settle, having met 93.20% of the targets set, the 2011-2013 Strategic Bonus, approved as item seven on the agenda at the General Shareholders' Meeting of 27 May 2011 and regulated by the 2011-2013 Strategic Bonus Regulations which were also approved by the Board of Directors at its meeting on 19 July 2011. Accordingly, the first of the three annual settlements were made in 2014. The Chairman and the CEO received 536,359 IBERDROLA shares while the Chief Operating Officer received 90,640 shares. The Chief Operating Officer was appointed on 24 April 2012. Prior to that, he was Group Business CEO.

**b) 2014-2016 Strategic Bonus**

On 28 March 2014, the General Shareholders' Meeting resolved, in connection with item seven on the agenda, on the 2014-2016 Strategic Bonus (see Note 20) aimed at executive directors, senior executives and other management personnel of the Company and its subsidiaries. The maximum number of shares to be delivered to the beneficiaries (350) of the 2014-2016 Strategic Bonus will be 19,000,000 shares, equal to 0.3% of the share capital at the time this resolution is adopted. A maximum of 2,200,000 shares will be delivered to the executive directors in compliance with the terms and conditions of the scheme. The settlement period will be 2017 - 2019 as stipulated in the resolution approved by the General Shareholders' Meeting.

**3. Termination benefits**

In the event of termination of a non-executive director prior to the end of the period for which he was appointed not due to non-compliance attributable to such director and not due exclusively to his own will, the Company will pay such director a termination benefit subject to the director's obligation during the remaining period of his term (with a maximum of two years) not to accept positions on the governing bodies of companies in the energy sector or competing companies and not to participate in the management or advisory of the same in any other form.

Termination benefits are equal to 90% of the fixed amount the director would have received for serving his or her remaining term as officer (maintaining any annual fixed amount receivable upon leaving the Board), that could not exceed an amount that is twice 90% of that annual fixed amount.

Since the end of the 90s, executive directors, as well as a group of managers, have the right to receive a termination benefit in the event of termination of the contractual relationship with the Company not due to non-compliance attributable to such director and not due exclusively to his own will. The amount of compensation for the chairman and the chief executive officer is currently set at three annuities. The limit shall be two annuities for new contracts with executive directors and senior executives, since 2011.

In addition, executive director contracts contain a non-compete clause in respect of companies and activities of a similar nature, applicable throughout the director's relationship with the Company and for a maximum of two years subsequent to departure. As compensation for this commitment, the executive directors are entitled to receive a payment equal to the remuneration that would correspond to these periods.

**4. By-law stipulated remuneration in 2015**

At the proposal of the Appointments and Remuneration Committee, the Board of Directors unanimously resolved to freeze, for the 2015 fiscal year, directors' compensation in the form of fixed annual remuneration based on position and meeting attendance fees, as it has done since 2008.

#### 4. DIRECTOR REMUNERATION POLICY

##### DIRECTOR REMUNERATION POLICY

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

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

##### **1. Purpose and Basic Principles**

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

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

- a) Ensure that the remuneration, in terms of structure and total amount, is in line with best practices, as well as competitive vis-à-vis that of comparable entities at the domestic and international level, taking into account the situation of the regions in which the Group operates.
- b) Establish the remuneration, in accordance with objective standards, based on individual performance and on the achievement of the business objectives of the Company and the Group.
- c) Include a significant annual variable component tied to performance and to the achievement of specific, pre-established, quantifiable objectives in line with the corporate interest and strategic goals of the Company. The foregoing should be understood to be without prejudice to the possibility of considering other objectives, especially in the area of corporate governance and corporate social responsibility.
- d) Foster and encourage the attainment of the strategic goals of the Company through the inclusion of long-term incentives, strengthening continuity in the competitive development of the Group, of its directors, and of its management team, and generating a motivating effect that acts as a driving force to ensure the

loyalty and retention of the best professionals.

- e) Set appropriate maximum limits to any short-term or long-term variable remuneration, and establish suitable mechanisms to reconsider the implementation and payment of any deferred variable remuneration when a reformulation occurs that has a negative effect on the Company's consolidated annual accounts, including the potential total or partial cancellation of the payment of deferred variable remuneration if there is a reformulation of the annual accounts or a correction of non-financial dimensions or parameters upon which such remuneration was based.

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

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

## **2. Competent Bodies**

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

## **3. Limit on Remuneration**

Pursuant to article 52.1 of the *By-Laws*, the limit on the amounts that the Company allocates annually as an expense to director remuneration, including the remuneration of the executive directors for the performance of executive duties, as well as to the funding of the fund created to honour the obligations incurred by the Company with respect to pensions, the payment of life insurance premiums, and the payment of severance to current and former directors, is two per cent of consolidated group profits obtained during the financial year, after covering legal and other mandatory reserves and the issuance to the shareholders of a dividend of at least four per cent of the share capital.

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

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

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



a) Fixed Amount

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

b) Attendance Fees

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

c) Coverage of Risk Benefits

The Company pays the premiums under insurance policies that it has taken with certain insurance companies for the coverage of the death or disability of directors caused by accidents, and the Company itself assumes coverage of benefits for the death or disability of directors due to natural causes. Furthermore, the Company pays the premiums under insurance policies providing coverage against civil liability deriving from holding the office of director.

d) Severance Compensation

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

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

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

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

a) Fixed Remuneration

This portion of the remuneration shall be in line with the remuneration paid in the

market by companies with comparable capitalisation, size, ownership structure, and international scope.

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

b) Variable Remuneration

(i) Short-term Variable Remuneration:

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

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

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

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

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

The timeframe to be used for guidance purposes in medium- and long-term remuneration programmes shall be three years, and in the case of systems linked to shares of the Company, they shall be submitted to the shareholders

at a General Shareholders' Meeting for approval as provided by law. Appropriate minimum holding periods may be established in respect of a portion of the shares received. If there is a reformulation of the annual accounts or a correction of non-financial dimensions or parameters upon which such remuneration was based, the Board of Directors shall evaluate whether it is appropriate to totally or partially cancel payment of the deferred variable remuneration.

(iii) Neutrality:

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

c) Benefits

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

d) Severance Clauses

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

## **6. Basic Terms of the Contracts of Executive Directors**

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

a) Indefinite Duration

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

b) Applicable Legal Provisions

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

c) Compliance with the Company's Corporate Governance System

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

d) Non-competition

The contracts with executive directors in all cases establish a duty not to compete with respect to companies and activities that are similar in nature during the term of their relationship with the Company and for a two-year period of time thereafter. As consideration for such commitments, the executive directors are entitled severance equal to the remuneration for such period.

e) Confidentiality and Return of Documents

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

## **7. Principle of Full Transparency**

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

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

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

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This *Director Remuneration Policy* was initially approved by the Board of Directors on 18 December 2007 and was last amended on 17 February 2015, and will be submitted to a consultative vote at the next General Shareholders' Meeting as a part of the *Annual Director Remuneration Report* for purposes of the transitory provision of Law 31/2104, of 3 December, modifying the Companies Act to improve corporate Governance.