ANNUAL REPORT ON THE APPLICATION OF THE SHAREHOLDER ENGAGEMENT POLICY AND THE POLICY REGARDING COMMUNICATION AND CONTACTS WITH SHAREHOLDERS, INSTITUTIONAL INVESTORS, AND PROXY ADVISORS
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1. Introduction

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

2. Shareholder Engagement

In November 2014, the Office of the Secretary of the Company’s Board of Directors appointed a tripartite commission (the “Commission”) made up of representatives of Iberdrola, of the principal Spanish and European minority shareholder associations, and of independent specialists with particular qualifications and experience in corporate governance to prepare a report analysing the current framework of relations between the Company and its shareholders, and to propose any applicable formulas to promote the engagement thereof in the corporate life of the Company. To perform this task, the Committee prepared the report and attached thereto a proposed engagement policy that it submitted to the Board of Directors on 2 February 2015.

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

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

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

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

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

On the other hand, the Company has a broad base of minority shareholders. The Company is aware of the desirability of making an effort to develop relations with this group. Along these lines, shareholder associations are an influential instrument with great potential as a bridge between the Company and its shareholders.

Based on the Committee’s proposal, on 17 February 2015 the Board of Directors approved and published the Shareholder Engagement Policy, which contains the principles and rules covering engagement, as well as a statement of the channels and media through which it will be implemented. The immediate implementation thereof has given the results described below.
3. **Shareholder Day**

Pursuant to the provisions of the *Shareholder Engagement Policy*, on 27 March 2015 the Company held Shareholder Day, a day on which there were various presentations, interviews, and activities to bring the shareholders closer to the business, corporate, and institutional reality of Iberdrola.

Prior to the General Shareholders’ Meeting, the shareholders met with the chairman & CEO, who presented the results and strategic pillars of Iberdrola in an interview, and with officers of the Company, who participated in various fora regarding the social-welfare actions, sustainability, economic dimension, and industrial activities of the Iberdrola group. There were also musical performances and interviews with major figures in the scientific, social, and artistic areas from the geographic environment in which Iberdrola does business.

The main event of Shareholder Day was the 2015 General Shareholders’ Meeting, which was held with the participation of a total of 181,523 shareholders (attending in person and by proxy), adding up to a total quorum of 78.65% of the share capital.

To foster participation, Iberdrola has a predefined policy to pay an attendance bonus to all shareholders participating in the meeting, regardless of whether they attend in person or by proxy through any other person. The documentation for the General Shareholders’ Meeting is published in both Spanish and English on the corporate website (www.iberdrola.com), and is accessible to people with sensory limitations, who may also request the delivery of the announcement of the call to meeting in Braille. Iberdrola also adopts the measures required to ensure full accessibility by those attending Shareholder Day at Palacio Euskalduna in Bilbao, where there is also a childcare centre with duly qualified staff.

In addition to the traditional management reports and shareholder presentation period, the Company’s Investor Relations director took the floor during the General Shareholders’ Meeting to discuss questions and considerations raised prior to the Meeting during Shareholder Day, as well as other issues presented through other channels of communication with the Company.

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

A recorded summary of Shareholder Day is published on the corporate website.

4. **Engagement of Institutional Investors**

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

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

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

4.1. **Presentation of Results**

Iberdrola publishes its results on a quarterly basis by means of communications to the National Securities Market Commission, followed by presentations via webcast and audio-conference. At these events, any interested person has the opportunity to participate by asking questions of the management team.

There is significant attendance at these presentations, with an average of 400 to 500 people connected online.
4.2. Meetings at Iberdrola Facilities

Requests to visit Iberdrola’s facilities or for meetings with its management team or the Investor Relations team are quite frequent. Numerous meetings were held with analysts, investors, and rating agencies at Iberdrola’s facilities during 2015.

Specific events were also organised to discuss and describe the regulatory environment of the industry at Iberdrola’s facilities in Villarino de Duero and at the corporate offices in London, which were attended by 22 investment banking analysts.

Hundreds of telephonic meetings were also held will all kinds of market participants.

4.3. Roadshows and Equity, Fixed-income, and Sustainable Investment Conferences

The Investor Relations team attends numerous events and conferences where it meets with investors and shareholders of the company. Roadshows are also organised to visit significant investors or investors who have shown an interest in making contact with the company.

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

More than 20 cities in Europe, North America, Asia, and Australia were visited in 2015, and meetings were held with approximately 750 institutional investors.

4.4. Corporate Governance Roadshows

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

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

It should be noted that Iberdrola has held specific corporate governance roadshows for several years. Upon the call to the General Shareholders’ Meeting, a team from the Office of the Secretary of the Board of Directors and from the Finance division goes to Belgium, France, the United Kingdom, Germany, the United States, etc.

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

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

The result of these intense engagement efforts is the continuous improvement of our corporate governance system and the massive support received from the international financial community, formalised at each General Shareholders’ Meeting.

This practice, which has been developed over several years, has given rise to continuous and fluid contact that extends beyond the meetings held during each of the roadshows.
Foreign institutional shareholders have a sophisticated profile and keenest interest in the areas of corporate governance and social responsibility. Their engagement in the corporate life of Iberdrola is essential for the evolution of our governance model.

5. Engagement of Minority Shareholders

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

5.1. Presentation of the Shareholder Engagement Policy

In collaboration with Deusto Business Alumni and with Universidad de Comillas (ICADE), two days were dedicated, one in Bilbao (7 October 2015) and one in Madrid (8 October 2015), to the engagement of shareholders in the governance of listed companies, with the attendance of more than 200 people.

Besides the presentation of the Shareholder Engagement Policy at these meetings by Mr Manual Aragón (who chaired the Committee that prepared the proposal submitted to the Board of Directors), there was a round table regarding the benefits and drawbacks of loyalty shares.

These sessions also benefitted from the presence of Mr Lucas Enriques, a professor at Oxford University, and Mr Gabriel Alsina, a representative of the leading international proxy advisor ISS. The round table was moderated in Bilbao by Mr Ramón Múgica, a professor at Universidad Comercial de Deusto, and in Madrid by Mr Rafael Sebastián, a partner with the law firm Uría Menéndez.

Both days were a success in terms of attendance. Shareholders, academics, and legal and finance professionals had the opportunity to participate in an interesting engagement initiative promoted by Iberdrola.

5.2. Dialogue with Shareholder Associations

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

5.3. Activities of the Shareholders’ Club

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

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

The more significant initiatives include:

- Expanded financial information
- Quarterly results bulletins
Flexible Dividend Campaign: through mailings, press, and radio

Specific communications and other events at the General Shareholders’ Meeting

Cultural events

Visits to museums (850 attendees in 2015)

Music concerts (120 attendees in 2015)

Visits to Company facilities (100 attendees in 2015)

Sporting and healthy living events, such as the sponsorship of the Berlin Marathon and of the Way of St James (Camino de Santiago) (50 people in 2015)

Specific discounts for shareholders: Abao Opera and Guggenheim Museum

5.4. Office of the Shareholder: Shareholder Telephone Line

The shareholder telephone line is an additional channel made available to all shareholders in order to allow them to contact the Company directly and easily.

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

The shareholder telephone line received a total of 24,624 calls during 2015.

5.5. Corporate Website and Applications

The corporate website is one of the most important channels for informing investors and shareholders. Iberdrola’s development and management of this channel was publicly recognised with the “IR Magazine: Best Use of Technology” award in 2015.

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

- Economic and financial information: results brochure, results presentation, shareholder bulletin.

- Data and tools: financial, sustainability, and operational data on the Company, facilitating an interactive analysis thereof.

- Map of facilities.

- Shareholder remuneration: operation of the “Iberdrola Flexible Dividend” programme, tax impacts, examples, etc.

- Changes in capital: increases and reductions in capital, significant equity interests, treasury shares.

Numerous changes in and improvements to the corporate website were implemented during 2015, including:

- New interactive and functional calendar, which allows one to personalise the search for and selection of events, save historical data, and integrate their content with private Yahoo, Gmail, and Outlook calendars.
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- New video explaining how the “Iberdrola Flexible Dividend” programme works, to facilitate an understanding thereof.

- New personalised alert system, which allows one to define a set of e-mail alerts, choosing items of interest (Iberdrola on the stock exchange, press releases, significant event notices) and frequency (daily or weekly).

During the year, the shareholders and investors section of the corporate website had 394,801 visits, 8% of the total received by the website, and a total of 265,314 users.

Furthermore, Iberdrola has developed a specific mobile application (“app”) for investor relations, which is another efficient channel available to users to interact with the Company.

This app allows for easy, intuitive, and immediate access to current information regarding Iberdrola. It also allows for off-line use and contains specific information for shareholders and investors.

After three years of operation, the application has achieved 13,250 users, with more than 4,800 visits during 2015.

5.6. On-Line Shareholders (OLS)

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

- Make queries of or request clarifications from other shareholders, either openly or confidentially, regarding the Company or in connection with their status as a shareholder, 365 days a year.

- View frequently asked questions and answers, and access legal and corporate documentation.

- Make queries regarding the ethical principles of the Group or make complaints through the Shareholders’ Ethics Mailbox.

- Request information or clarifications or ask questions regarding items on the agenda for the General Shareholders’ Meeting.

- Cast their vote or grant their proxy electronically at the General Shareholders’ Meeting.

- Download a copy of their attendance, proxy, and absentee voting card for the General Shareholders’ Meeting.

- View the General Shareholders’ Meeting live.

- Request delivery of the commemorative gift for participating in the General Shareholders’ Meeting.

OLS had 6,662 registered shareholders at year-end 2015. Almost 45,000 visits and more than 200 questions were received in 2015 alone.

5.7. Electronic Voting

In order to incentivise the participation of the maximum possible number of shareholders at the General Shareholders’ Meeting and to promote the use of electronic media (in addition to the existing system that requires an electronic national identification document (DNI) or digital certificate issued by the Royal Spanish Mint), Iberdrola has developed a new system for individual shareholders residing in Spain to be able to grant a proxy or exercise voting rights through the corporate website using personal passwords issued by the Company.
Once a simple form has been completed using the corporate website, the system sends the personal passwords to the shareholder's address by certified mail.

This new system entails a tremendous advance in the exercise of one of the main rights of the shareholders, resulting in a substantial increase in the number of shareholders exercising their right to vote through the corporate website (up 182%).

Specifically, during the last General Shareholders' Meeting, a total of 4,859 shareholders holding 0.4% of the share capital exercised their voting rights through this system.

At year-end 2015, a total of 5,130 shareholders had requested their personal identification passwords in order to grant a proxy or exercise the right to vote through the corporate website.

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Bilbao, 23 February 2016