ANNUAL REPORT ON THE REMUNERATION OF DIRECTORS OF LISTED COMPANIES

Data identifying issuer

Ending date of reference financial year	31/12/2017
Tax Identification Code	A-48010615
Registered name	IBERDROLA, S.A.
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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 48.1 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, 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 17,000 thousand euros in 2017 (it was 17,000 thousand euros in 2016).

The price of the shares or options thereon, or any remuneration indexed 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, while also being 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 the foregoing 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 which 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. All utilities can choose the same businesses, markets, and technologies. However, their individual performance may be different. The Board of Directors believes that such difference depends upon the talent, effort, creativity, leadership, and management 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. In this regard, Iberdrola has shown consistently better performance than comparable companies. The Integrated Report 2017 (section 2.8) includes the conclusions from a comparative analysis performed by PricewaterhouseCoopers. This Report also reflects external recognition of the good performance of the Company and its executives in various areas.

Furthermore, the Board of Directors will submit a new Director Remuneration Policy for financial years 2018, 2019 and 2020 to a binding vote of the shareholders acting at the General Shareholders' Meeting (13.04.18). Said Policy is attached to this report.

The final structure of the "remunerative mix" of executive directors is based on performance with respect to pre-determined parameters 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, upon a proposal of the 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 acting at a General Shareholders' Meeting.

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), 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 Remuneration Committee, which met on 8 occasions during 2017, is comprised of the following:

- Ms Inés Macho Stadler (chair, independent)
- Mr Íñigo Víctor de Oriol Ibarra (member, other external)
- Mr Juan Manuel González Serna (member, independent)
- Mr Rafael Mateu de Ros Cerezo (secretary, non-member)

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 demanding remuneration recommendations and policies at the international level. This particularly includes the advice of PricewaterhouseCoopers.

This Committee also periodically compares the relevant data to information corresponding to comparable markets and entities, taking into account the size and international scope of Iberdrola. In this regard, Willis Towers Watson, a consultant specialising in compensation matters, was requested to prepare a comparative study of the remuneration package of the executive directors in 2016. The annex to this report shows the standards used to create the comparison group, the list of companies selected based thereon, and the conclusions of the study. In summary, the conclusions are that the remuneration policy for Iberdrola's executive directors is in line with the market practices analysed and with good governance recommendations. 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.

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.

Explain the fixed components of remuneration

For financial year 2018, at the proposal of the Remuneration Committee, the Board of Directors has unanimously resolved to maintain the fixed remuneration and attendance fee amounts. These amounts have been frozen since 2008. 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: • Chairman of the Board of Directors: 567 thousand euros • Chairs of the consultative committees: 440 thousand euros • Members of the consultative committees: 253 thousand euros • Members of the Board of Directors: 165 thousand euros Currently, all members of the Board of Directors take on responsibilities on one of the four committees of the Board. 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: • Chairman of the Board of Directors and chairs of the consultative committees: 4 thousand euros • Members of the Board of Directors and of the consultative committees: 2 thousand euros The Board of Directors has resolved to maintain the fixed remuneration for the performance of executive duties of the chairman & CEO for financial year 2018 at 2,250 thousand euros. It has also resolved to maintain the fixed remuneration of the Business CEO at 1,000 thousand euros.

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, including the scope, date of approval, date of implementation, date of effectiveness, and 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, as well as 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 assumptions or goals used as a 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.**

Explain the variable components of the remuneration systems
The only directors that receive variable remuneration are the executive directors. For 2018, the Board of Directors has resolved to maintain the maximum limit on the annual variable remuneration of the chairman & CEO at the same level as in 2017 (3,250 thousand euros), as well as for the Business CEO (1,000

thousand euros).

Set forth below are the parameters and objectives to which the variable remuneration is linked, in line with the Outlook 2018-2022 as updated on Investor Day held in London on February 2018:

As regards the chairman & CEO, the parameters will include:

- Exceed net profit for financial year 2017. It will be deemed that this target is not met if net profit in 2018 is less than that of 2017. It will be deemed to have been fully met if it exceeds it by 3.5%.
- Increase shareholder remuneration in line with the growth in net profit.
- Maintain financial strength in the FFO/Net Debt ratio at year-end 2017 (21.10%), the target being deemed fully met if the level increases to 21.30%.
- Continuous increase of female presence in significant positions.
- Presence on international indices, like FTSE4Good, Dow Jones Sustainability Index, and World's Most Ethical Companies.
- Exceed ratio of training hours received per employee over that of comparable companies, measured through a comparative study performed by an independent expert.

The Remuneration Committee may also consider other parameters for the evaluation of the chairman & chief executive officer. The relative weight of the first three (economic/financial) targets will be approximately 60%.

As regards the Business CEO, the parameters will include:

- Exceed net profit for financial year 2017. It will be deemed that this target is not met if net profit in 2018 is less than that of 2017. It will be deemed to have been fully met if it exceeds it by 3.5%.
- Maintain financial strength in the FFO/Net Debt ratio at year-end 2017 (21,10%), the target being deemed fully met if the level increases to 21.30%.
- Achieve operational efficiency of the company at a minimum Operating Expenses/Gross Margin ratio of 27.40%, considering the target to be fully met if the ratio reaches 28.40%.
- Reduce the accident rate (accidents involving own staff) by 10% over the average of the last 5 years.

The Remuneration Committee may also consider other parameters for the evaluation of the Business CEO. The relative weight of the economic/financial targets will be approximately 70%.

The Board of Directors' evaluation will be conducted based on the proposal to be made thereto by the Remuneration Committee, advised by an independent expert, which will take into account the individual performance of each of the executive directors.

In addition, the shareholders acting at the General Shareholders' Meeting held on 31 March 2017 approved, under item fifteen on the agenda, a new Strategic Bonus 2017-2019 as a long-term incentive linked to the performance of the Company with respect to certain parameters, under the following guidelines:

- Beneficiaries: a maximum of 300, including executive directors.
- Parameters: accumulated growth in net profit, total shareholder return, financial liquidity and reduction in CO_2 emissions.
- Maximum number of shares to be delivered: 14,000,000, equal to 0.22% of the share capital.
- Maximum for all executive directors: 2,500,000 shares.
- Term: evaluation period 2017-2019 and payment period 2020-2021.

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 defined 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 348 thousand euros. The Company has no commitment to any long-term defined-contribution or defined-benefit retirement or savings system for any director.

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

Explain the severance payments
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 makes a severance payment 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 severance payment 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. This is the system applicable to the Business CEO appointed by the shareholders at the General Shareholders' Meeting held on 31 March 2017. The Company included guarantee clauses of up to five years in contracts with its key officers in the year 2000. 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 Board of Directors finds that it is most appropriate not to change the current status quo, because 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 severance payment, taking into account the average age of the affected group (58 years) and the low likelihood of the guarantees being enforced. In this regard, it should be pointed out that at year-end 2014, there were 62 officers with agreed severance payments. By year-end 2017, this number decreased to 34, without the enforcement of any guarantee clause since then.

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 severance payment 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
The contracts with the executive directors are of indefinite duration and provide for financial compensation 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. Applicable legal provisions are those provided by law in each case. 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. 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 between one to two years thereafter. As consideration for this commitment, the executive directors are entitled to a severance payment equal to the remuneration for such periods. 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.

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 remuneration in kind.

Explain the remuneration in kind
Remunerations in kind for all members of the Board of Directors are not significant and will not exceed 103 thousand euros (employee electricity rate and life and casualty insurance).

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.

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

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.

Explain the other items of remuneration

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.

Explain actions taken to reduce risks
Annual and multi-year variable 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 Remuneration Committee. This Committee is in turn advised by an independent firm (in recent years, this work has been entrusted to PriceWaterhouseCoopers) that evaluates the various governance bodies of the Company. 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 3-year period, and does not accrue until the Board of Directors performs the corresponding evaluation. In addition, any payment thereof is deferred over the next 3 years. Prior to payment, all deferred variable remuneration requires a prior report from the Remuneration Committee confirming that the rationale supporting such deferred variable remuneration still applies. If there is a circumstance that subsequently requires a correction of the parameters taken into consideration during the initial evaluation, the Board of Directors will decide whether to cancel payment of the deferred variable remuneration in whole or in part (malus clause), and even to demand the total or partial return of amounts already paid (claw-back).

B. Section deleted.

OVERALL SUMMARY OF THE APPLICATION OF THE REMUNERATION POLICY DURING THE YEAR JUST ENDED

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.

Explain the structure and items of remuneration from the remuneration policy applied during the financial year
The structure and items of remuneration from the *Director Remuneration Policy* applied during financial year 2017 do not differ from the provisions of section A of this report.

D. BREAKDOWN OF INDIVIDUAL REMUNERATION ACCRUED BY EACH OF THE DIRECTORS

Name	Class	Accrual period – Financial Year 2017
SANTIAGO MARTÍNEZ LAGE	Independent	From 01/01/2017 to 31/03/2017
ÁNGEL JESÚS ACEBES PANIAGUA	Independent	From 01/01/2017 to 31/12/2017
GEORGINA KESSEL MARTÍNEZ	Independent	From 01/01/2017 to 31/12/2017
JOSÉ IGNACIO SÁNCHEZ GALÁN	Executive	From 01/01/2017 to 31/12/2017
MARÍA HELENA ANTOLÍN RAYBAUD	Independent	From 01/01/2017 to 31/12/2017
SAMANTHA BARBER	Independent	From 01/01/2017 to 31/12/2017
IÑIGO VÍCTOR DE ORIOL IBARRA	Other external	From 01/01/2017 to 31/12/2017
INÉS MACHO STADLER	Independent	From 01/01/2017 to 31/12/2017
BRAULIO MEDEL CÁMARA	Independent	From 01/01/2017 to 31/12/2017
JOSÉ LUIS SAN PEDRO GUERENABARRENA	Other external	From 01/01/2017 to 31/03/2017
DENISE MARY HOLT	Independent	From 01/01/2017 to 31/12/2017
MANUEL MOREU MUNAIZ	Independent	From 01/01/2017 to 31/12/2017
JOSÉ WALFREDO FERNÁNDEZ	Independent	From 01/01/2017 to 31/12/2017
XABIER SAGREDO ORMAZA	Other external	From 08/04/2017 to 31/12/2017
FRANCISCO MARTÍNEZ CÓRCOLES	Executive	From 31/03/2017 to 31/12/2017
JUAN MANUEL GONZÁLEZ SERNA	Independent	From 31/03/2017 to 31/12/2017

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	Salaries	Fixed remuneration	Attendance fees	Short-term variable remuneration	Long-term variable remuneration	Remuneration for belonging to committees of the Board	Severance payments	Other items	Total 2017	Total 2016
MARÍA HELENA ANTOLÍN RAYBAUD	0	165	42	0	0	275	0	5	487	490
INÉS MACHO STADLER	0	165	74	0	0	275	0	3	517	509
JOSÉ LUIS SAN PEDRO GUERENABARRENA	0	41	12	0	0	22	0	1	76	296
ÁNGEL JESÚS ACEBES PANIAGUA	0	165	58	0	0	88	0	2	313	311
SANTIAGO MARTÍNEZ LAGE	0	41	12	0	0	22	0	2	77	285
BRAULIO MEDEL CÁMARA	0	165	32	0	0	88	0	3	288	286
SAMANTHA BARBER	0	165	72	0	0	275	0	2	514	502
JOSÉ IGNACIO SÁNCHEZ GALÁN	2,250	567	92	3,087	0	0	0	55	6,051	6,154

IÑIGO VÍCTOR DE ORIOL IBARRA	0	165	42	0	0	88	0	4	299	300
GEORGINA KESSEL MARTÍNEZ	0	165	58	0	0	275	0	1	499	501
DENISE MARY HOLT	0	165	38	0	0	88	0	1	292	290
JOSÉ WALFREDO FERNÁNDEZ	0	165	38	0	0	88	0	1	292	288
MANUEL MOREU MUNAIZ	0	165	60	0	0	88	0	2	315	313
XABIER SAGREDO ORMAZA	0	165	38	0	0	88	0	2	293	205
FRANCISCO MARTÍNEZ CÓRCOLES	1,000	124	12	710	0	0	0	19	1,865	0
JUAN MANUEL GONZÁLEZ SERNA	0	124	20	0	0	66	0	0	210	0

ii. Share-based remuneration systems

JOSÉ IGNACIO SÁNCHEZ GALÁN
STRATEGIC BONUS 2014-2016

Date of implementation	Ownership of options at beginning of 2017				Options allocated during 2017			
	No. of options	Shares affected	Exercise Price (€)	Exercise period	No. of options	Shares affected	Exercise Price (€)	Exercise period
28/03/2014	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 in 2017			Options exercised in 2017				Options expired and not exercised	Options at end of 2017			
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
510,596	6.70	3,423	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

FRANCISCO MARTÍNEZ CÓRCOLES
STRATEGIC BONUS 2014-2016

Date of implementation	Ownership of options at beginning of 2017				Options allocated during 2017			
	No. of options	Shares affected	Exercise Price (€)	Exercise period	No. of options	Shares affected	Exercise Price (€)	Exercise period
28/03/2014	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 in 2017			Options exercised in 2017				Options expired and not exercised	Options at end of 2017			
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
120,931	6.70	811	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	Severance payments	Other items	Total 2017	Total 2016
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
ÁNGEL JESÚS ACEBES PANIAGUA	0	0	0	0	0	0	0	0	0	0
SANTIAGO MARTÍNEZ LAGE	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
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
JOSÉ WALFREDO FERNÁNDEZ	0	0	0	0	0	0	0	0	0	0
MANUEL MOREU MUNAIZ	0	0	0	0	0	0	0	0	0	0
XABIER SAGREDO ORMAZA	0	0	0	0	0	0	0	0	0	0
FRANCISCO MARTÍNEZ CÓRCOLES	0	0	0	0	0	0	0	0	0	0
JUAN MANUEL GONZÁLEZ SERNA	0	60	4	0	0	0	0	0	64	71

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				Totals		
	Total cash remuneration	Amount of shares granted	Gross profit on options exercised	Total 2017 company	Total cash remuneration	Amount of shares delivered	Gross profit on options exercised	Total 2017 group	Total 2017	Total 2016	Contribution to savings systems during the year
MARÍA HELENA ANTOLÍN RAYBAUD	487	0	0	487	0	0	0	0	487	490	0
INÉS MACHO STADLER	517	0	0	517	0	0	0	0	517	509	0
JOSÉ LUIS SAN PEDRO GUERENABARRENA	76	0	0	76	0	0	0	0	76	836	0
ÁNGEL JESÚS ACEBES PANIAGUA	313	0	0	313	0	0	0	0	313	311	0
SANTIAGO MARTÍNEZ LAGE	77	0	0	77	0	0	0	0	77	285	0
BRAULIO MEDEL CÁMARA	288	0	0	288	0	0	0	0	288	286	0
SAMANTHA BARBER	514	0	0	514	0	0	0	0	514	502	0
JOSÉ IGNACIO SÁNCHEZ GALÁN	6,051	3,423	0	9,474	0	0	0	0	9,474	9,351	0

IÑIGO VÍCTOR DE ORIOL IBARRA	299	0	0	299	0	0	0	0	299	300	0
GEORGINA KESSEL MARTÍNEZ	499	0	0	499	0	0	0	0	499	501	0
DENISE MARY HOLT	292	0	0	292	0	0	0	0	292	290	0
JOSÉ WALFREDO FERNÁNDEZ	292	0	0	292	0	0	0	0	292	288	0
MANUEL MOREU MUNAIZ	315	0	0	315	0	0	0	0	315	313	0
XABIER SAGREDO ORMAZA	293	0	0	293	0	0	0	0	293	205	0
FRANCISCO MARTÍNEZ CÓRCOLES	1,865	811	0	2,676	0	0	0	0	2,676	0	0
JUAN MANUEL GONZÁLEZ SERNA	210	0	0	210	64	0	0	64	274	71	0
TOTAL	12,388	4,234	0	16,622	64	0	0	64	16,686	14,538	0

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 for the performance of the chairman & CEO in 2017 were identified in the Annual Director Remuneration Report approved by the shareholders at the General Shareholders' Meeting held on 31 March 2017, and are focused on the Company's medium-term performance, based on economic/financial and social responsibility parameters:

The indicators considered for the evaluation of the Business CEO are:

- Net Profit
- Funds from Operations (FFO)/Net Debt Ratio
- Operating Expenses (NOE)/Gross Margin Ratio
- Occupational injury rate

PricewaterhouseCoopers Asesores de Negocios, S.L. has provided its advice for the evaluation of the performance level.

The results, both at the operational and economic/financial levels, are in line with the budget and the commitments made to the financial community on Investor Day in London on 22 February 2017.

Due to the foregoing, the Board of Directors, upon a proposal of the Remuneration Committee, believes that the objectives for financial year 2017 were 95% achieved in the case of the chairman & CEO and 71% in the case of the Business CEO. The Company's performance with respect to the main parameters is summarised below.

- Net profit for financial year 2017 was 2,804 thousand euros, which is an increase of 3.7% over the prior financial year. This result was significantly affected by two circumstances: (i) the corporate restructuring in Brazil with a net contribution of 9,000 thousand euros, and (ii) the restructuring of the workforce in Spain, the United Kingdom and Brazil, with a negative contribution of 154,000 thousand euros; the intent thereof is to adjust the organisation of the company and the rotation of the workforce to digitisation, which is expected to lead to significant savings in terms of staff expenses in the near future.

- In financial year 2017 there was a distribution of a dividend of €0.312/share, which, when added to the bonus for attending the General Shareholders' Meeting (€0.005/share) was a 10.8% increase in shareholder remuneration over the prior year, the highest in recent years.

- The pro forma FFO/Net debt ratio (including 12 months from the corporate merger in Brazil and excluding the impact of the workforce restructuring) at the end of 2017 is 21.10%, less than that of the prior year.

- The NOE/Gross Marging expense at year-end was 31.2%, higher than the prior year. The corporate restructuring in Brazil had an impact of 562,000 thousand euros, decreasing the ratio by 0.7 percentage points. The impact of the workforce restructuring on the ratio was 1.6 negative points.

- For yet another year, Iberdrola was selected for the most important world sustainability indices. It was included in the Dow Jones Sustainability Index and identified as the European leader of the utility sector. Iberdrola is also on the FTSE4Good (first utility with nuclear assets selected for the index in 7 years) and was the only Spanish utility to be recognised as one of the most ethical companies in the world in the World's Most Ethical Companies (Ethisphere Institute) ranking. As a new development, this year Iberdrola was selected for various sustainability indices like ET Carbon Ranking and Euronext Vigeo Eiris. In addition, the agency Oekom has classified Iberdrola as a prime company and Carbon Clear has classified it as a prime utility in the report on the status of sustainability reporting 2017. Iberdrola also maintained its presence on the most important sustainability indices and was recognised by CDP as a global leader in the fight against climate change.

- Analysing the results from the Shareholder Meeting 2017, the proposals of Iberdrola's Board of Directors obtained a consensus level above that of the average of comparable companies. The proposals of the Board of Directors received an average of 99.4% in favour. The Remuneration Report received 96.7% votes in favour.

- Iberdrola has set a goal of progressive improvement in the proportion of management jobs held by women. At year-end 2017 there were 178 women engaging in management work throughout the Iberdrola group, which is 21.5% of all officers, 1.8% more than the prior year.

- The company has limited the labour climate survey to the employees of the subsidiaries in Brazil and the United Kingdom. The "pride in belonging" indicator improved in both companies. The United Kingdom exceeded 7.0, reaching 7.4 in 2016, while in Brazil it continued to obtain a level of 10.0. "General satisfaction with job position" performed similarly, growing to 7.9 in the United Kingdom and 10.0 in Brazil.

- Training hours provided to employees in 2017 increased by 10.4% over the prior year. This figure means that each employee received 42.4 hours of training during 2017.
- At year-end 2017 the accident rate had improved by 0.5% over 2016, and has decreased by 21.04% compared to the average for the 2013-2016 period.

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:

	Number	% of total
Votes cast	4,880,464,991	97.86

	Number	% of total
Votes against	150,507,810	3.01
Votes in favour	4,463,570,850	89.51
Abstentions	266,386,331	5.34

E. OTHER INFORMATION OF INTEREST

E.1 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.

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 2.14% of the total votes cast.

As of the date of approval of this Report, the chairman & chief executive officer is the holder of 8,992,398 shares of Iberdrola, S.A., which is 0.14% of the capital. Since his appointment, he has not sold shares of the Company. For his part, the Business CEO is the holder of 303,423 shares of IBERDROLA.

The directors as a group hold 0.15% of the capital.

E.2 This annual remuneration report was approved by the board of directors of the company at its meeting of 23 February 2016.

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

Yes ☐ **No** ☒

ANNEX

BENCHMARK 2016

1. Standards

The study performed by Willis Tower Watson for the Remuneration Committee used the following selection standards to define the group of comparison companies.

a) Internationalised European and North American companies listed on a stock exchange.

b) Listed "utilities" with no less than 50% of the IBERDROLA's turnover and a market capitalisation at 31.12.2015 of more than 10,000 million euros.

c) Multi-sector sample of companies listed on the FTSE Eurotop 100 and S&P 500 indices with turnover of not more than 200% nor less than 50% of IBERDROLA's turnover and a market capitalisation at 31.12.2015 of not more than 200% nor less than 50% than that of IBERDROLA, excluding banks and insurance companies.

d) The main companies on the Spanish IBEX 35 index.

2. List of companies

American Electric Power	Accenture	Lyondellbasell
Centrica	Astrazeneca	Río Tinto
Duke Energy	Caterpillar	Orange
E.ON	Cigna	Renault
EDP – Energias de Portugal	Continental	Schlumberger
Enel	Danone	Schneider Electric
Engie	Delta	Tix Cos
Exelon	Ericsson	Vinci
Gas Natural Fenosa	General Dynamics USA	Vodafone
National Grid	Heineken	Inditex
NextEra Energy	Henkel	Santander
Southern Company	Honeywell	Telefónica
SSE	Johnson Controls USA	BBVA
ABB	Koninklijke Philips	

3. Conclusions

- The companies of the comparison group reflect Iberdrola's geographic distribution and are comparable in size and complexity.

- Accepting such samples, which include the U.S. market, Iberdrola's remuneration policy for the chairman & CEO is reasonably aligned with observed market practices and with good governance recommendations.

2014-2016 STRATEGIC BONUS

The level of achievement of the objectives linked to the payment of the Strategic Bonus 2014-2016 approved by the shareholders at the General Shareholders' Meeting was evaluated at 93.2%.

The basic guidelines for said Strategic Bonus are the following:

- Beneficiaries: 218, including the executive directors.
- Parameters: net profit, share price performance, and financial strength.
- Maximum number of shares to be delivered: 19,000,000, equal to 0.3% of share capital at the time of approval of the Strategic Bonus.
- Maximum for all executive directors: 2,200,000 shares.
- Evaluation period 2014-2016 and payment period 2017-2019.

The first payment of the 2014-2016 Strategic Bonus was made on 18 May 2017. The Remuneration Committee relied on the advice of PricewaterhouseCoopers Asesores de Negocios, S.L. to evaluate the level of achievement of the objectives. The evaluation took into account the integration of AVANGRID in December 2015, which transaction was not contemplated on the date of approval of the Strategic Bonus by the shareholders at the General Shareholders' Meeting. The conclusions of the evaluation with respect to achievement of the objectives are the following:

- The first objective refers to the change in consolidated net profit compared to the close of financial year 2014. The objective was annual average growth of 4%. The consolidated net profit of IBERDROLA in 2016 was 2,705 million euros, which translates into average annual growth of 7.8%. The figure increases to 8.4% if we eliminate the effect from the acquisition of UIL (now AVANGRID), which was not contemplated at the time of approval by the shareholders of the Strategic Bonus 2014-2016.
- The second objective is linked to the comparative evaluation of the share price compared to the EUROSTOXX Utilities index and the shares of the five leading European competitors (ENEL, E.ON, RWG, EDF and GDF Suez). In this regard, Iberdrola's share price increased by 34.6% during the 2014-2016 period. The second company on the ranking saw its share price increase by 31.9%, and the other companies saw a downward trend.

  Furthermore, IBERDROLA had better overall performance in 61% of the trading sessions during the period; this figure increases to 98% considering only financial year 2016.

  IBERDROLA's shares also show the highest total shareholder return (TSR) for the 2014-2016 period (52.7%).
- The final parameter is related to the financial strength of the Company, with the objective to achieve a FFO/Net Debt ratio of above 22% by the end of the evaluation period. The closing ratio at the end of financial year 2016 was 21.5%. In this regard, it should be specified that as a result of the integration of the U.S. company UIL (now AVANGRID), IBERDROLA's net debt increased by 2,533 million euros, and the contribution to equity was 289 million euros, while this transaction was neither forecast nor announced at the time of approval by the shareholders of the Bonus 2014-2016. It is therefore appropriate to make an adjustment to the FFO/Net Debt ratio; discounting the effect of the acquisition of UIL, this ratio increases to 22.4%.

PROPOSED DIRECTOR REMUNERATION POLICY

GENERAL SHAREHOLDERS' MEETING - 13 APRIL 2018

In exercise of the powers vested therein, the Board of Directors of IBERDROLA, S.A. ("**Iberdrola**" or the "**Company**"), upon a proposal of the Remuneration Committee, hereby submits this *Director Remuneration Policy* for approval of the shareholders at the General Shareholders' Meeting of the Company.

1. Purpose and Basic Principles

1.1 Mission, Vision and Values of the Iberdrola group

The driving principle of the *Mission, Vision, and Values of the Iberdrola group* is its commitment to the sustainable creation of value in the performance of all of its activities for society, its professionals, its customers, its suppliers, its shareholders and other stakeholders.

This commitment governs the day-to-day activities of the Company, channels its leadership role in its various areas of activity, focuses its strategy of maximising social dividends and guides the ethical behaviour of all personnel participating in the daily construction of Iberdrola's business enterprise, starting with its management body.

In this regard, the ultimate goal of the *Director Remuneration Policy* is to help develop the *Mission, Vision and Values of the Iberdrola group* such that the remuneration of the Company's directors is commensurate with the dedication and responsibility assumed, taking into consideration the Company's desire to lead the energy sector. This desire is based on aspects like the provision of a high-quality service through the use of environmentally-friendly energy sources, innovation, digital transformation in its area of activity, the fight against climate change, and commitment to a social dividend and the generation of employment and wealth in its surroundings.

1.2 Basic Principles

The Board of Directors has found proper decision-making and a clear commitment to the corporate values are two of the main principles determining the performance of companies, particularly in the energy sector: all of them can choose similar businesses, markets and technologies, but their performance is different, based on the principal differentiating elements of talent, efforts, creativity, leadership and the ability to translate one's commitment into a mission, vision and values.

Within this context, the basic principles governing this *Director Remuneration Policy* are the following:

a) Provide suitable remuneration for the dedication and responsibility assumed by the directors, in line with the market remuneration paid by companies with comparable capitalisation, size, ownership structure and international scope. This will be essential for recruiting and retaining the best candidates.

   To this end, the Remuneration Committee periodically engages in a benchmark analysis of remuneration systems applicable to comparable companies at the international level.

b) Align the remuneration policy of the Company as a whole with its values, with its commitment to maximise its social dividend and with shareholder return, as these terms are defined in the By-Laws, within the framework of the commitment of the Iberdrola group to all of its Stakeholders.

c) Ensure that the remuneration helps to achieve the strategic goals of Iberdrola, which are periodically published.

1.3. Principles Governing the Remuneration of the Executive Directors

As regards the executive directors, the *Director Remuneration Policy* follows the same standards as the *Senior Officer Remuneration Policy* and shares the same principles and guidelines as the remuneration policy for all employees of the Company: a commitment to the *Mission, Vision and Values of the Iberdrola group*, personal and corporate ethics, excellence in hiring, continuous training, gender equality, meritocracy and recognition of talent, reconciliation, and relevancy of the variable component of the remuneration package.

In particular, the main principles governing the remuneration of the executive directors are the following:

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, the *Mission, Vision and Values of the Iberdrola group* and the strategic goals of the Company. The application of this *Director Remuneration Policy* shall take into consideration economic/financial, operational/industrial and corporate social responsibility parameters for these purposes.

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 variable remuneration as well as suitable mechanisms in order for the Company to be able to obtain reimbursement of the variable components of remuneration if the payment has not conformed to the terms of performance or if such variable components have been paid based on information later shown to be inaccurate.

2. Overall By-Law Limitation on Director Remuneration

Pursuant to article 48.1 of the *By-Laws*, the amount that the Company allocates annually to the directors as remuneration is limited to a maximum amount equal to 2% of the 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 4% of the share capital.

This limit includes the amount corresponding to the executive directors for the performance of executive duties, as well as the endowment of funds to meet the obligations of the Company regarding pensions, the payment of life and casualty insurance premiums, coverage for and payment of severance compensation in favour of current and former directors, and the operational costs of the Board of Directors and the committees thereof.

For the purpose of establishing such limit, the quoted price 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.

3. Competent Bodies

Within the by-law framework referred to above, the shareholders acting at a General Shareholders' Meeting are vested with the power to approve this *Director Remuneration Policy,* which constitutes the Company's highest-level rules on remuneration after the *By-Laws.*

Within the overall limit established in the *By-Laws* and in accordance with the provisions of law and this *Director Remuneration Policy*, the Board of Directors, upon a proposal of the Remuneration Committee, is vested with the power to specify the remuneration of the directors, 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.

4. Structure of the Remuneration of Directors in their Capacity as Such

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

4.1. 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 overall by-law limit on director remuneration set forth in section 2 above.

The fixed remuneration of the directors in their capacity as such is included within the limit reflected in section 2 of this Policy, which also includes the remuneration of the executive directors for the performance of their executive duties, as well as the funding of pensions, the payment of life and casualty insurance premiums, coverage for and payment of severance compensation, and the operational costs of the Board of Directors and the committees thereof. The maximum amount of the annual remuneration to be paid to all directors in their capacity as such is 7,000 thousand euros.

4.2. Coverage of Risk and Civil Liability 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.

4.3. Non-competition

External non-proprietary directors who cease to hold office prior to the expiration of the term to which they were appointed, if such cessation is not the consequence of a breach attributable thereto or exclusively due to the director's own decision, may not hold office in management decision-making bodies of companies within the energy industry or of other competitor companies or participate in any other way in the management thereof or in the provision of advice thereto for the remaining term of their appointment (with a maximum of two years).

Non-executive directors who cease to hold office due to the provisions of the succession plan included in the *General Corporate Governance Policy* shall not be subject to any non-compete commitment, nor shall they have the right to receive any compensation for the cessation from office. This right shall also not be held by directors who cease to hold office voluntarily or as a result of a breach of their duties.

In other cases, the compensation to which external non-proprietary directors are entitled for the non-compete commitment shall be equal to 90% of the fixed amount that the director would have received for the remainder of the director's term (assuming that the annual fixed amount that the director receives at the time of cessation from office 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:

5.1. 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.

In 2018, the chairman & CEO will have the right to receive annual fixed remuneration of 2,250 thousand euros, and the Business CEO will have the right to receive 1,000 thousand euros.

The remuneration of the executive directors will change based on the specific responsibilities and nature of the functions performed and will be reviewed annually by the Board of Directors upon a proposal of the Remuneration Committee.

For these purpose, this Committee may rely on external advisors to perform the market studies and analyses that it deems appropriate.

5.2. Short-term Variable Remuneration

A portion of the remuneration of executive directors (and of that of officers and employees) is variable, in order to strengthen their commitment to the *Mission, Vision and Values of the Iberdrola group* and its strategic goals and to incentivise the best performance of their duties. The maximum variable remuneration for each year will be that which is stipulated in the *Annual Director Remuneration Report*.

The targets to which the remuneration of the chairman & CEO will be linked shall be those reflected in the *Annual Director Remuneration Report*, and will be related to parameters such as:

- Net Profit, Gross Operating Profit (EBITDA), cash flow, etc.
- Shareholder remuneration compared to other securities and indices.
- Development and application of the Stakeholder Relations Policy and commitment to the social dividend.
- Equality policies.
- Commitment and results in the fight against climate change in line with what was approved by the shareholders at the General Shareholders' Meeting 2017.
- Management of corporate reputation, measured by the Company's presence on sustainability and ethics indices.
- Promotion of good governance and best practices.

For other executive directors, the targets to which his variable remuneration will be linked will be those relating to parameters such as:

- Net Profit, Gross Operating Profit (EBITDA), cash flow, etc.
- Level of the Group's efficiency level measured by operating expenses over gross margin.
- Selection and implementation of profitable investments that create value.
- Levels of occupational safety and labour climate.

In each *Annual Director Remuneration Report*, the Company shall report on the implementation of this Policy and on the specific goals for each financial year and the level of achievement thereof.

The Remuneration Committee shall evaluate the performance of each of the executive directors, for which purposes it may rely on the advice of an independent expert, and shall submit a reasoned proposal to the Board of Directors for approval thereof.

The Board of Directors shall have a margin of discretion in evaluating compliance with the indicators, based on a proposal made by the Remuneration Committee, taking into account regulatory uncertainty, among other factors.

5.3. Long-term Variable Remuneration: Share Delivery Plans

The Company has a long-term incentive plan in effect directed towards employees who, due to their position or responsibility within the Group, are considered to contribute decisively to the creation of value, and towards the executive directors, consisting of the delivery of shares linked to the performance of the Group in relation to the development of the Outlook 2016-2020 and subsequent updates thereof approved by the Board of Directors.

Share delivery plans are subject to approval by the shareholders at a General Shareholders' Meeting, who also set the objective and quantifiable parameters determining the accrual thereof as well as their relative weighting. The shareholders at the General Shareholders' Meeting held on 31 March 2017 approved the 2017-2019 Strategic Bonus along these lines.

The parameters include economic/financial and comparative total shareholder return, operational/industrial and corporate social responsibility variables, and must in any case be consistent with the strategy of the Company determined by the Board of Directors, with a minimum level beyond which they are considered to be achieved and a target to reach the highest grade.

The Remuneration Committee evaluates performance and determines compliance with pre-established parameters. The committee may seek the advice of an independent expert for this purpose. The proposal thereof shall be submitted to the Board of Directors for approval.

The plans typically have a duration of six years, of which the initial three-year period is the period for evaluating the performance level compared to the parameters to which the plan is linked, and the next three years are the payment period during which the shares are delivered on a deferred basis.

In order to engage in a proper overall evaluation of performance, circumstances occurring after the approval of each of the plans having a material impact, either positive or negative, on the Outlook 2016-2020 and subsequent updates thereof or on the main economic/financial variables of the Company (corporate transactions, mergers, split-offs, acquisitions, extraordinary dividends, etc.) shall be taken into account.

At the end of the evaluation period for each of the incentive plans, the plan shall accrue annually in equal parts (in the case of the 2017-2019 Strategic Bonus, the accrual shall occur during the first half of 2020 and during the first quarter of 2021 and 2022). Each annual accrual and the corresponding payment thereof must be approved by the Board of Directors, after a report from the Remuneration Committee.

In this connection, during each of the three years of the payment period and for each delivery of shares, it is expected that there will be an evaluation whether to confirm or totally or partially cancel the corresponding payment and, if applicable, to claim the total or partial reimbursement of the shares already delivered (or the amount thereof in cash) under certain circumstances. The shares shall be delivered along with the remuneration corresponding to said shares that has accrued since the initial allocation thereof to the beneficiaries.

Furthermore, executive directors who are beneficiaries of the incentive plans may not transfer ownership of the shares received for a period of three years unless they are the direct or indirect holders of a number of shares equal to two times their annual fixed remuneration or unless the Board of Directors so approves under exceptional circumstances.

5.4. Remuneration for holding the position of director at other companies of the Group that are not wholly owned

Executive directors and officers of the Group who hold the position of director at companies that are not wholly owned, either directly or indirectly, by the Company, may receive remuneration corresponding to the position from said companies in accordance with their corporate governance rules on the same terms as the other directors.

5.5. Neutrality

The Board of Directors shall ensure that 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.

5.6. Benefits

The remuneration system for executive directors may be supplemented by health and life insurance, in line with practices in the market by companies with comparable capitalisation, size, ownership structure and international scope.

The Company does not currently have any commitment to provide defined contributions or defined benefits to any retirement or long-term saving system of any director.

5.7. Malus and Claw-Back Clauses

The Board of Directors, with due regard to any proposal made by the Remuneration Committee, has the power to cancel the payment of long-term variable remuneration (*malus* clause) or to request the return of remuneration already paid (claw-back clauses) under special circumstances. These circumstances include fraud, serious violation of the law and a material restatement of the financial statements on which the Board based the evaluation of the performance level, provided that said restatement is confirmed by the external auditors and is not due to a change in accounting rules.

The Board of Directors also has the power to suspend the payment of short-term variable remuneration if the beneficiary thereof has seriously breached the *Code of Ethics* without having remedied the consequences of said breach.

In the case of the Strategic Bonus, the power to demand a return of shares delivered shall be governed by a resolution of the shareholders acting at a General Shareholders' Meeting and the provisions of the rules implementing said resolution and approved by the Board of Directors, after a report from the Remuneration Committee.

The proportion of the amounts to be withheld or recovered shall be determined in the discretion of the Board of Directors, after an opinion of the Remuneration Committee, based on the specific circumstances giving rise to the demand.

5.8. Severance Clauses

Since the end of the 1990s, the executive directors, as well as a group of 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 of the sole decision thereof. In the case of the chairman & CEO, he is entitled to three times annual salary. Any reduction in the number of annual salary payments to this group might entail a high cost for the Company, for which reason the Board of Directors has decided not to change the current status quo, given the average age of the affected group and the practically non-existent execution of these types of guarantees. Each annual director remuneration report describes the ongoing reduction in the number of affected persons and any payment of this type of severance in each financial year. Since 2011, a severance limit of two times annual salary applies to new contracts with executive directors and senior officers, as well as the Group's Business CEO.

5.9. Appointment of New Executive Directors

To the extent possible, the remuneration of new executive directors shall be in line with the remuneration policy for the current executive directors. The fixed remuneration of the new executive directors shall be set at the time of their appointment taking into account market terms and comparable positions as well as their experience level. New executive directors shall participate in annual long-term incentives based on the same principles as the current ones. The Board of Directors, after taking account of the recommendation of the Remuneration Committee, reserves the right to deviate from established practice to the extent necessary to ensure the hiring of appropriate candidates, in view of the Company interest.

6. <u>Adjustment to Economic Situation and International Environment</u>

The application of this Policy shall be appropriately adjusted to conform to the economic situation and international environment, upon a proposal of the Remuneration Committee, which may rely on the advice of an independent expert to this end. If appropriate, all of the details of and reasons for any adjustment shall be provided to the shareholders in the next published annual director remuneration report.

7. <u>Basic Terms of the Contracts with Executive Directors</u>

a) Indefinite duration

The contracts with executive directors of the Company are of indefinite duration, and financial compensation is contemplated therein, as set out in sections 5.8 and 7.d), 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, and especially, given the significance thereof, the principles and guidelines set out in the Preamble and in the Preliminary Title of the By-Laws, as well as in the Code of Ethics, which in any case shall be the reference point for the proper interpretation of the provisions of this Director Remuneration Policy.

d) Non-competition

Given the scope of their knowledge of the design and execution of the Company's strategy and business plans, 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 period of between one and two years thereafter. As consideration for such commitments, the executive directors are entitled to a severance payment 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.

8. 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 annual 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 General Shareholders' Meeting and is submitted to a consultative vote as a separate item on the agenda.

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