



# General Shareholders' Meeting

## Report of the Board of Directors / 2017

### Proposed Appointment of Directors



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**MASTER REPORT SUBMITTED BY THE BOARD OF DIRECTORS OF IBERDROLA, S.A. REGARDING THE PROPOSED APPOINTMENT OF DIRECTORS INCLUDED IN ITEM NUMBERS NINE AND TEN ON THE AGENDA FOR THE GENERAL SHAREHOLDERS' MEETING CALLED TO BE HELD ON 31 MARCH AND 1 APRIL 2017, ON FIRST AND SECOND CALL, RESPECTIVELY**

**1. Purpose of the Report**

This report is submitted by the Board of Directors of IBERDROLA, S.A. ("**Iberdrola**" or the "**Company**") pursuant to the provisions of section 529 *decies* of the Companies Act (*Ley de Sociedades de Capital*) regarding the proposed appointment of Mr Juan Manuel González Serna and Mr Francisco Martínez Córcoles as directors, with the classifications of independent and executive, respectively.

Pursuant to the provisions of article 14.2.d) of the Company's *Regulations for the General Shareholders' Meeting*, in the event that the shareholders acting at a General Shareholders' Meeting must deliberate on the appointment, re-election, or ratification of directors, the corresponding proposed resolution shall be accompanied by the following information:

- a) background and professional experience of the director;
- b) membership on other boards of directors of listed or unlisted companies;
- c) indication of class to which the director belongs;
- d) date of their first and subsequent appointments as a director of the Company;
- e) shares of the Company and derivative financial instruments whose underlying assets are shares of the Company of which such director is the holder;
- f) the report prepared by the Board of Directors; and
- g) the proposal of the Appointments Committee, in the case of independent directors, and the report of said Committee in the other cases.

In accordance with the provisions of law and the Corporate Governance System, the proposed appointment as director of Mr Juan Manuel González Serna, who must be assigned to the class of independent director, is submitted to the shareholders at the General Shareholders' Meeting upon a proposal of the Appointments Committee.

The proposed appointment of Mr Francisco Martínez Córcoles, who must be assigned to the class of executive director, is submitted to the shareholders at the General Shareholders' Meeting after a report from the Appointments Committee.

This master report assesses competency, experience, and merits of the proposed candidates as a whole to hold the office of director upon the terms of subsection 5 of section 529 *decies* of the Companies Act.

This is followed by the individual reports for each of the candidates to be appointed as directors, which include the information referred to in article 14.2.d) of the *Regulations for the General Shareholders' Meeting*.

**2. Prior Analysis**

Pursuant to the provisions of the *Director Candidate Selection Policy*, the Board of Directors, with the advice and report of the Appointments Committee, has engaged in a prior analysis of the needs of the Company.

The conclusion of this analysis is that it would be appropriate for the Board of Directors to have members with extensive experience in the business area, who are able to contribute value in the function that the Corporate Governance System entrusts to the board of directors as regards the determination of the Iberdrola group's strategy and supervision of the implementation thereof, as well as extensive knowledge of the businesses and of the internal operation of the Company and of the Iberdrola group. Furthermore, in the case of the appointment of Mr Juan Manuel González Serna, the Board of Directors has highly valued his commitment to the inclusion of persons at risk of social exclusion and with differing abilities.

Along these lines, the Board of Directors, with the advice and the report of the Appointments Committee, views quite favourably the profile, aptitudes, and experience of the two candidates for appointment as directors, which are conform to the needs delineated in the prior analysis.

### **3. Rationale for the Proposals as a Whole**

In preparing the proposals for appointment and re-election, the Board of Directors has taken into account the alignment of the professional profiles of the candidates with the specific characteristics of the business carried out by the Company and the industries in which it does business, the international nature thereof, and their availability to provide the attention required to hold the position.

In this regard, the Board of Directors is of the opinion that all its members appropriately combine adequate qualifications and skills in the following areas:

- a) knowledge of the industries in which the Company does business;
- b) experience in and background knowledge of economic and financial matters, management of highly qualified human resources, and legal and regulatory frameworks;
- c) international experience and background knowledge of the geographical markets that are most significant for the Company; and
- d) experience in and knowledge of management, leadership, and business strategy.

The curriculum vitae and professional history of the directors whose appointment is submitted to the shareholders at the General Shareholders' Meeting shows their competencies as administrators, their merits to hold the position of director, their extensive experience in industries relevant to the Company and the group, and their in-depth knowledge of various business areas, which ensures the contribution of multiple viewpoints to the debate of matters within the Board of Directors.

In addition, the proposed appointment of Mr Juan Manuel González Serna as an independent director contributes to maintaining a high percentage of independent directors within the Company's Board of Directors.

Finally, the Appointments Committee has verified that Mr Juan Manuel González Serna and Mr Francisco Martínez Córcoles meet the requirements of respectability, capability, expertise, competence, experience, qualifications, training, availability, and commitment to the duties of the position of director and that they are not affected, directly or indirectly, by any of the instances of disqualification from or prohibition against holding such office or by having interests that conflict with or are contrary to the corporate interest as set forth in provisions of a general nature or in the Corporate Governance System.

\* \* \*

In Bilbao, on 21 February 2017.

**INDIVIDUAL REPORT SUBMITTED BY THE BOARD OF DIRECTORS OF IBERDROLA, S.A. REGARDING THE PROPOSED RE-APPOINTMENT OF MR JUAN MANUEL GONZÁLEZ SERNA INCLUDED IN ITEM NUMBER NINE ON THE AGENDA FOR THE GENERAL SHAREHOLDERS' MEETING CALLED TO BE HELD ON 31 MARCH AND 1 APRIL 2017, ON FIRST AND SECOND CALL, RESPECTIVELY**

**1. Introduction**

This report is submitted by the Board of Directors of IBERDROLA, S.A. ("**Iberdrola**" or the "**Company**") pursuant to the provisions of section 529 *decies* of the Companies Act (*Ley de Sociedades de Capital*) regarding the proposed appointment of Mr Juan Manuel González Serna as director.

This report individually assesses the background and professional experience of the candidate to be appointed as director and other information referred to in article 14.2.d) of the *Regulations for the General Shareholders' Meeting*.

**2. Proposal of the Appointments Committee**

Attached to this report as an annex is the proposal of the Appointments Committee regarding the appointment of Mr González Serna submitted on 14 February 2017.

**3. Professional profile and biographical data**

Degree in Law, Economics and Business Studies from the Instituto Católico de Administración y Dirección de Empresas (ICADE) of the Comillas Pontifical University (Madrid) and a Masters in Business Administration (MBA) from the Escuela de Dirección del Instituto de Estudios Superiores de la Empresa de la Universidad de Navarra (IESE Business School) in Barcelona

In 1991, he founded, together with his wife, the Siro Group, today one of the largest business groups in the food sector, of which he is currently the Chairman, which has allowed him to acquire significant experience in business management, leadership, and strategy.

He also has prior experience at the Iberdrola group, which gives him in-depth knowledge of the industries in which the Company operates as well as how its businesses work. He has been an independent director of Iberdrola España, S.A. and Iberdrola Renovables, S.A.

He has been a member of the Governing Board of the Spanish Commercial Coding Association (*Asociación Española de Codificación Comercial*) (AECOC) since 1997.

Apart from the food sector, he also has extensive experience in the finance, venture capital, and health sectors: he has been a member of the Advisory Council of Rabobank in Madrid since 2003 and has been a member of the board of Banco Urquijo Sabadell Banca Privada, S.A., and was a member of the Board of Directors of Sociedad para el Desarrollo Industrial de Castilla y León, Sociedad de Capital Riesgo, S.A. (SODICAL, now Ade Capital Sodical, Sociedad de Capital Riesgo de Régimen Común, S.A.) between 2000 and October 2010. He is also a member of the board of directors of the HM Hospitales Group.

He is a founding trustee and chairman of Fundación Grupo SIRO as well as a member of the Executive Committee and trustee of Fundación SERES. Through these entities, the candidate has shown his commitment to the inclusion of persons at risk of social exclusion and with differing abilities and his ability to contribute to the development of effective social responsibility policies that contribute to the professional development of these groups. Mr González Serna has also been president, and is currently the honorary president, of Empresa Familiar de Castilla y León.

**4. Membership on Other Boards of Directors**

He is a member of the Board of Directors of the HM Hospitales Group.

He has been a member of the Governing Board of the Spanish Commercial Coding Association (*Asociación Española de Codificación Comercial*) (AECOC) since 1997 and a member of the Management Board of the Spanish Federation of FIAB since 2014.

He is a founding trustee and chairman of Fundación Grupo SIRO as well as a trustee and vice chair of Fundación SERES. He is also a trustee of the Casa Ducal de Medinaceli Foundation. He has been honorary president of the Empresa Familiar de Castilla y León association since 1999.

#### **5. Category to Which the Director Should Belong**

Mr Juan Manuel González Serna has been proposed on the basis of his personal and professional qualifications and can discharge his duties without being constrained by relationships with the Company, its significant shareholders, or its directors and officers, which makes him worthy of the status of independent director.

#### **6. Availability**

The effective availability of the candidate for appointment as director to provide the dedication required to perform the duties of the position has been verified with the candidate.

#### **7. Shares of the Company and Derivative Financial Instruments whose Underlying Assets are Shares of the Company of which the Director is a Holder**

At the date of this report, Mr Juan Manuel González Serna is the direct holder of 40,863 shares of the Company and the indirect holder, through Grupo Siro Corporativo, S.L., of 358,903 shares. Therefore, his total participation amounts to 399,586 shares, which represent 0.006 % of the share capital.

#### **8. Proposed Resolution**

The Board of Directors has concluded that his broad experience in business management and proven entrepreneurial skills, as well as his extensive knowledge of the activities carried out by the Company and the Iberdrola group, will allow Mr Juan Manuel González Serna to contribute quite positively to the operation of the Company's Board of Directors. The Board of Directors also very favourably viewed his commitment to the inclusion of persons at risk of social exclusion and with differing abilities.

In addition, the proposed appointment of Mr Juan Manuel González Serna with the classification as independent director will help to maintain a high percentage of independent directors on the Company's Board of Directors.

After evaluating the proposed appointment and re-election of the directors as a whole on the terms of the master report set out above, and after individually evaluating the information regarding Mr Juan Manuel González Serna set out in this report, the proposed resolution submitted to the shareholders for approval at the General Shareholders' Meeting reads as follows:

#### **"ITEM NUMBER NINE ON THE AGENDA**

***Appointment of Mr Juan Manuel González Serna as independent director.***

#### **RESOLUTION**

*To appoint Mr Juan Manuel González Serna as director of the Company, upon a proposal of the Appointments Committee, for the by-law mandated four-year term, with the status of independent director."*

\* \* \*

In Bilbao, on 21 February 2017.

## ANNEX

### **REPORT PREPARED BY THE APPOINTMENTS COMMITTEE REGARDING THE PROPOSED APPOINTMENT OF MR JUAN MANUEL GONZALEZ SERNA**

#### **1. Introduction**

Pursuant to the provisions of articles 4.e) and f) of the *Regulations of the Appointments Committee* of IBERDROLA, S.A. ("**Iberdrola**" or the "**Company**"), the Appointments Committee (the "**Committee**") is responsible for submitting to the Board of Directors proposed appointments of independent directors on an interim basis (co-option) or for submission to a decision by the shareholders at a General Shareholders' Meeting, as well as to verify compliance with the specific requirements for independent directors provided by law and the Corporate Governance System, and gather adequate information regarding their personal qualities, experience, knowledge, and effective availability.

For these purposes, the purpose of this document is to gather the results of the work performed by the Committee relating to the potential appointment of Mr González Serna, as well as to propose the appointment thereof to the Board of Directors with the classification of independent director.

#### **2. Compliance with the Provisions of the Director Candidate Selection Policy**

Pursuant to the provisions of the *Director Candidate Selection Policy*, in order to advise the Board of Directors on the analysis of the needs of the Company and of the Iberdrola group to determine the appropriateness of appointing Mr González Serna in particular to the position of director of the Company, the Committee has taken into consideration the business carried out by the Iberdrola group, the countries and territories in which it is carried out, the management needs of a complex multinational company like Iberdrola and its commitment to social return, and the principles contained in the *Mission, Vision, and Values of the Iberdrola group*.

The conclusion of this analysis is that the Board of Directors must have members with extensive experience in business management and strategy, as well as extensive knowledge of the internal operation of the Iberdrola group.

Pursuant to the provisions of the *Director Candidate Selection Policy*, the Appointments Committee very positively values the verified business experience of Mr González Serna, as well as his extensive knowledge regarding the businesses and operation of the Iberdrola group acquired while holding the position of independent director of the subholding company of the energy businesses of the Iberdrola group in Spain, Iberdrola España, S.A., as well as of Iberdrola Renovables, S.A. and Iberdrola Renovables España, S.A.

#### **3. Verification of Compliance with the Requirements to be a Director of the Company**

The Committee very favourably values the profile, skills, and experience of the candidate for director and, specifically, such director's respectability, capability, expertise, competence, experience, qualifications, availability, and ability to commit to the duties of the position.

To complete its analysis of the proposed candidate, the Appointments Committee has requested an external expert, PricewaterhouseCoopers Asesores de Negocios, S.L. ("**PwC**"), to analyse not only the absence of disqualifications of the candidate, but also to evaluate: (i) potential conflicts of interest as well as other potential disqualifications that may exist; and (ii) the concordance between his professional experience and the standards that proxy agencies use to assess suitability for the position. In this regard, the suitability report of PwC concludes that:

- Mr González Serna does not have a conflict of interest with Iberdrola, nor is there any other disqualification as director of the Company, in light of the positions he currently holds and has held in recent years.

Although the Siro Group has interest in certain companies that might have activities that are potentially coincidental with those of the Iberdrola group, they do not give rise to a structural conflict of interest for the candidate, and in any case could be resolved using corporate governance mechanisms.

- As to the director classification, there are no impediments under Iberdrola's Corporate Governance System to being considered an independent director.
- As to his professional experience, Mr Juan Manuel González Serna adequately complies with the standards required by proxy agencies regarding suitability of a candidate for director, given his experience on other Boards of Directors, his industry knowledge, and his potential dedication.

In addition, the Committee has verified that the conduct and professional history of the candidate for director are fully aligned with the principles contained in the *Directors' Code of Ethics* and with the provisions of the *Mission, Vision, and*

*Values of the Iberdrola group* and that the candidate has not directly or indirectly incurred any grounds for disqualification from or impediment to the holding of the position.

The Committee has also verified that Mr. González Serna can discharge his duties without being constrained by relationships with the Company, its significant shareholders, or its directors and officers, which makes him worthy of the status of independent director, contributing to the maintenance of a high percentage of independent directors within the Board of Directors.

Therefore, it is deemed to have been verified that the candidate for director meets the general requirements for all directors of the Company as provided by law and the Corporate Governance System.

#### **4. Conclusion**

The Committee has unanimously decided to propose the appointment of Mr. Juan Manuel González Serna as a director of the Company, with the classification of independent director.

**INDIVIDUAL REPORT SUBMITTED BY THE BOARD OF DIRECTORS OF IBERDROLA, S.A. REGARDING THE PROPOSED RE-APPOINTMENT OF MR FRANCISCO MARTÍNEZ CÓRCOLES INCLUDED IN ITEM NUMBER TEN ON THE AGENDA FOR THE GENERAL SHAREHOLDERS' MEETING CALLED TO BE HELD ON 31 MARCH AND 1 APRIL 2017, ON FIRST AND SECOND CALL, RESPECTIVELY**

**1. Introduction**

This report is submitted by the Board of Directors of IBERDROLA, S.A. ("**Iberdrola**" or the "**Company**") pursuant to the provisions of section 529 decies of the Companies Act (Ley de Sociedades de Capital) regarding the proposed appointment of Mr Francisco Martínez Córcoles as director.

This report individually assesses the background and professional experience of the candidate to be appointed as director and other information referred to in article 14.2.d) of the *Regulations for the General Shareholders' Meeting*.

**2. Proposal of the Appointments Committee**

Attached to this report as an annex is the report of the Appointments Committee regarding the proposed appointment of Mr Martínez Córcoles submitted on 14 February 2017.

**3. Professional profile and biographical data**

Industrial Engineer specialising in Electricity from the ICAI (Universidad de Comillas, Madrid) and Master in Business Management from IESE Business School (Universidad de Navarra).

He worked at Arthur Andersen and Compañía Sevillana de Electricidad, S.A. before joining Hidroeléctrica Española, S.A. and, following the merger with Iberduero, S.A., Iberdrola.

He has held several executive positions at the Company, including Generation Market manager, manager of the Wholesale Energy Markets Business Unit and general manager of the Group's Deregulated Energy Business, and has spearheaded the development of the areas of generation, retail and natural gas in the national and international sphere.

Mr Martínez Córcoles has also previously held the position of chairman of Iberdrola Generación, S.A. and of Scottish Power Generation Holdings Ltd. and has been a director of Compañía Operadora del Mercado Eléctrico Español, S.A., Elcogas, S.A. and Iberdrola Ingeniería y Construcción, S.A.

He is currently the Business CEO of the Iberdrola group, with overall responsibility for all of the group's businesses worldwide.

His ample background as an officer of the Iberdrola group and his presence on the boards of directors of various international companies of the group in Brazil, Mexico and the United Kingdom have allowed Mr Martínez Córcoles to acquire an in-depth understanding of the functioning of the group's businesses, as well as significant international experience.

In addition, Mr Martínez Córcoles has been awarded the Javier Benjumea Price of the Association of Engineers of ICAI in its XVII edition and with the Gold Medal of the Spanish Nuclear Company.

**4. Membership on Other Boards of Directors**

Mr Francisco Martínez Córcoles is a director representing the Iberdrola group at the Spanish Electric Industry Association (*Asociación Española de la Industria Eléctrica*) (UNESA).

Within the Iberdrola group, Mr Martínez Córcoles is currently the chairman of the board of directors of Elektro Holding, S.A. and a director of Iberdrola México, S.A. de C.V.

**5. Category to Which the Director Should Belong**

Taking into account the executive duties that will continue to be performed by Mr Francisco Martínez Córcoles within the Company, it has been proposed to appoint him as an executive director.

## 6. Availability

The effective availability of the candidate for appointment as director to provide the dedication required to perform the duties of the position has been verified with the candidate.

## 7. Shares of the Company and Derivative Financial Instruments whose Underlying Assets are Shares of the Company of which the Director is a Holder

At the date of this report, Mr Francisco Martínez Córcoles is the direct holder of 166,481 shares of the Company, which represent 0.003 % of the share capital.

## 8. Proposed Resolution

The Board of Directors has concluded that his broad experience and extensive knowledge of the businesses of the Company and the Iberdrola group, at both the domestic and international level, will allow Mr Francisco Martínez Córcoles to contribute quite positively to the operation of the Company's Board of Directors.

Furthermore, the Board of Directors quite favourably values the proposed appointment of a new executive director, given that two executive directors on the Board of Directors will considerably strengthen the efficiency of the system of weights and balances provided for in the corporate governance system, ensuring that management power is not centralised within a single governance body or a single person.

After evaluating the proposed appointment and re-election of the directors as a whole upon the terms of the master report set out above, and after individually evaluating the information regarding Mr Francisco Martínez Córcoles set out in this report, the proposed resolution submitted to the shareholders for approval at the General Shareholders' Meeting reads as follows:

### "ITEM NUMBER TEN ON THE AGENDA

***Appointment of Mr Francisco Martínez Córcoles as executive director.***

### **RESOLUTION**

*To appoint Mr Francisco Martínez Córcoles as director of the Company, after a report from the Appointments Committee, for the by-law mandated four-year term, with the status of executive director."*

\* \* \*

In Bilbao, on 21 February 2017.

## ANNEX

### **REPORT PREPARED BY THE APPOINTMENTS COMMITTEE REGARDING THE PROPOSED APPOINTMENT OF MR FRANCISCO MARTÍNEZ CÓRCOLES**

#### **1. Introduction**

Pursuant to the provisions of article 4.g of the *Regulations of the Appointments Committee* of IBERDROLA, S.A. (“**Iberdrola**” or the “**Company**”), the Appointments Committee (the “**Committee**”), at the request of the chairman of the Board of Directors or of any other member of the Board of Directors, is to report on the proposed appointment of directors for submission to the shareholders at a General Shareholders' Meeting.

To this end, the purpose of this document is to report on the proposal of the Board of Directors to appoint Mr Francisco Martínez Córcoles as a director of the Company, with the classification of executive.

#### **2. Compliance with the Provisions of the Director Candidate Selection Policy**

Pursuant to the provisions of the *Director Candidate Selection Policy*, in order to advise the Board of Directors on the analysis of the needs of the Company and of the Iberdrola group to determine the appropriateness of appointing Mr Martínez Córcoles in particular to the position of director of the Company, the Committee has taken into consideration the business carried out by the Iberdrola group, the countries and territories in which it is carried out, the management needs of a complex multinational company like Iberdrola and its commitment to social return, and the principles contained in the *Mission, Vision, and Values of the Iberdrola group*.

The conclusion of this analysis is that the Board of Directors must have members with extensive knowledge of the operation of the businesses of the Company and of the Iberdrola group.

Pursuant to the provisions of the *Director Candidate Selection Policy*, the Appointments Committee very positively values the experience and knowledge regarding the businesses and operation of the Iberdrola group, at both the domestic and international level, that Mr Martínez Córcoles has acquired during his time as an officer of the Iberdrola group, as well as due to his presence on the Boards of Directors of various international companies of the group in Brazil, Mexico, and the United Kingdom (Elektro Holding, S.A., Iberdrola México, S.A. de C.V., and Scottish Power Generation Holdings Ltd.), and more recently while he held the position of Business CEO of the Iberdrola group.

Furthermore, the proposed appointment of Mr Francisco Martínez Córcoles as executive director is intended to expand and strengthen the system of weights and balances provided for in the Company's *General Corporate Governance Policy*, given that two executive directors on the Board of Directors will contribute to avoiding the centralisation of power within a single governance body or a single person.

#### **3. Verification of Compliance with the Requirements to be a Director of the Company**

To complete its analysis of the proposed candidate, the Appointments Committee has requested an external expert, PricewaterhouseCoopers Asesores de Negocios, S.L. (“**PwC**”), to analyse not only the absence of disqualifications of the candidate, but also to evaluate: (i) potential conflicts of interest as well as other potential disqualifications that may exist; and (ii) the concordance between his professional experience and the standards that proxy agencies use to assess suitability for the position. In this regard, the suitability report of PwC concludes that:

- (i) Mr Francisco Martínez Córcoles does not have a conflict of interest with Iberdrola, nor is there any other disqualification as director of the Company, in light of the positions he currently holds and has held in recent years.
- (ii) As to his professional experience, Mr Francisco Martínez Córcoles adequately complies with the standards required by proxy agencies regarding suitability of a candidate for director, given his extensive experience on Boards of Directors, his deep knowledge of the Iberdrola group's business, and his significant international experience.

Therefore, it is deemed to have been verified that the candidate for director meets the general requirements for all directors of the Company as provided by law and the Corporate Governance System.

Specifically, the Committee has verified that the conduct and professional history of the candidate for director are fully aligned with the principles contained in the *Directors' Code of Ethics* and with the provisions of the *Mission, Vision, and*

*Values of the Iberdrola group* and that the candidate has not directly or indirectly incurred any grounds for disqualification from or impediment to the holding of the position.

The Committee very favourably values the profile, skills, and experience of the candidate for director and, specifically, such director's respectability, capability, expertise, competence, experience, qualifications, availability, and ability to commit to the duties of the position.

#### **4. Conclusion**

The Committee has unanimously decided to report favourably on the proposed appointment of Mr Francisco Martínez Córcoles as a director of the Company, with the classification of executive director.