



# General Shareholders' Meeting

Report of the Board of Directors  
Proposed Appointments and Re-Elections of Directors / 2018



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**MASTER REPORT SUBMITTED BY THE BOARD OF DIRECTORS OF IBERDROLA, S.A. REGARDING THE PROPOSED APPOINTMENT AND RE-ELECTION OF DIRECTORS INCLUDED IN ITEMS NUMBER FOUR AND FIVE ON THE AGENDA FOR THE GENERAL SHAREHOLDERS' MEETING CALLED TO BE HELD ON 13 AND 14 APRIL 2018, ON FIRST AND SECOND CALL, RESPECTIVELY**

**1. Object 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 and re-election, respectively, of Mr Anthony L. Gardner and of Ms Georgina Kessel Martínez with the classification of independent directors. Both proposals are included within the succession plan for non-executive directors set forth in the *General Corporate Governance Policy*, which succession plan is promoted by the Appointments Committee and ensures an orderly succession of the Board of Directors.

The proposed appointment of Mr Anthony L. Gardner is intended to fill the vacancy that will occur due to the resignation of Mr Braulio Medel Cámara from his position as director for personal reasons and in compliance with the provisions of said succession plan, effective as of the next General Shareholders' Meeting, which is expected to be held on 13 April 2018, on first call.

In preparing the proposed renewal of the Board of Directors being submitted to the shareholders at the General Shareholders' Meeting, the Board of Directors has taken into account the proposals and reports that the Appointments Committee issued in relation to the appointment and re-election of both candidates, which are attached as an annex to this report and which contain the information required by article 14.2.d) of the *Company's Regulations for the General Shareholders' Meeting*, as well as those issued in relation to the continuity of Ms Inés Macho Stadler and Mr Íñigo Víctor de Oriol Ibarra as directors, who, like Mr Medel Cámara, tendered their resignation to the Board of Directors in compliance with the commitment announced at their prior election at the General Shareholders' Meeting held in 2016. In this regard, the Appointments Committee voted favourably on the continuity of Ms Macho Stadler and Mr de Oriol Ibarra, which ensures the maintenance of quite valuable profiles for the Board of Directors, with a broad understanding of the operation of the Company and its businesses.

The Board of Directors finds that these proposals, as a whole, will maintain a diversity of competencies, knowledge, experience, origin, nationality, age and gender required for the best performance of the duties entrusted thereto.

**2. Competence, Experience and Merits of Mr Anthony L. Gardner (independent)**

Mr Anthony L. Gardner brings to the Board of Directors his broad experience in the business sector and in the area of international relations, and particularly in relations between the United States of America and the European Union.

The candidate has administration and senior management experience, having been general manager of private equity firms such as Palamon Capital Partners and executive director of the financial leverage and international acquisitions departments of financial institutions such as Bank of America and GE Capital. He has also sat on boards of directors of listed companies and is an independent director of the investment fund Brookfield Business Partners L.P. Moreover, he is senior counsel at the law firm Sidley Austin LLP, where he advises on regulatory aspects relating to cybersecurity, the digital economy, international trade and competition.

Mr Anthony L. Gardner has broad international experience and knowledge of key regions for the Group. He has held various positions of responsibility in Germany, France, the US, the UK, Italy and Belgium, among other countries.

In addition, Mr Anthony L. Gardner has prior experience in the Iberdrola group, as he has held the positions of independent director and member of the Audit and Compliance Committee of Scottish Power, Ltd.

Throughout his lengthy professional career, he has acquired expertise in matters that are key to the performance by the Board of Directors of the duties assigned thereto by the law and the Corporate Governance System, such as, for example, energy security policies, international trade, finance, cybersecurity and corporate social responsibility.

As shown by his curriculum vitae, Mr Gardner has studied at Harvard University (Public Administration), at Oxford University (International Relations), at Columbia University Law School (Doctor of Law) and at London Business School (Masters in Finance).

Lastly, Mr Anthony L. Gardner has also served as US ambassador to the European Union between 2014 and 2017, Director for European Affairs on the National Security Council and has worked closely with the US Diplomatic Mission to the European Union to launch the Transatlantic Free Trade Agreement.

Mr Anthony L. Gardner's professional training, the experience and expertise he has acquired during his career, with a strong international component, as well as his knowledge of the operations of the Iberdrola group and its businesses are proof of his competence to hold the position of director of the Company.

Mr Anthony L. Gardner has been proposed in view of his personal and professional qualities and can perform his duties without being constrained by relationships with the Company, its significant shareholders or its directors and officers, thus meriting the classification of independent director.

### **3. Competence, Experience and Merits of Ms Georgina Kessel Martínez (independent)**

Ms Georgina Kessel Martínez brings to the Board of Directors extensive experience in both the energy and financial sectors –particularly in accounting, audit and risk management matters– and a deep knowledge of Mexico, one of the most important markets for the Company.

As reflected in her curriculum vitae and her professional background, Ms Kessel Martínez is an economist, and among other positions has been chair of the Energy Regulatory Commission (*Comisión Reguladora de Energía*) of Mexico, general manager of the National Mint of Mexico (*Casa de Moneda de México*), Energy Secretary of State of the Government of Mexico and director of Banco Nacional de Obras y Servicios Públicos, S.N.C. (BANOBRAS), which shows her broad experience as a manager and her deep knowledge of the economic and regulatory fields, guaranteeing the contribution of plural viewpoints to the debate on issues within the Board of Directors.

The training of Ms Georgina Kessel Martínez in the area of economics and her professional experience in the management of institutions in the financial sector, together with her teaching experience and the predominance of executive roles in the economic/financial area in her professional career position her as a qualified member of the Company's Board of Directors. Particularly notable is her work as chairwoman of the Audit and Risk Supervision Committee, the functioning of which she has significantly advanced during her time in office, thanks to her knowledge, skills and experience in accounting, audit and risk management.

Ms Georgina Kessel Martínez has been proposed based on her personal and professional qualities and can discharge her duties without being constrained by relationships with the Company, its significant shareholders or its directors and officers, thus meriting the classification of independent director.

### **4. Contribution of the Proposed Candidates to the Diversity of Knowledge, Experience, Origin, Nationality and Gender within the Board of Directors**

Mr Anthony L. Gardner's extensive experience in sectors of great significance for the Company and, in particular, his professional career and proven knowledge of Euro-American relations acquired during more than twenty years of work – the United States of America being one of the most significant geographical areas in which the group is present and carries out its activities – position Mr Gardner as a qualified candidate for the position of director of the Company. In addition, the Board of Directors favourably views Mr Anthony L. Gardner's prior experience at the Iberdrola group, acquired while holding his position as independent director of Scottish Power, Ltd.

As to the proposed re-election of Ms Georgina Kessel Martínez, the Board of Directors quite favourably assesses her verified competence in business management, her extensive experience in sectors that are relevant to the Company and the Iberdrola group, including the energy and financial sectors, and her deep understanding of the internal operations of the Company and the group, especially acquired while holding her position as director of the Company since her appointment in 2013. The Board of Directors believes that the above aptitudes will allow Ms Kessel Martínez to continue contributing quite positively to the operation of the Board of Directors.

Together, the two candidates contribute to bolstering the high percentage of independent directors within the Company's Board of Directors and to achieving the diversity of origin and nationality in its composition that is required for the better performance of its duties.

The proposed re-election of Ms Georgina Kessel Martínez also contributes to the Company's objective that female directors represent at least thirty per cent of all members of the Board of Directors by 2020.

### **5. Proposed Resolutions**

The proposed resolutions submitted to the shareholders for approval at the General Shareholders' Meeting read as follows:

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

***Appointment of Mr Anthony L. Gardner as independent director.***

**RESOLUTION**

*To appoint Mr Anthony Luzzatto Gardner as director, upon the proposal of the Appointments Committee, for the by-law mandated four-year term, with the classification of independent director."*

**"ITEM NUMBER FIVE ON THE AGENDA**

***Re-election of Ms Georgina Kessel Martínez as independent director***

**RESOLUTION**

To re-elect Ms Georgina Kessel Martínez as director, upon the proposal of the Appointments Committee, for the by-law mandated four-year term, with the classification of independent director."

\* \* \*

Bilbao, 20 February 2018.

## ANNEX

### **REPORT PREPARED BY THE APPOINTMENTS COMMITTEE REGARDING THE PROPOSED APPOINTMENT OF MR ANTHONY L. GARDNER**

#### **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 for verifying compliance with the specific requirements for independent directors provided by law and the Corporate Governance System, and for gathering 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 selection of Mr Anthony L. Gardner as a candidate for director, as well as to propose the appointment thereof to the Board of Directors with the classification of independent director.

#### **2. Professional Profile and Biographical Data of the Candidate**

Mr Anthony L. Gardner has a degree in Public Administration from Harvard University and in International Relations from Oxford University. He holds a Doctor of Law from Columbia University School of Law and a Masters in Finance from London Business School.

Mr Gardner possesses extensive knowledge of international relations, particularly Euro-American relations, as well as expertise in the areas of finance and corporate social responsibility.

In addition, Mr Anthony L. Gardner has prior experience at the Iberdrola group, as he has held the position of independent director of Scottish Power, Ltd.

Specifically, Mr Anthony L. Gardner has dedicated more than twenty years to working in the area of Euro-American relations, and especially noteworthy in his track record is his position as ambassador of the United States of America to the European Union between 2014 and 2017, from which position he quite actively participated in negotiations regarding energy security policies, among other issues.

Previously, Mr Gardner was Director for European Affairs on the National Security Council and worked closely with the Diplomatic Mission of the United States of America to the European Union to launch the New Transatlantic Agenda.

Among other positions, Mr Anthony L. Gardner was also managing director at Palamon Capital Partners for six years, director of one of the financial departments of Bank of America and of GE Capital, and director of International Acquisitions at GE International. He has also practiced as a lawyer at international law firms located in London, Paris, New York and Brussels.

Mr Anthony L. Gardner is currently a senior adviser at consulting firm Brunswick Group, LLP and at law firm Sidley Austin LLP, where he works in the International Trade and Privacy and Cybersecurity areas, is an adviser to the Bill and Melinda Gates Foundation and a member of the advisory boards of the Centre for European Reform, the German Marshall Fund and the European Policy Centre.

#### **3. Membership on Other Boards of Directors**

Mr Anthony L. Gardner is a director of Brookfield Business Partners, L.P.

#### **4. Category to Which the Director Candidate Should Belong**

Mr Anthony L. Gardner has been proposed in view of his personal and professional qualities and can perform his duties without being constrained by relationships with the Company, its significant shareholders or its directors and officers, thus meriting the classification of independent director.

#### **5. Availability**

The effective availability of the candidate for director to provide the dedication required to hold the position has been verified with the candidate.

**6. Shares of the Company and Derivative Financial Instruments whose Underlying Assets are Shares of the Company of Which the Director Candidate is a Holder**

As of the date of this report, Mr Anthony L. Gardner does not hold any shares of the Company, directly nor indirectly.

**7. Compliance with the Provisions of the Board of Directors Diversity and Director Candidate Selection Policy**

Pursuant to the provisions of the *Board of Directors Diversity and Director Candidate Selection Policy*, in order to advise the Board of Directors on the analysis of the needs of the Company to determine the appropriateness of appointing Mr Gardner in particular to the position of director of the Company, the Committee has taken into consideration his extensive experience in the area of international relations as well as in sectors relevant to the Company and the Iberdrola group, such as the financial sector, among other factors.

Especially noteworthy are his deep knowledge of energy security policies in the European Union and his understanding of relations between the United States of America and the European Union.

Mr Gardner also has broad experience in the area of corporate social responsibility, having cooperated with a large number of internationally recognised non-profit entities, including the Bill and Melinda Gates Foundation, the Centre for European Reform, the German Marshall Fund and the European Policy Centre.

The conclusion of this analysis is that Mr Anthony L. Gardner's extensive experience in sectors of great significance for the Company, including the financial sector, and particularly his proven knowledge of Euro-American relations acquired during more than twenty years of work – the United States of America being one of the most significant geographical areas in which the group is present and carries out its activities – position Mr Gardner as a qualified candidate for the position of director of the Company. In addition, the Board of Directors favourably views Mr Anthony L. Gardner's prior experience at the Iberdrola group, acquired while holding his position as independent director of Scottish Power, Ltd.

His appointment will also contribute to maintaining the current high percentage of independent directors and will encourage diversity of origin and nationality within the Board of Directors.

**8. 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**"), not only to analyse 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 the candidate's professional experience and the standards that proxy advisors use to assess suitability for the position. In this regard, the suitability report of PwC concludes that:

- Mr Gardner does not have a conflict of interest with Iberdrola, nor is there any other disqualification from serving as director of the Company, in light of the positions he currently holds and has held in recent years.
- As to the director classification, there are no impediments under Iberdrola's Corporate Governance System to being considered an independent director.
- As to professional experience, Mr Anthony L. Gardner adequately complies with the standards required by the Corporate Governance System regarding the suitability of a candidate for director.

In addition, the Committee has verified that the conduct and professional track record 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 Gardner can discharge his duties without being constrained by relationships with the Company, its significant shareholders or its directors and officers, thus meriting the classification of independent director, which contributes 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.

**9. Conclusion**

The Committee has unanimously decided to propose the appointment of Mr Anthony L. Gardner as a director of the Company, with the classification of independent director.

## ANNEX

### **REPORT PREPARED BY THE APPOINTMENTS COMMITTEE REGARDING THE PROPOSED RE-ELECTION OF MS GEORGINA KESSEL MARTÍNEZ**

#### **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 re-elections of independent directors for submission to a decision by the shareholders at a General Shareholders' Meeting, as well as for verifying compliance with the specific requirements for independent directors provided by law and the Corporate Governance System, and for gathering adequate information regarding their personal qualities, experience, knowledge and effective availability.

Ms Georgina Kessel Martínez was last re-elected as a director of Iberdrola, for the by-law mandated four-year term, at the General Shareholders' Meeting held on 28 April 2014. Since the term for which Ms Kessel Martínez was appointed as director of Iberdrola expires in 2018, the Committee has analysed the appropriateness of her re-election and has carried out the checks and assessments referred to in the indicated articles of the Regulations.

For these purposes, the purpose of this document is to gather the results of the work performed by the Committee relating to the potential re-election of Ms Kessel Martínez, as well as to propose the re-election thereof to the Board of Directors with the classification of independent director.

#### **2. Professional Profile and Biographical Data of the Candidate**

Holder of a degree in Economics from Instituto Tecnológico Autónomo de México and of a Master's and Doctor's degree in Economics from Columbia University (New York), Ms Georgina Kessel Martínez is an independent director of the Company since her interim appointment (co-option) at the meeting of the Board of Directors held on 23 April 2013, having been re-elected by the shareholders at the General Shareholders' Meeting held on 28 March 2014. Since 23 July 2013, she has also been a member of the Audit and Risk Supervision Committee, which she currently chairs.

Ms Georgina Kessel Martínez has broad experience in the energy sector, having been Energy Secretary for the Government of Mexico (Sener) between 2006 and 2011, years in which she also held the position of chair of the Board of Directors of two large corporations: Petróleos Mexicanos (PEMEX) and the Federal Electricity Commission (*Comisión Federal de Electricidad*) (CFE). She was the first female chair of the Energy Regulatory Commission (*Comisión Reguladora de Energía*) (CRE) of Mexico.

Ms Kessel Martínez also has knowledge and experience in other sectors, especially the financing of infrastructure investment, from both the institutional and executive perspectives. She is an independent director of Grupo Financiero Scotiabank Inverlat, S.A. de C.V. and has been head of Banco Nacional de Obras y Servicios Públicos, S.N.C. (BANOBRAS), a development bank principally dedicated to the financing of infrastructure projects; member of the governance bodies of Nacional Financiera, S.N.C. (NAFINSA) and Bancomext (Banco Nacional de Comercio Exterior); adviser to the chairman of the Federal Competition Committee (*Comisión Federal de Competencia Económica*); head of the Quasi-Autonomous Non-Governmental Organisations Investment and Divestment Unit (*Unidad de Inversiones y Desincorporación de Entidades Paraestatales*) of the Office of the Secretary of Finance and Public Credit of Mexico; and head of the National Mint of Mexico (*Casa de Moneda de México*). She has participated in the Energy Council of the World Economic Forum (WEF) and in the United Nations Secretary General's advisory group (Sustainable Energy for All), which gives her a broad understanding of international organisations.

In the academic field, she has been a professor in the Economics Department of Instituto Tecnológico Autónomo de México (ITAM), deputy chair of the course towards a Degree in Economics and deputy chair and chair of the Alumni Association. She was also holder of the Quintana Chair for Research in International Trade and is the author of many papers and specialised articles. She is currently a member of the Business Council of Universidad de las Américas Puebla (UDLAP).

#### **3. Membership on Other Boards of Directors**

Ms Georgina Kessel Martínez is an independent director and chair of the Audit Committee of Grupo Financiero Scotiabank Inverlat.

#### **4. Category to Which the Director Candidate Should Belong**

Ms Georgina Kessel Martínez has been proposed based on her personal and professional qualities, and can continue to discharge her duties, as she has been doing through the date hereof, without being constrained by relationships with the Company, its significant shareholders or its directors and officers, thus meriting the classification of independent director.

#### **5. Availability**

The effective availability of the candidate for re-election as director to continue providing the dedication required to hold the position has been verified with the candidate.

#### **6. Shares of the Company and Derivative Financial Instruments whose Underlying Assets are Shares of the Company of Which the Director Candidate is a Holder**

As at the date of this report, Ms Georgina Kessel Martínez is the holder of 4,277 shares of the Company, which represents 0.0% of the share capital.

#### **7. Compliance with the Provisions of the Board of Directors Diversity and Director Candidate Selection Policy**

Pursuant to the provisions of the *Board of Directors Diversity and Director Candidate Selection Policy*, in order to advise the Board of Directors on the analysis of the needs of the Company to determine the appropriateness of re-electing Ms Georgina Kessel Martínez to the position of director of the Company, the Committee has taken into consideration, among other things, her verified competence in business management, her extensive experience in sectors that are relevant to the Company and the Iberdrola group, such as the energy and finance sectors, and her deep understanding of the internal operations of the Company and of the group.

The conclusion of this analysis is that the Board of Directors must have members with broad experience in management, leadership and business strategy, and who also have a deep understanding of the businesses and internal operation of the Company and of the Iberdrola group as well as of the most significant markets thereof.

#### **8. 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 it be sent the evaluation reports on each director prepared by PricewaterhouseCoopers Asesores de Negocios, S.L. ("**PwC**"), in relation to 2017. In this regard, the PwC report concludes that the professional experience of Ms Georgina Kessel Martínez adequately complies with the standards required by the Corporate Governance System regarding the suitability of a candidate for director, and that her dedication to the Company in the discharge of her functions is excellent.

In addition, the Committee has verified that the conduct and professional track record 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 Ms Kessel Martínez can discharge her duties without being constrained by relationships with the Company, its significant shareholders or its directors and officers, thus meriting the classification of independent director, which contributes 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.

#### **9. Conclusion**

The Committee has unanimously decided to propose the re-election of Ms Georgina Kessel Martínez as a director of the Company, with the classification of independent director.