



REPORT PREPARED BY THE BOARD OF DIRECTORS OF IBERDROLA, S.A. REGARDING THE PROPOSAL FOR RATIFICATION AND RE-ELECTION OF MS GEORGINA YAMILET KESSEL MARTÍNEZ AS EXTERNAL INDEPENDENT DIRECTOR, INCLUDED IN ITEM EIGHT OF THE AGENDA FOR THE GENERAL SHAREHOLDERS' MEETING CALLED TO BE HELD ON 28 AND 29 MARCH 2014, ON FIRST AND SECOND CALL, RESPECTIVELY

1. Purpose of the Report

This report is prepared by the Board of Directors of IBERDROLA, S.A. (the “Company”), at the proposal of the Appointments and Remuneration Committee thereof, in order to provide the rationale for the proposed ratification of the interim appointment and re-election of Ms Georgina Yamilet Kessel Martínez as a director of the Company, with the status of external independent director, which is submitted to the shareholders for approval at the General Shareholders’ Meeting under item eight on the agenda.

Pursuant to the provisions of article 9.7.c) 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) professional profile and biographical data of the director;
- (b) other boards of directors on which the director holds office, at listed companies or otherwise;
- (c) indication of the type of director such person is in each case, with mention, in the case of proprietary directors, of the shareholder that proposes or proposed the appointment thereof or with which the director has ties;
- (d) date of the director’s first and subsequent appointments as director of the Company; and
- (e) shares of the Company and derivative financial instruments whose underlying assets are shares of the Company of which such director is the holder.

This report, which provides such information, is issued voluntarily and reflects the Company’s commitment to transparency and to the latest corporate governance trends.

2. Rationale for the Proposal

The Appointments and Remuneration Committee has verified that Ms Georgina Yamilet Kessel Martínez meets the requirements of respectability, capability, expertise, competence, experience, qualifications, training, availability, and commitment to her duties and that she is not affected, directly or indirectly, by any of the instances of incompatibility with 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 Company's Corporate Governance System.

Furthermore, in preparing the proposal for ratification of the interim appointment and re-election of Ms Georgina Yamilet Kessel Martínez as a director of the Company, the Board of Directors takes into account the alignment of the professional profiles of the directors, the particular characteristics of the business and the industry, and the international character of the Company.

In this regard, the Board of Directors is of the opinion that, in order to be able to exercise their oversight and control duties properly, all its members must possess an appropriate combination of 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 regulatory frameworks and regulation;
- (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.

Within this framework, Ms Georgina Yamilet Kessel Martínez brings to the Board of Directors broad experience in both the energy and the financial sectors, as well as in-depth knowledge of Mexico, one of the most significant markets for the Company.

As reflected in her curriculum vitae, Ms Kessel Martínez is an economist and, among other positions, she has served as chair of the Mexican Energy Regulatory Commission (*Comisión Reguladora de Energía*), general manager of the National Mint (*Casa de Moneda*) of Mexico, energy secretary, and director of Banco Nacional de Obras y Servicios Públicos, S.N.C. (BANOBRAS), which bears witness to her broad experience as manager and her extensive knowledge in the economic and regulatory areas, and ensures that there will be multiple viewpoints in the discussions of the Board of Directors on the matters within its purview.

Last, Ms Georgina Yamilet Kessel Martínez has been proposed on the basis of her

personal and professional qualifications and can discharge her duties without being constrained by relationships with the Company, its significant shareholders, or its officers, which makes her worthy of the status of independent director.

3. Professional Profile and Biographical Data of the Director and Additional Information

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 in New York, Ms Georgina Yamilet Kessel Martínez is an independent director of the Company since her acceptance of the interim appointment to the Board of Directors on 23 April 2013. She is also a member of the Audit and Risk Supervision Committee of the Board of Directors since 23 July 2013.

3.1. Noteworthy Experience for the Holding of Her Positions at the Company

Ms Georgina Yamilet Kessel Martínez possesses extensive experience in the energy and industrial engineering sectors, among other industries.

Experience in the energy and industrial engineering sectors: she possesses extensive experience in the energy industry, having served as State secretary at the Office of the Energy Secretary of Mexico (Sener) from 2006 to 2011. During the same period, she also served as 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 chair of the Energy Regulatory Commission (*Comisión Reguladora de Energía*) (CRE) in Mexico.

Experience in other sectors: she has gained experience and expertise in other sectors, especially in the financial infrastructure investment sector, in both the institutional and the executive areas. She is an independent director of Grupo Financiero Scotiabank Inverlat, S.A. de C.V. and has been general manager of Banco Nacional de Obras y Servicios Públicos, S.N.C. (BANOBRAS), a development bank engaged primarily in financing infrastructure projects; a member of the decision-making bodies of Nacional Financiera, S.N.C. (NAFINSA) and of Banco Nacional de Comercio Exterior, S.N.C. (BANCOMEXT); adviser to the chair of the Federal Economic Competition Commission (*Comisión Federal de Competencia Económica*) (CFCE); head of the Quasi-Autonomous Non-Governmental Organisations Investment and Divestment Unit of the Office of the Secretary of Finance and Public Credit of Mexico, and general manager of the National Mint of Mexico.

3.2. Previous Experience in Connection with the Committee of which She Is

a Member

The educational background of Ms Georgina Yamilet Kessel Martínez in the field of economics and her professional experience in the management of institutions of the financial sector, coupled with her teaching experience and the large proportion of executive positions dealing with economic and financial matters that she has held in her professional career, make her a suitable member of the Audit and Risk Supervision Committee.

3.3. Other Information

Ms Georgina Yamilet Kessel Martínez continues to be connected to the energy sector and participates in the Energy Council of the World Economic Forum (WEF) and in the United Nations Organization (UNO) Secretary General's advisory group, known as *Sustainable Energy for All*. These ties give her extensive background knowledge of international organisations.

In the academic field, Ms Kessel Martínez has been a professor in the Economics Department, deputy chair of the course towards a Degree in Economics, and first deputy chair and chair of the Alumni Association of Instituto Tecnológico Autónomo de México (ITAM). She was also holder of the Quintana Chair for Research in International Trade and has authored many papers and specialised articles.

4. Shares of the Company and derivative financial instruments whose underlying assets are shares of the Company of which she is the holder

Ms Kessel Martínez holds ten shares of the Company and does not have any ties with holders of significant interests.

5. Proposed Resolution Submitted to the Shareholders at the General Shareholders' Meeting

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

"ITEM EIGHT ON THE AGENDA

Ratification of the interim appointment and re-election of Ms Georgina Yamilet Kessel Martínez as director of the Company, with the status of external independent director.

RESOLUTION

To ratify the appointment of Ms Georgina Yamilet Kessel Martínez as director designated on an interim basis by resolution adopted by the Board of Directors at the meeting held on 23 April 2013, and to re-elect her, upon the proposal of the Appointments and Remuneration Committee, for the by-law mandated four-year term and with the status of external independent director.”

* * *

Bilbao, 18 February 2014