



## General Shareholders' Meeting / 2019

### Report of the Board of Directors

Proposed increases in  
capital by means of scrip  
issues of the “Iberdrola  
Flexible Remuneration”  
optional dividend system



## REPORT SUBMITTED BY THE BOARD OF DIRECTORS OF IBERDROLA, S.A. REGARDING THE PROPOSED IMPLEMENTATION OF TWO INCREASES IN CAPITAL BY MEANS OF SCRIP ISSUES IN ORDER TO IMPLEMENT THE "IBERDROLA FLEXIBLE REMUNERATION" OPTIONAL DIVIDEND SYSTEM INCLUDED IN ITEMS NUMBER EIGHT AND NINE ON THE AGENDA FOR THE 2019 GENERAL SHAREHOLDERS' MEETING

### 1. Object of the Report

This report has been prepared by the Board of Directors of IBERDROLA, S.A. (the "**Company**" or "**Iberdrola**") pursuant to the provisions of sections 286 and 296 of the *Companies Act (Ley de Sociedades de Capital)*, in order to provide a rationale for the two proposed increases in share capital by means of scrip issues through the issuance of new shares with a charge to reserves, which are submitted to the shareholders for approval at the General Shareholders' Meeting under items number eight and nine on the agenda and under the section "*Common terms and conditions of the dividend distribution and increase in capital resolutions proposed under items number seven, eight and nine on the agenda, by virtue of which the "Iberdrola Flexible Remuneration" optional dividend system is implemented*" (the "**Common Terms**").

Pursuant to such sections, the Board of Directors must prepare a report setting forth the rationale for the proposals being submitted to the shareholders at the General Shareholders' Meeting, to the extent that the approval of each increase and the implementation thereof necessarily entails the amendment of the article of the *By-Laws* regarding share capital.

Given that the two increases in share capital by means of scrip issues have the same purpose and are implemented in a similar manner, this report provides the rationale for both proposals. For purposes of easier understanding by the shareholders of the transaction that gives rise to the proposals, a description of the purpose of and rationale for both increases in share capital is first provided. A description is then presented of the main terms and conditions thereof. Finally, the proposed resolutions submitted to the shareholders for approval at the General Shareholders' Meeting are included.

### 2. Purpose of and Rationale for the Proposals

#### 2.1 Purpose of the Proposals

The "Iberdrola Flexible Remuneration" optional dividend system reflects Iberdrola's desire to continuously apply the best corporate governance practices, especially in the area of its shareholder remuneration policy.

From 2010 to 2017, Iberdrola implemented the "Iberdrola Flexible Dividend" (Scrip Dividend) system, which allowed shareholders to receive bonus shares of the Company, giving them the benefit of favourable tax treatment but without limiting their ability to alternatively receive an amount in cash equal to the payment of the traditional dividend.

Thanks to the ongoing dialogue and interaction maintained with its shareholders under the *Shareholder Engagement Policy*, in 2018 Iberdrola identified the possibility of improving the "Iberdrola Flexible Dividend" system, particularly the formula used to monetise the traditional dividend, which until then was implemented through the sale to the Company of the free-of-charge allocation rights at a guaranteed fixed price, and which in some jurisdictions could have a different tax and accounting treatment than the one that would apply to the receipt of a cash dividend.

As a consequence of the foregoing, the Company developed an alternative to monetise the traditional dividend that could be more attractive for all shareholders, particularly including the international shareholders. The result was the optional dividend system called "Iberdrola Flexible Remuneration", which replaced the traditional "Iberdrola Flexible Dividend" system and was welcomed by all shareholders of the Company, receiving the support of more than 99.9% of the votes.

This system, the approval of which is again submitted to the shareholders at the General Shareholders' Meeting, is based on the same principle of offering the shareholders the ability to receive bonus shares or to monetise the amount of their remuneration, optimising the alternative consisting of receiving a fixed amount in cash instead of shares.

Thus, shareholders who prefer to receive their remuneration in cash may do so through a supplementary dividend approved by the shareholders or through payment of the interim dividend for financial year 2019 approved by the Board of Directors, instead of transferring to the Company at a guaranteed fixed price the free-of-charge allocation rights they receive within the context of the implementation of the increases in capital, as happened under the traditional system. In many cases, this clarifies and simplifies the tax and accounting treatment of the remuneration of the shareholders, particularly including international shareholders, choosing the option to receive an amount in cash. In addition, shareholders who desire to receive their remuneration in cash will continue to have the option to



sell their free-of-charge allocation rights on the market, although in this case the amount of the remuneration they receive will depend on market conditions in general and the listing price of the free-of-charge allocation rights in particular.

For this reason, in addition to the dividend contemplated in the proposed resolution corresponding to item number seven on the agenda (the "**Supplementary Dividend**"), it is expected that, prior to 31 December 2019, the Board of Directors will adopt a resolution approving the distribution of an amount on account of the dividend for financial year 2019 (the "**Interim Dividend**"), which will in any case be subject to compliance with the requirements of section 277 of the *Companies Act*.

Notwithstanding the foregoing, if the requirements of section 277 of the *Companies Act* are not met in the Second Implementation (as such term is defined below) to distribute the Interim Dividend, the Company will make an irrevocable commitment to acquire the free-of-charge allocation rights arising from the second Increase in Capital at a guaranteed fixed price upon the terms and conditions described below (the "**Purchase Commitment**" and the "**Fixed Purchase Price**", respectively).

## 2.2 Structure of the Proposals

The proposals submitted to the shareholders for approval at the General Shareholders' Meeting under items number eight and nine on the agenda and under the Common Terms have been structured in the form of two increases in share capital with a charge to the reserves contemplated in section 303.1 of the *Companies Act* (each such increase in capital shall be referred to as an "**Increase in Capital**" and both of them collectively as the "**Increases in Capital**"), which shall be implemented together with the payment of the Supplementary Dividend and the Interim Dividend (each a "**Dividend**" and collectively the "**Dividends**"), respectively. In particular:

- (i) The first implementation of the "Iberdrola Flexible Remuneration" optional dividend system (the "**First Implementation**") shall be carried out through the implementation of the Increase in Capital submitted for approval of the shareholders at the General Shareholders' Meeting under item number eight on the agenda, together with the payment of the Supplementary Dividend.
- (ii) The second implementation of the "Iberdrola Flexible Remuneration" optional dividend system (the "**Second Implementation**", and collectively with the First Implementation, the "**Implementations**" and each of the Implementations, individually, an "**Implementation**") shall be carried out through the implementation of the Increase in Capital submitted for approval of the shareholders under item number nine on the agenda together with the payment of the Interim Dividend, to the extent that the requirements set out in section 277 of the *Companies Act* are met. The Purchase Commitment would be implemented if said requirements are not met.

It is expected that the First Implementation will take place in the month of July 2019, while the Second Implementation is expected to take place in the months of December 2019 or January 2020.

In each of the Implementations, the shareholders may choose from among the following remuneration options upon the terms and conditions established by the Board of Directors.

- (a) Receiving their remuneration in cash by collecting the Dividend in question (whether with respect to all of their shares or a portion thereof), for which purpose the shareholders shall be required to make an express election in this regard.
- (b) Receiving their remuneration in newly-issued bonus shares of the Company. To this end, they must refrain from transferring their free-of-charge allocation rights on the market. In this case, at the end of the trading period, the shareholders shall receive such number of new shares as they are proportionately entitled to receive, entirely as bonus shares.
- (c) Transferring all or part of their free-of-charge allocation rights on the market during the trading period pursuant to the provisions of section 3.2 below. In this case, the consideration for such rights would depend on market conditions in general and on the listing price of such rights in particular.

The shareholders may only elect remuneration option (a) above during the "**Common Election Period**". The Common Election Period will begin on the same day as the trading period for the free-of-charge allocation rights, and the Board of Directors (with express power of substitution) must establish the specific term of the Common Election Period, which may in no event exceed the term of said trading period.

Based on their preferences and needs, the Company's shareholders may combine any of the alternatives mentioned in paragraphs (a) through (c) above with respect to different groups of shares that each of them own. In any event, the election of one of the remuneration options automatically excludes the ability to choose either of the other two options regarding the same shares.



Furthermore, as already mentioned, if the requirements of section 277 of the *Companies Act* are not met on occasion of the Second Implementation, and therefore the Company cannot distribute the Interim Dividend, the shareholders may monetise their free-of-charge allocation rights by transferring them to the Company at the Fixed Purchase Price within the framework of the Purchase Commitment and thus receive a cash amount equal to the payment of the Interim Dividend that the Company would otherwise have distributed.

In this regard, it should be borne in mind that the tax treatment of the above alternatives is different, as described in section 3.5 below.

### 3. **Main Terms and Conditions of the Increases in Capital**

Set forth below are the main terms and conditions of the Increases in Capital.

#### 3.1 **Nominal Amount of the Increases in Capital, Number of Shares to Be Issued, and Number of Free-of-charge Allocation Rights Required for the Allocation of One New Share**

The amount of each of the Increases in Capital shall be the result of multiplying the nominal value of each share of the Company (seventy-five euro cents per share) by the total determinable number of new shares of the Company to be issued on the date of each of the Implementations. The Increases in Capital will thus be carried out at par (i.e. without a share premium).

In turn, the maximum number of new shares to be issued in each Increase in Capital shall be the number resulting from the application of the following formula (rounding the result to the next lower integer):

$$\text{NNS} = \text{TNShrs.} / \text{Num. rights}$$

where:

**NNS** = Number of new shares to be issued;

**TNShrs.** = Number of shares of the Company outstanding on the date that the Board of Directors or the body acting by delegation therefrom resolves to implement each Increase in Capital; and

**Num. rights** = Number of free-of-charge allocation rights required for the allocation of one new share in the Increase in Capital in question, which number will result from the application of the following formula, rounded to the next higher integer:

$$\text{Num. rights} = \text{TNShrs.} / \text{Provisional number of shares}$$

where:

$$\text{Provisional number of shares} = \text{Amount of the Option} / \text{ListPri}$$

For these purposes, "**Amount of the Option**" shall mean the maximum reference market value of the relevant Increase in Capital to be set by the Board of Directors (or the body acting by delegation therefrom) and which will be a maximum amount of 1,520 million euros in the Increase in Capital submitted for the approval of the shareholders under item number eight on the agenda and of 1,235 million euros in the Increase in Capital submitted for the approval of the shareholders at the General Shareholders' Meeting under item number nine on the agenda.

"ListPri" shall be the arithmetic mean of the average weighted listing prices of the Company's shares on the Bilbao, Madrid, Barcelona and Valencia Stock Exchanges in the five trading sessions prior to the resolution of the Board of Directors (or of the body acting by delegation therefrom) which determines the number of free-of-charge allocation rights needed for the allocation of one new share, rounded to the closest one-thousandth part of one euro.

The number thus calculated shall be rounded as required to obtain a whole number of shares and a ratio for the conversion of rights into shares that is also an integer. In addition, and for the same purposes, the Company or a company of its group that holds shares of the Company shall waive the corresponding free-of-charge allocation rights as provided in section 3.2 below.

Furthermore, the gross amount per share of the Dividend in question, or if the requirements of section 277 of the *Companies Act* to distribute the Interim Dividend are not met, the gross amount of the Fixed Purchase Price per free-of-charge allocation right, will be calculated as follows:



$$\text{Dividend*} = \text{ListPri} / (\text{Num. rights} + 1)$$

\* Or, if applicable, Fixed Purchase Price

Solely for purposes of facilitating an understanding of the application hereof, the Common Terms include a sample calculation of the maximum number of new shares to be issued in the Increase in Capital submitted for the approval of the shareholders under item number eight on the agenda, of the maximum nominal value of such increase, of the number of free-of-charge allocation rights required for the allocation of one new share, and of the gross Supplementary Dividend per share.

The Amount of the Option of each Increase in Capital, together with the other items to be determined on each of the Implementations, shall be made public by means of a notice of significant event (*hecho relevante*) to be sent to the National Securities Market Commission (*Comisión Nacional del Mercado de Valores*).

### 3.2 Free-of-charge Allocation Rights

In each Increase in Capital, each outstanding share will grant its holder one free-of-charge allocation right.

It shall be deemed that those shareholders choosing to receive their remuneration in cash through the Dividend with respect to all or part of their shares expressly, automatically and irrevocably waive the free-of-charge allocation rights corresponding to said shares and the ability to transfer them on the market. To this end, the participants in "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR) will block said free-of-charge allocation rights, which may not be transferred on the market and which shall automatically expire at the end of the trading period, without the holders thereof being entitled to receive new shares.

The number of free-of-charge allocation rights required to receive one new share in each Increase in Capital shall be automatically determined according to the ratio existing between the number of shares of the Company then outstanding on the date of implementation of the Increase in Capital in question (TNShrs.) and the provisional number of new shares, calculated by using the formula contained in section 3.1 above. Specifically, the holders of free-of-charge allocation rights shall be entitled to receive one new share in exchange for the number of free-of-charge allocation rights held by them, which shall be determined as provided in section 3.1 above.

In the event that the number of free-of-charge allocation rights required for the allocation of one new share (Num. rights) multiplied by the number of new shares to be issued (NNS) results in a number that is lower than the number of outstanding shares of the Company on the date of implementation of the Increase in Capital in question, the Company (or such entity within its group, if any, as holds shares of the Company) shall waive a number of free-of-charge allocation rights equal to the difference between both figures for the sole purpose that the number of new shares be a whole number and not a fraction. In such an event, as well as to the extent that shareholders of the Company elect to receive the Dividend, there will be an incomplete allocation of the Increase in Capital in question, and share capital shall be increased solely by the amount corresponding to the free-of-charge allocation rights that have not been waived, pursuant to the provisions of section 311 of the *Companies Act*.

The free-of-charge allocation rights shall be allocated to those who are registered as being entitled thereto in the book-entry records of "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR) on the relevant date pursuant to the securities clearing and settlement rules from time to time in effect. The free-of-charge allocation rights may be traded during such term as is established by the Board of Directors (with express power of substitution), which term shall not be less than fifteen calendar days. During such term, a sufficient number of free-of-charge allocation rights may be acquired on the market in the proportion required to receive new shares. Notwithstanding the foregoing, these free-of-charge allocation rights acquired on the market during the trading period shall not give the acquiring party the right to choose to receive the Dividend per share. Therefore, the new holders of these rights may only monetise their investment through the sale thereof on the market, or alternatively receive the new bonus shares to which they are entitled.

Shareholders that do not have free-of-charge allocation rights in a number sufficient to receive one new share in each Increase in Capital may: (a) acquire on the market a sufficient number of free-of-charge allocation rights which, added to those already held by them, grant them the right to receive one new share; (b) transfer all or part of their free-of-charge allocation rights on the market (with the consideration for their rights depending on market conditions in general and on the listing price of the free-of-charge allocation rights in particular); or (c) elect to receive the Dividend.

### 3.3 Gross Amount per Share to be Distributed to the Shareholders as the Dividend in the Implementations

As previously explained, upon the implementation of each Increase in Capital, the shareholders may choose to receive a certain Dividend per share. The gross amount to be distributed as the Dividend for each share of





Iberdrola with the right to receive it shall be determined within the context of each of the Implementations by the Board of Directors, with express powers of substitution, pursuant to the rules set forth below.

In both Implementations, the gross amount per share of the Dividend will be the amount resulting from the application of the following formula:

$$\text{Dividend} = \text{ListPri} / (\text{Num. rights} + 1)$$

In the Second Implementation, the Board of Directors shall adopt the corresponding resolution on distribution of the Interim Dividend prior to 31 December 2019, subject in any case to the provisions of section 277 of the *Companies Act*.<sup>1</sup>

During the Common Election Period for each Implementation, the Company's shareholders shall have the ability to expressly choose to receive the Dividend per share with respect to all or part of the shares they own and that are outstanding on the relevant date upon the terms set by the Board of Directors, with express power of substitution, and pursuant to applicable securities clearing and settlement rules. If they choose to receive the Dividend per share in question with respect to all or part of their shares, the shareholders shall expressly, automatically and irrevocably waive the free-of-charge allocation rights corresponding to said shares pursuant to the provisions of section 3.2 above.

After the Common Election Period, the Board of Directors, with express power of substitution, shall determine the aggregate gross amount in euros corresponding to the Dividend payment from each of the Implementations and shall make payment thereof through the participants in "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR), the Board of Directors being hereby authorised for such purpose, with express power of substitution, to establish the specific date on which the payment of the Dividend should occur, to designate the entity that is to act as paying agent and to take such other steps as may be required or appropriate for the successful payment of the Dividend. Furthermore, after calculating said aggregate gross amount of the Dividend corresponding to each Implementation, the Board of Directors (with express power of substitution) shall rescind the resolution on distribution of the corresponding Dividend with respect to the amounts that were not distributed to those shareholders who elected (expressly or implicitly) to receive new shares.

### 3.4 **Purchase Commitment within the Framework of the Second Implementation**

As already mentioned, if the requirements set forth in section 277 of the *Companies Act* to distribute the Interim Dividend are not met within the framework of the Second Implementation, in order to ensure that the shareholders can receive all or part of their remuneration in cash, the Company will make an irrevocable commitment to acquire the free-of-charge allocation rights arising from the second Increase in Capital at a guaranteed fixed price (i.e. the Purchase Commitment and the Fixed Purchase Price, respectively) upon the following terms and conditions.

The Fixed Purchase Price shall be calculated by applying the formula used to determine the gross amount per share of the Dividend in question, such that the amount that would be received by shareholders choosing this option would be equal to the amount they would have received if it had been possible to distribute the Interim Dividend. The Fixed Purchase Price shall be calculated prior to the commencement of the trading period for the free-of-charge allocation rights of the second Increase in Capital and shall be published as soon as it is determined.

The Purchase Commitment assumed by the Company shall cover the free-of-charge allocation rights received by those who are registered as being entitled thereto in the book-entry records of "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR) on the relevant date pursuant to the securities clearing and settlement rules from time to time in effect, but excluding those rights that have been transferred on the market.

The Purchase Commitment shall be in effect and may be accepted during such term as is established for these purposes by the Board of Directors (with express power of substitution), and which must in any case be included within the trading period for the free-of-charge allocation rights.

For these purposes, the Company is authorised to acquire said free-of-charge allocation rights, with a maximum limit of all rights issued in the second Increase in Capital, but must in any case comply with applicable legal restrictions from time to time in effect.

The acquisition by the Company of the free-of-charge allocation rights as a result of the Purchase Commitment shall be carried out with a charge to the reserves contemplated in section 303.1 of the *Companies Act*.

<sup>1</sup>

If the requirements of section 277 of the *Companies Act* to distribute the Interim Dividend are not met, the gross amount of the Fixed Purchase Price per free-of-charge allocation right will be equal to the gross amount of the Interim Dividend per share resulting from the above formula (see section 3.4 below).



The Company shall waive the new shares corresponding to the free-of-charge allocation rights that it has acquired by application of the Purchase Commitment. In such an event, there will be an incomplete allocation of the Increase in Capital corresponding to the Second Implementation, and share capital shall be increased solely by the amount corresponding to the free-of-charge allocation rights that have not been waived, pursuant to the provisions of section 311 of the *Companies Act*.

### **3.5 Rights Attaching to the New Shares**

The new shares issued in each Increase in Capital shall be ordinary shares having a nominal value of seventy-five euro cents each, of the same class and series as those currently outstanding, represented by book entries, and the book-entry registration of which will be entrusted to "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR) and its participants.

As from the date that each Increase in Capital is declared to be subscribed and paid up, the new shares shall grant the holders thereof the same financial, voting and like rights as the ordinary shares of the Company then outstanding.

The Increases in Capital shall be carried out free of expenses and fees as to the allocation of the new shares issued. The Company shall bear the costs of issuance, subscription, flotation, admission to trading and other costs associated with the Increases in Capital.

Without prejudice to the foregoing, the Company's shareholders should bear in mind that, pursuant to applicable law, the participants in "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR) with which they keep their shares on deposit may establish such pass-through management fees and expenses as they may freely determine as a consequence of maintaining the securities in their book-entry records. Moreover, pursuant to applicable law, these participants may establish such pass-through fees and expenses as they may freely determine for the processing of orders to purchase and sell free-of-charge allocation rights.

### **3.6 Balance Sheet for the Transaction and Reserves with a Charge to which the Increases in Capital are Carried Out**

The balance sheet used as a basis for the Increases in Capital is the one for the financial year ended 31 December 2018, which has been audited by KPMG Auditores, S.L. and which is submitted to the shareholders for approval at the General Shareholders' Meeting under item number one on the agenda.

The Increases in Capital shall be entirely carried out with a charge to the reserves contemplated in section 303.1 of the *Companies Act*. When implementing each of them, the Board of Directors (with express power of substitution) shall determine the reserve(s) that will be used and the amount of such reserve(s) in accordance with the balance sheet used as a basis for the transaction.

### **3.7 Tax Regime**

Within the framework of the implementation of the "Iberdrola Flexible Remuneration" optional dividend system in 2018, and particularly the option for the Supplementary Dividend and the Interim Dividend, the Company submitted a binding consultation to the General Tax Authority (*Dirección General de Tributos*) (the "DGT") regarding the tax treatment applicable to its shareholders in Spain subject to the Personal Income Tax (*Impuesto sobre la Renta de las Personas Físicas*) ("IRPF"), which was submitted to such agency on 14 July 2017. This binding consultation was answered by the DGT on 16 January 2018 with reference number V0042-18.

The treatment on the date of publication of this report as described below is taken from the answer to such binding consultation, as well as from the answers by the DGT to the binding consultations obtained by the Company on 27 April 2010 and 1 October 2010 (made in relation to the traditional remuneration system called "Iberdrola Flexible Dividend").

In any event, one should keep in mind that the Spanish government announced certain tax measures that could affect the taxation of the "Iberdrola Flexible Remuneration" optional dividend system for the shareholders. In particular, on 23 October 2018, the Spanish government submitted to public comment a *Draft Financial Transactions Tax Act* (*Anteproyecto de Ley del Impuesto sobre las Transacciones Financieras*) ("ITF") that might tax certain financial transactions in shares of Iberdrola (or American Depositary Receipts (ADRs) or Crest Depositary Interests (CDIs)) carried out in Spain. As at the date of this report, there is no additional information regarding the ITF or when (if at all) the approval thereof might occur. In any event, shareholders are advised to consult their tax advisers regarding the impact of these tax measures (if they ultimately enter into force), taking into account the particular circumstances of each shareholder or holder of free-of-charge allocation rights.



Receiving newly-issued bonus shares.

Pursuant to Spanish tax regulations, the shareholders that choose to receive new shares as a consequence of the Increases in Capital will not pay tax for such reason for purposes of the IRPF, of the Corporate Income Tax (*Impuesto sobre Sociedades*) ("IS"), or of the Non-Resident Income Tax (*Impuesto sobre la Renta de los No Residentes*) ("IRNR"), whether or not they act through a permanent establishment in Spain (in the case of IRNR taxpayers), nor will they be subject to any withholding or payment on account.

The acquisition value for these shareholders of both the new shares received as a consequence of each Increase in Capital and the shares from which they derive will result from distributing the total cost of acquisition among the applicable number of securities, including both existing securities and those issued as bonus shares. The age of such bonus shares for these shareholders will be the age attributed to the shares from which they derive. Consequently, in the event of a subsequent transfer, the income subject to taxation that is obtained will be calculated by reference to such new value.

Transferring all or part of their free-of-charge allocation rights on the market.

In the event that the shareholders sell their free-of-charge allocation rights on the market, the amount obtained for the transfer of such rights on the market will be subject to the following tax treatment:

- In the IRPF and in the IRNR for non-residents without a permanent establishment in Spain, the amount obtained in transfers of free-of-charge allocation rights will be deemed to be a financial profit, all without prejudice to the potential application to persons subject to the IRNR without a permanent establishment of international treaties, including the treaties for the avoidance of double taxation and for the prevention of tax evasion signed by Spain and to which they might be entitled, and the exemptions established in the IRNR rules.

In addition, for individual shareholders subject to the IRPF applicable within the common regions of Spain, the amount obtained in the transfers of free-of-charge allocation rights will be subject to the corresponding withholding on account of this tax. The withholding will be applied by the corresponding depository (and in the absence thereof, by the financial intermediary or notary public that has participated in the transfer thereof).

- For purposes of the IS and the IRNR on non-residents with a permanent establishment in Spain, and to the extent that a complete commercial cycle is closed, the tax will be paid pursuant to the provisions applicable to the aforementioned taxes.

Receiving their remuneration in cash by collecting the Dividend in question, or alternatively, transferring all of their free-of-charge allocation rights to the Company at the Fixed Purchase Price pursuant to the Purchase Commitment.<sup>2</sup>

Finally, if the shareholders choose to receive the Supplementary Dividend or the Interim Dividend (or if they receive the Fixed Purchase Price, if applicable), the amount obtained will be covered by the tax regime for financial returns ("capital gains"), and will therefore be subject to the corresponding withholding and taxation.

It should be borne in mind that this analysis (which has been performed on the basis of specific assumptions) does not cover all the possible tax consequences of the proposals described in this report relating to the "Iberdrola Flexible Remuneration" optional dividend system and/or the implementation of the Increases in Capital and the distribution of the Supplementary Dividend and of the Interim Dividend. If a change in these assumptions changes the description of the taxation of the proposals covered by this report, the new tax treatment will be communicated to the market as appropriate. In particular, it does not describe the consequences to which shareholders that are not residents in Spain for tax purposes may be subject in their countries of residence. Therefore, it is recommended that tax advisers be consulted regarding the specific tax impact of the proposed remuneration system, taking into account the particular circumstances of each shareholder or holder of free-of-charge allocation rights, and that attention be paid to any amendments that may be made to the law applicable as of the date of this report, to the transitional provisions thereof and to the rules for interpretation.

Finally, the holders of American Depositary Receipts (ADRs) and CREST Depository Interests (CDIs) representing shares of the Company are advised to consult with their tax advisers on the taxation thereof in Spain or their jurisdictions of residence before making a decision in connection with the Increases in Capital.

<sup>2</sup> If the requirements of section 277 of the *Companies Act* to distribute the Interim Dividend are not met.





### **3.8 Delegation to Carry Out Each of the Implementations**

It is proposed to delegate to the Board of Directors, with express power of substitution, the power to set the date on which each of the Implementations is to be carried out, as well as to establish the terms and conditions applicable to each of the Implementations as to all matters not provided for by the shareholders at the General Shareholders' Meeting (including, in particular, the Amount of the Option), all on the terms and within the period of one year contemplated in section 297.1.a) of the *Companies Act*. Notwithstanding the foregoing, if the Board of Directors (with express power of substitution) does not deem it advisable to carry out one or both Implementations, in whole or in part, within the aforementioned period, it may refrain from doing so, with the duty to inform the shareholders thereof at the next General Shareholders' Meeting. Specifically, the Board of Directors (with express power of substitution) shall analyse and take into account the market conditions, the circumstances of the Company itself or those deriving from an event that has social or financial significance, and if these or other factors make it inadvisable, in its opinion, to carry out one or both Implementations, it may refrain from doing so. In addition, the resolutions approved by the shareholders at this General Shareholders' Meeting relating to the Supplementary Dividend and to the Increases in Capital shall be deprived of any and all effect in the event that the Board of Directors does not exercise the powers delegated thereto, or in the case of the Second Implementation, does not approve the distribution of the Interim Dividend or honour the Purchase Commitment, within a period of one year from approval of the resolutions.

On the dates that the Board of Directors, or the body acting by delegation therefrom, decides to implement an Increase in Capital, establishing for such purpose all of the final terms and conditions thereof as to all matters not provided for by the shareholders at the General Shareholders' Meeting, the Company shall make public such terms and conditions. In particular, prior to the commencement of each free-of-charge allocation period, the Company shall make available to the public a document containing information on the number and nature of the shares, the reasons for the Increase in Capital and the gross amount of the Dividend per share, all as provided by section 26.1.e) of *Royal Decree 1310/2005 of 4 November partially developing Law 24/1988 of 28 July on the Securities Market regarding the admission of securities to trading on official secondary markets, public offerings for sale or subscription and the prospectus required for such purposes* or the legal provisions that apply at any particular time.

Once the period for trading the free-of-charge allocation rights in respect of each Increase in Capital has ended:

- i. The new shares shall be allocated to those who, according to the records maintained by "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR) and its participants, are the holders of free-of-charge allocation rights in the required proportion (due to not having waived them on the terms provided above).
- ii. The period for trading the free-of-charge allocation rights shall be declared to have ended and the appropriation of the account(s) with a charge to which the Increase in Capital will be implemented shall be formalised on the books in the respective amount, with which appropriation the Increase in Capital shall be paid up.
- iii. The Company shall pay the Supplementary Dividend or the Interim Dividend (or, if the requirements of section 277 of the *Companies Act* are not met within the framework of the Second Implementation, the Fixed Purchase Price), as applicable, to the shareholders that have expressly chosen this remuneration option within the period and subject to the terms and conditions determined for these purposes by the Board of Directors.

Finally, in each Increase in Capital, the Board of Directors (with express power of substitution) shall adopt the resolutions required to amend the *By-Laws* so that they reflect the new amount of share capital and the number of shares resulting from the Increase in Capital in question, and to make application for trading the new shares as described in the next section.

### **3.9 Admission of the New Shares to Trading**

The Company shall make application for trading the new shares to be issued as a consequence of each Increase in Capital on the Bilbao, Madrid, Barcelona and Valencia Stock Exchanges, through the Automated Quotation System (*Sistema de Interconexión Bursátil*) (Continuous Market), and shall carry out such acts and formalities as are required for admission to trading of the new shares issued in each Increase in Capital.

## **4. Proposed Resolutions Submitted to the Shareholders at the General Shareholders' Meeting**

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

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

***Approval of the proposed allocation of profits/losses and distribution of dividends for financial year 2018, the***



**supplementary payment of which will be made within the framework of the "Iberdrola Flexible Remuneration" optional dividend system.**

## RESOLUTION

To approve the proposed allocation of profits/losses and distribution of dividends for financial year 2018 formulated by the Board of Directors at its meeting held on 19 February 2019, which is described below:

To distribute, with a charge to the results of the financial year ended 31 December 2018, a dividend in the aggregate gross amount that will be equal to the sum of the following amounts (the "**Dividend**"):

- a) 131,425,714.92 euros, which were paid on account of the dividend for financial year 2018 on 5 February 2019 to the holders of 870,368,973 shares of IBERDROLA, S.A. (the "**Company**" or "**Iberdrola**") who elected to receive their remuneration in cash within the framework of the second implementation of the "Iberdrola Flexible Remuneration" system for financial year 2018 by collecting an amount of 0.151 euro (gross) per share (the total amount paid to said holders will be referred to as the "**Total Interim Dividend**"); and
- b) the determinable amount resulting from multiplying:
  - i. the gross amount per share to be distributed by the Company as a supplementary dividend payment for financial year 2018 within the framework of the first implementation of the "Iberdrola Flexible Remuneration" optional dividend system for financial year 2019 (the "**Supplementary Dividend**"), and which will as determined by the Company's Board of Directors pursuant to the rules set forth in the section "Common Terms and conditions of the dividend distribution and increase in capital resolutions proposed under items number seven, eight and nine on the agenda, by virtue of which the "Iberdrola Flexible Remuneration" optional dividend system is implemented, hereinafter, the "**Common Terms**"); by
  - ii. the total number of shares with respect to which the holders thereof have elected to receive the Supplementary Dividend within the framework of the first implementation of the "Iberdrola Flexible Remuneration" optional dividend system.

The amount of the Supplementary Dividend, and therefore the amount of the Dividend, cannot be determined as of the date of formulation of this proposed resolution.

For the purposes hereof, it is hereby noted that the payment of the Supplementary Dividend shall be implemented together with the implementation of the increase in capital submitted for approval of the shareholders at the General Shareholders' Meeting under item number eight on the agenda, in order to offer the shareholders the ability to receive their remuneration in cash (by collecting the Supplementary Dividend) or in newly-issued bonus shares of the Company (through said increase in capital).

The collection of the Supplementary Dividend provided for in this resolution is thus configured, in accordance with the provisions of the Common Terms, as one of the alternatives that a shareholder of Iberdrola can choose when receiving their remuneration within the framework of the first implementation of the "Iberdrola Flexible Remuneration" optional dividend system for financial year 2019. As a result of the foregoing, and as described below in the Common Terms, it shall be deemed that those shareholders choosing to receive their remuneration in cash through the Supplementary Dividend with respect to all or part of their shares expressly, automatically and irrevocably waive the free-of-charge allocation rights corresponding to said shares and therefore the ability to transfer them on the market or receive newly-issued bonus shares corresponding to said free-of-charge allocation rights.

The distribution of the Supplementary Dividend, which is expected to take place during the month of July 2019, shall be implemented through the participants in "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR), the Board of Directors being hereby authorised to establish the specific date for payment of the Supplementary Dividend, to designate the entity that is to act as paying agent and to take such other steps as may be required or appropriate for the successful completion of the distribution.

The Board of Directors is also delegated the power to set the conditions applicable to the payment of the Supplementary Dividend to the extent not provided for in this resolution, including the determination of the specific gross amount of the Supplementary Dividend subject to the aforementioned rules.

Finally, pursuant to the provisions of section 249.2 of the Companies Act, the Board of Directors is expressly authorised to further delegate the powers referred to in this resolution.

The basis for distribution and the resulting proposed distribution (expressed in euros) is as follows:



**BASIS FOR DISTRIBUTION:**

Balance from prior financial years:	8,070,225,096.52
Profits for financial year 2018:	991,767,992.38
<b>TOTAL:</b>	<b>9,061,993,088.90</b>

**DISTRIBUTION:**

To Dividend:	Amount pending determination which will result from adding: (a) the Total Interim Dividend, and (b) the product resulting from multiplying the Supplementary Dividend by the total number of shares with respect to which the holders thereof have elected to receive the Supplementary Dividend within the framework of the first implementation of the "Iberdrola Flexible Remuneration" optional dividend system.
To remainder:	Determinable amount that will result from subtracting the amount allocated to the legal reserve and the amount allocated to the Dividend from the total basis for distribution.

<b>TOTAL:</b>	<b>9,061,993,088.90</b>
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On the date that the Board of Directors (or the body acting by delegation therefrom) decides to implement the increase in capital that is being submitted for approval of the shareholders at the General Shareholders' Meeting under item number eight on the agenda (and therefore, to commence the first implementation of the "Iberdrola Flexible Remuneration" optional dividend system for financial year 2019), the minimum amount of the Supplementary Dividend shall be announced. The final amount of the Supplementary Dividend shall be communicated as soon as the Board of Directors (or the body acting by delegation therefrom) determines it in accordance with the provisions of the Common Terms. Furthermore, once the first implementation of the "Iberdrola Flexible Remuneration" system for financial year 2019 is completed, the Board of Directors, with express power of substitution, shall proceed to specify the aforementioned proposed distribution, determining the final amount of the Dividend and the amount to be allocated to remainder.

The Common Terms include a sample calculation of the Supplementary Dividend, among other figures relating to the implementation of the increase in capital submitted for approval of the shareholders at the General Shareholders' Meeting under item number eight on the agenda.

**ITEM NUMBER EIGHT ON THE AGENDA**

**Approval of a first increase in capital by means of a scrip issue at a maximum reference market value of 1,520 million euros in order to implement the "Iberdrola Flexible Remuneration" optional dividend system.**

**RESOLUTION**

To increase the share capital of IBERDROLA, S.A. (the "**Company**" or "**Iberdrola**") upon the terms and conditions described in the section below, entitled "Common terms and conditions of the dividend distribution and increase in capital resolutions proposed under items number seven, eight and nine on the agenda, pursuant to which the "Iberdrola Flexible Remuneration" optional dividend system is implemented" (the "**Common Terms**"), at a maximum reference market value of 1,520 million euros for the shares to be issued in implementation of said increase.

The increase in capital shall be implemented together with the supplementary payment of the dividend submitted for approval of the shareholders at the General Shareholders' Meeting under item seven on the agenda, in order to offer the shareholders the ability to receive their remuneration in cash (receiving said supplementary payment of the dividend) or in newly-issued bonus shares of the Company (through the increase in capital). The delivery of bonus shares issued within the context of the increase in capital is thus configured as one of the alternatives that a shareholder can choose when receiving their remuneration, pursuant to the provisions of the Common Terms.

Pursuant to the provisions of section 297.1.a) of the Companies Act, to delegate to the Board of Directors the power to set the date on which the increase in capital is to be carried out, if at all, and to set the terms and conditions applicable to all matters not included in this resolution.



Pursuant to the provisions of section 249.2 of the Companies Act, to expressly authorise the Board of Directors to further delegate the powers referred to in this resolution.

This increase in capital is expected to be implemented together with the supplementary payment of the dividend contemplated in item number seven on the agenda during the month of July 2019.

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

**Approval of a second increase in capital by means of a scrip issue at a maximum reference market value of 1,235 million euros in order to implement the "Iberdrola Flexible Remuneration" optional dividend system.**

#### **RESOLUTION**

To increase the share capital of IBERDROLA, S.A. (the "**Company**" or "**Iberdrola**") upon the terms and conditions described in the section below, entitled "Common terms and conditions of the dividend distribution and increase in capital resolutions proposed under items number seven, eight and nine on the agenda, pursuant to which the "Iberdrola Flexible Remuneration" optional dividend system is implemented" (the "**Common Terms**"), at a maximum reference market value of 1,235 million euros for the shares to be issued in implementation of said increase.

The increase in capital is expected to be implemented together with the payment of the interim dividend amount for financial year 2019, if any, to be approved by the Company's Board of Directors (the "**Interim Dividend**") in order to offer the shareholders the ability to receive their remuneration in cash (by collecting the Interim Dividend) or in newly-issued bonus shares of the Company (through the increase in capital). The delivery of bonus shares issued within the context of the increase in capital is thus configured as one of the alternatives that a shareholder can choose when receiving their remuneration, pursuant to the provisions of the Common Terms.

Pursuant to the provisions of section 297.1.a) of the Companies Act, to delegate to the Board of Directors the power to set the date on which the increase in capital is to be carried out, if at all, and to set the terms and conditions applicable to all matters not included in this resolution.

Pursuant to the provisions of section 249.2 of the Companies Act, to expressly authorise the Board of Directors to further delegate the powers referred to in this resolution.

This increase in capital is expected to be implemented together with the Interim Dividend payment during the month of December 2019 or January 2020.

#### **COMMON TERMS AND CONDITIONS OF THE DIVIDEND DISTRIBUTION AND INCREASE IN CAPITAL RESOLUTIONS PROPOSED UNDER ITEMS NUMBER SEVEN, EIGHT AND NINE ON THE AGENDA, BY VIRTUE OF WHICH THE "IBERDROLA FLEXIBLE REMUNERATION" OPTIONAL DIVIDEND SYSTEM IS IMPLEMENTED**

##### **1. Main Characteristics of the "Iberdrola Flexible Remuneration" Optional Dividend System**

The purpose of the resolutions for the allocation of profits/losses and dividend distribution and increase in capital resolutions proposed under items number seven, eight and nine on the agenda is to implement the "Iberdrola Flexible Remuneration" optional dividend system pursuant to which the shareholders of IBERDROLA, S.A. (the "**Company**" or "**Iberdrola**") are offered the ability to receive their remuneration in cash or in newly-issued bonus shares.

For this purpose, there shall be two implementations of the "Iberdrola Flexible Remuneration" system in each of which one dividend payment shall be made (each, a "**Dividend Payment**", and collectively, the "**Dividend Payments**") along with the implementations of the increases in capital (the "**Increases in Capital**" and each of them, an "**Increase in Capital**") submitted for approval of the shareholders at the General Shareholders' Meeting under items number eight and nine on the agenda:

- (i) The first implementation of the "Iberdrola Flexible Remuneration" system, which is expected to take place during the month of July 2019 (the "**First Implementation**"), shall be carried out through the supplementary payment of the dividend for financial year 2018 contemplated in item number seven on the agenda (the "**Supplementary Dividend**") together with the implementation of the Increase in Capital submitted for approval of the shareholders at the General Shareholders' Meeting under item number eight on the agenda.
- (ii) The second implementation of the "Iberdrola Flexible Remuneration" system, which is expected to take place during the months of December 2019 or January 2020 (the "**Second Implementation**", and collectively with the First Implementation, the "**Implementations**" and each of the Implementations, individually, an "**Implementation**"), shall be carried out through the payment of an interim amount of the dividend for financial year 2019 (the "**Interim Dividend**") to be approved, if appropriate, by the Board of Directors pursuant to the provisions of section 2.2 below,





together with the implementation of the Increase in Capital submitted for approval of the shareholders at the General Shareholders' Meeting under item number nine on the agenda.

The Supplementary Dividend and the Interim Dividend shall hereinafter be referred to collectively as the "**Dividends**" and each of the Dividends individually as a "**Dividend**".

In each of the Implementations, the shareholders may choose from among the following options upon the terms and conditions established by the Board of Directors.

- (a) Receiving their remuneration in cash by collecting the Dividend in question (whether with respect to all of their shares or a portion thereof), for which purpose the shareholders shall be required to make an express election in this regard.
- (b) Receiving their remuneration in newly-issued bonus shares of the Company. To this end, shareholders must refrain from transferring their free-of-charge allocation rights on the market. In this case, at the end of the trading period for the free-of-charge allocation rights, the shareholders shall receive such number of new shares (as they are proportionately entitled to receive), entirely as bonus shares.
- (c) Transferring all or part of their free-of-charge allocation rights on the market during the trading period pursuant to the provisions of section 5 below.

The final amount of each of the Dividend Payments and of each of the Increases in Capital shall be determined by the Company's Board of Directors (or the body acting by delegation therefrom) within the context of each of the Implementations and pursuant to the provisions of the sections below.

Within the year following the date of approval of the resolutions included in items number seven, eight and nine on the agenda, each of the Implementations may be made by the Board of Directors, with express power of substitution, at its sole discretion, and therefore without having to once again obtain the approval of the shareholders at a General Shareholders' Meeting, and based on the legal and financial conditions existing at the time of each of the Implementations, in order to offer the Company's shareholders a flexible and efficient remuneration formula.

The shareholders may only elect remuneration option (a) above (i.e. receive the Dividend in question) during the "**Common Election Period**". The Common Election Period will begin on the same day as the trading period for the free-of-charge allocation rights, and the Board of Directors (with express power of substitution) must establish the specific term of the Common Election Period, which may in no event exceed the term of the period for trading the free-of-charge allocation rights.

Based on their preferences and needs, the Company's shareholders may combine any of the alternatives mentioned in paragraphs (a) through (c) above. In any event, the election of one of the remuneration options automatically excludes the ability to choose either of the other two options regarding the same shares.

As described below (see section 3 below), if the requirements of section 277 of the Companies Act to distribute the Interim Dividend are not met within the framework of the Second Implementation, the Company will make an irrevocable commitment to acquire the free-of-charge allocation rights arising from the second Increase in Capital at a guaranteed fixed price upon the terms and conditions described below (the "**Purchase Commitment**" and the "**Fixed Purchase Price**", respectively). In this case, the shareholders may monetise their free-of-charge allocation rights by transferring them to the Company at the Fixed Purchase Price and thus receive a cash amount equal to the one that the Company would have distributed as the Interim Dividend.

## 2. Amount of the Dividends.

### 2.1. Gross amount per share to be distributed to the shareholders as a Supplementary Dividend in the First Implementation

The gross amount to be distributed to the shareholders as a Supplementary Dividend for each share of Iberdrola with the right to receive it shall be determined within the context of the First Implementation by the Board of Directors, with express powers of substitution, subject to the terms and conditions set forth in item number seven on the agenda and in this section (the "**Supplementary Dividend**"). The amount of the Supplementary Dividend shall be calculated in accordance with the terms set forth in this section.

During the Common Election Period for the First Implementation, the Company's shareholders shall have the ability to expressly choose to receive the Supplementary Dividend with respect to all or part of the shares they own and that are outstanding on the relevant date upon the terms set by the Board of Directors, with express power of substitution, and pursuant to applicable securities clearing and settlement rules. If they choose to receive the





*Supplementary Dividend with respect to all or part of their shares, the shareholders shall expressly, automatically and irrevocably waive the free-of-charge allocation rights corresponding to said shares.*

*After the Common Election Period for the First Implementation, the Board of Directors, with express power of substitution, shall determine the aggregate gross amount in euros corresponding to the Dividend Payment for the First Implementation (equal to the final amount of the Supplementary Dividend) and shall make payment thereof through the participants in "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR), the Board of Directors being hereby authorised for such purpose, with express power of substitution, to establish the specific date on which the Dividend Payment should occur, to designate the entity that is to act as paying agent, and to take such other steps as may be required or appropriate for the successful completion of the Dividend Payment. Furthermore, after calculating said aggregate gross amount corresponding to the Dividend Payment for the First Implementation, the Board of Directors (with express power of substitution) shall, if applicable, rescind the resolution on distribution of the Supplementary Dividend with respect to the amounts that were not distributed to those shareholders who elected (expressly or implicitly) to receive newly-issued bonus shares of the Company or who have sold their free-of-charge allocation rights on the market.*

*The free-of-charge allocation rights acquired on the market during the trading period established for this purpose by the Board of Directors shall not give the acquiring parties the right to choose to receive the Supplementary Dividend. Therefore, the new holders of these rights may only monetise their investment through the sale thereof on the market during said trading period that has been activated for this purpose. Alternatively, they may receive the newly-issued bonus shares to which they are entitled.*

*Section 4.1 below includes the formula for calculating the gross amount per share corresponding to the Supplementary Dividend.*

## **2.2. Gross amount per share to be distributed to the shareholders as an Interim Dividend in the Second Implementation**

*The gross amount to be distributed as an Interim Dividend, if any, for each share of Iberdrola with the right to receive it shall be as determined by the Board of Directors pursuant to the corresponding resolution to be adopted prior to 31 December 2019 and pursuant to the provisions of section 277 of the Companies Act (the "Interim Dividend").*

*During the Common Election Period for the Second Implementation, the Company's shareholders shall have the ability to expressly choose to receive the Interim Dividend with respect to all or part of the shares they own and that are outstanding on the relevant date upon the terms set by the Board of Directors and pursuant to applicable securities clearing and settlement rules. If they choose to receive the Interim Dividend with respect to all or part of their shares, the shareholders shall expressly, automatically and irrevocably waive the free-of-charge allocation rights corresponding to said shares.*

*After the Common Election Period for the Second Implementation, the Board of Directors, with the express power of substitution, shall determine the aggregate gross amount in euros corresponding to the Dividend Payment for the Second Implementation and shall make payment thereof through the participants in "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR). To this end, the Board of Directors (with express power of substitution) shall establish the specific date on which the Dividend Payment should occur, shall designate the entity that is to act as paying agent, and shall take such other steps as may be required or appropriate for the successful completion of the Dividend Payment. Furthermore, after calculating said aggregate gross amount corresponding to the Dividend Payment for the Second Implementation, the Board of Directors (with express power of substitution) shall, if applicable, rescind the resolution on distribution of the Interim Dividend with respect to the amounts that were not distributed to those shareholders who elected (expressly or implicitly) to receive newly-issued bonus shares of the Company or who have sold their free-of-charge allocation rights on the market.*

*The free-of-charge allocation rights acquired on the market during the trading period established for this purpose by the Board of Directors shall not give the acquiring parties the right to choose to receive the Interim Dividend. Therefore, the new holders of these rights may only monetise their investment through the sale thereof on the market during said trading period that has been activated for this purpose. Alternatively, they may choose to receive the newly-issued bonus shares to which they are entitled at the end of the aforementioned trading period.*

*Without prejudice to the foregoing, if the requirements of section 277 of the Companies Act are not met within the framework of the Second Implementation in order to distribute the Interim Dividend, the Company will make the Purchase Commitment in order for the shareholders to be able to monetise their free-of-charge allocation rights by transferring them to the Company at the Fixed Purchase Price upon the terms and conditions described in section 3 below.*



Section 4.1 below includes the formula for calculating the gross amount per share corresponding to the Interim Dividend.

### **3. Purchase Commitment within the Framework of the Second Implementation.**

If the requirements of section 277 of the Companies Act are not met to distribute the Interim Dividend within the framework of the Second Implementation, the Company will make the Purchase Commitment upon the terms described in this section in order to ensure that the shareholders can receive all or part of their remuneration in cash.

As soon as the Company verifies that the requirements of section 277 of the Companies Act are not met, it shall communicate this circumstance to the market.

The Fixed Purchase Price shall be calculated by applying the formula used to determine the Interim Dividend (see section 4.1 below), such that the amount that would be received by shareholders choosing this option would be equal to the amount they would have received if it had been possible to distribute the Interim Dividend. The Fixed Purchase Price shall be calculated prior to the commencement of the trading period for the free-of-charge allocation rights of the second Increase in Capital and shall be published as soon as it is determined.

The Purchase Commitment assumed by the Company shall cover the free-of-charge allocation rights received by those who are registered as being entitled thereto in the book-entry records of "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR) on the relevant date pursuant to the securities clearing and settlement rules from time to time in effect. The free-of-charge allocation rights acquired on the market during the trading period established for this purpose by the Board of Directors shall not give the acquiring parties the right to exercise the Purchase Commitment or, therefore, to receive the Fixed Purchase Price. Therefore, the new holders of these rights may only monetise their investment through the sale thereof on the market during said trading period that has been activated for this purpose. Alternatively, they may choose to receive the newly-issued bonus shares to which they are entitled at the end of the aforementioned trading period.

The Purchase Commitment shall be in effect and may be accepted during such term as is established for these purposes by the Board of Directors (with express power of substitution), and which must in any case be included within the trading period for the free-of-charge allocation rights.

For these purposes, the Company is authorised to acquire said free-of-charge allocation rights, with a maximum limit of all rights issued in relation to the second Increase in Capital, but must in any case comply with applicable legal restrictions from time to time in effect.

The acquisition by the Company of the free-of-charge allocation rights as a result of the Purchase Commitment shall be carried out with a charge to the reserves contemplated in section 303.1 of the Companies Act.

The Company shall waive the new shares corresponding to the free-of-charge allocation rights that it has acquired by application of the Purchase Commitment. In such an event, pursuant to the provisions of section 311 of the Companies Act, there will be an incomplete allocation of the Increase in Capital corresponding to the Second Implementation, and share capital shall be increased solely by the amount corresponding to the free-of-charge allocation rights that have not been waived.

### **4. Common Characteristics of the Increases in Capital.**

The amount of each of the Increases in Capital shall be the amount resulting from multiplying: (a) the nominal value of each share of the Company, equal to seventy-five euro cents, by (b) the total determinable number of new shares of the Company to be issued, in accordance with the formula set forth in section 4.1 below, on the date of each of the Implementations (the new shares of the Company issued by way of implementation of each of the Increases in Capital shall be collectively referred to as the "New Shares", and each one, individually, as a "New Share").

Both Increases in Capital shall be carried out, if at all, by means of the issuance and flotation, on their respective dates of implementation, of the New Shares, which shall be ordinary shares having a nominal value of seventy-five euro cents each, of the same class and series as those currently outstanding, represented by book entries.

The Increases in Capital shall be entirely carried out with a charge to the reserves contemplated in section 303.1 of the Companies Act. When implementing each of the Increases in Capital, the Board of Directors, with express power of substitution, shall determine the reserve(s) to be used and the amount of such reserve(s) in accordance with the balance sheet used as a basis for the transaction.



*The New Shares shall be issued at par, i.e. at their nominal value of seventy-five euro cents, without a share premium, and shall be allocated without charge to the shareholders of the Company who have opted for this remuneration alternative.*

*Pursuant to the provisions of section 311 of the Companies Act, the possibility of an incomplete allocation of the Increases in Capital is contemplated in the event that the Company, a company within its group, a shareholder or a third party waives all or part of the free-of-charge allocation rights to which they are entitled at the time of implementation of each of the Increases in Capital, for which reason, in the event of such waiver, the share capital shall be increased by the corresponding amount. For these purposes, it shall be deemed that those who have chosen to receive their remuneration in cash by means of collecting the Dividend in question with respect to all or part of their shares expressly, automatically and irrevocably waive the free-of-charge allocation rights corresponding to said shares, upon the terms and conditions set forth herein.*

#### **4.1 New Shares to Be Issued in each of the Increases in Capital.**

*The maximum number of New Shares to be issued in each of the Increases in Capital shall be the number resulting from the application of the following formula, with the resulting number being rounded to the next lower integer:*

$$NNS = TNShrs. / Num. rights$$

*where:*

*NNS = Number of New Shares to be issued within the framework of the relevant Increase in Capital;*

*TNShrs. = Number of shares of the Company outstanding on the date that the Board of Directors, with express power of substitution, resolves to implement the relevant Increase in Capital; and*

*Num. rights = Number of free-of-charge allocation rights required for the allocation of one New Share within the framework of the relevant Increase in Capital, which number will result from the application of the following formula, with the result being rounded to the next higher integer:*

$$Num. rights = TNShrs. / Provisional number of shares$$

*where:*

*Provisional number of shares = Amount of the Option / ListPri.*

*For these purposes, "Amount of the Option" shall mean the maximum reference market value of the relevant Increase in Capital to be set by the Board of Directors, with express power of substitution, and which shall not be greater than the amount referred to in the proposed increase in capital resolutions submitted for the approval of the shareholders at the General Shareholders' Meeting under items number eight and nine on the agenda (i.e. 1,520 and 1,235 million euros, respectively).*

*For its part, "ListPri" shall be the arithmetic mean of the average weighted listing prices of the Company's shares on the Bilbao, Madrid, Barcelona and Valencia Stock Exchanges through the Automated Quotation System (Sistema de Interconexión Bursátil) (Continuous Market) during the five trading sessions prior to the relevant resolution adopted by the Board of Directors (with express power of substitution) which determines the number of free-of-charge allocation rights needed for the allocation of one New Share in the relevant Increase in Capital, rounded to the closest one-thousandth part of one euro.*

*Furthermore, the gross amount per share of the Dividend in question, or if compliance with the requirements of section 277 of the Companies Act is not verified in Second Implementation, the Fixed Purchase Price per free-of-charge allocation right will be that which results from the application of the following formula:*

$$Dividend \text{ (or, if applicable, Fixed Purchase Price)} = ListPri / (Num. rights + 1)$$

#### **4.2 Free-of-charge Allocation Rights.**

*In each of the Increases in Capital, each outstanding share of the Company on the date of implementation of the corresponding Increase in Capital (TNShrs.) shall grant its holder one free-of-charge allocation right.*

*The number of free-of-charge allocation rights required to receive one New Share in each of the Increases in Capital shall be automatically determined according to the ratio existing between the number of outstanding shares*



of the Company on the date of implementation of the relevant Increase in Capital (TNShrs.) and the provisional number of New Shares, calculated by using the formula contained in section 4.1 above. Specifically, the holders of free-of-charge allocation rights shall be entitled to receive one New Share for the number of free-of-charge allocation rights held by them, which shall be determined as provided in section 4.1 above (Num. rights).

In the event that the number of free-of-charge allocation rights required for the allocation of one New Share (Num. rights) multiplied by the number of New Shares to be issued (NNS) results in a number that is lower than the number of outstanding shares of the Company on the date of implementation of the corresponding Increase in Capital (TNShrs.), the Company (or such entity within its group, if any, as holds shares of the Company) shall waive a number of free-of-charge allocation rights equal to the difference between both figures for the sole purpose that the number of New Shares be a whole number and not a fraction.

The free-of-charge allocation rights shall be allocated to those who are registered as being entitled thereto in the book-entry records of "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR) on the relevant date pursuant to the securities clearing and settlement rules from time to time in effect.

The free-of-charge allocation rights shall be transferable upon the same terms as the shares from which they derive. The free-of-charge allocation rights may be traded on the market during such term as is established by the Board of Directors (with express power of substitution) in implementing the relevant Increase in Capital, which term shall not be less than fifteen calendar days. During such term, a sufficient number of free-of-charge allocation rights may be acquired on the market in the proportion required to receive New Shares. Notwithstanding the foregoing, the free-of-charge allocation rights acquired on the market during the trading period established for this purpose shall not give the acquiring party the right to choose to receive the corresponding Dividend (or, if applicable, to exercise the Purchase Commitment and receive the Fixed Purchase Price). Therefore, the new holders of these free-of-charge allocation rights may only monetise their investment through the sale thereof on the market during said trading period that has been activated for this purpose. Alternatively, they may choose to receive the newly-issued bonus shares to which they are entitled at the end of the aforementioned trading period.

Therefore, during the trading period for the free-of-charge allocation rights, subject to any other terms and conditions established by the Board of Directors, with express power of substitution, the holders of the free-of-charge allocation rights may choose between:

- (a) receiving their remuneration in New Shares, in which case, at the end of the trading period they shall be allocated the New Shares to which they are entitled pursuant to the terms and conditions of the implementation of the Increase in Capital in question;
- (b) transferring all or part of their free-of-charge allocation rights on the market, in which case the consideration that the holders of the free-of-charge allocation rights will receive for the sale thereof will depend on the listing price of said rights; or
- (c) only during the Common Election Period determined by the Board of Directors (with express power of substitution), receiving their remuneration in cash by collecting the corresponding Dividend (or, if applicable, by collecting the Fixed Purchase Price), for which purpose the shareholders shall be required to make an express election in this regard. The shareholders may choose to receive their cash remuneration with respect to all or part of their shares.

In this case, it shall be deemed that those choosing to receive their remuneration in cash with respect to all or part of their shares expressly, automatically and irrevocably waive the free-of-charge allocation rights corresponding to said shares and the ability to transfer them on the market. To this end, the participants in "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR) will block said free-of-charge allocation rights, which may not be transferred on the market and which shall automatically expire at the end of the trading period, without the holders thereof being entitled to receive New Shares.

As mentioned above, the free-of-charge allocation rights acquired on the market during the trading period established for this purpose shall not give the acquiring parties the right to choose to receive the Dividend (nor, if applicable, the Fixed Purchase Price). Therefore, the new holders of these rights may only monetise their investment through the sale thereof on the market during said trading period that has been activated for this purpose. Alternatively, they may choose to receive the newly-issued bonus shares to which they are entitled at the end of the aforementioned trading period.

Based on their preferences and needs, the Company's shareholders may combine any of the alternatives mentioned in paragraphs (a) through (c) above with respect to different groups of shares that each of them own.





#### **4.3 Balance Sheet for the Transaction and Reserve with a Charge to which the Increases in Capital are Carried Out.**

*The balance sheet used as a basis for the two Increases in Capital is the one for the financial year ended 31 December 2018, duly audited and submitted to the shareholders for approval at this General Shareholders' Meeting under item number one on the agenda.*

*The Increases in Capital shall be entirely carried out with a charge to the reserves contemplated in section 303.1 of the Companies Act. When implementing each of the Increases in Capital, the Board of Directors, with express power of substitution, shall determine the reserve(s) to be used and the amount of such reserve(s) in accordance with the balance sheet used as a basis for the transaction.*

#### **4.4 Representation of the New Shares.**

*The New Shares shall be represented by book entries, the book-entry registration of which is entrusted to "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR) and its participants.*

#### **4.5 Rights Attaching to the New Shares.**

*As from the date on which the relevant Increase in Capital is declared to be subscribed and paid up, the New Shares shall grant the holders thereof the same financial, voting and like rights as the ordinary shares of the Company then outstanding.*

#### **4.6 Shares on Deposit.**

*Once the period for trading the free-of-charge allocation rights during each of the Increases in Capital has ended, the New Shares that could not be allocated for reasons not attributable to the Company shall be kept on deposit for those who provide evidence that they are the lawful holders of the corresponding free-of-charge allocation rights. Once three years have passed from the end of each of the periods for trading the free-of-charge allocation rights, the New Shares issued by virtue of the relevant Increase in Capital that are still pending allocation may be sold in accordance with the provisions of section 117 of the Companies Act, at the expense and peril of the interested parties. The cash amount from such sale shall be deposited with Banco de España or with Caja General de Depósitos at the disposal of the interested parties.*

#### **4.7 Application for Admission to Trading.**

*The Company shall make application for trading the New Shares to be issued as a consequence of each of the Increases in Capital on the Bilbao, Madrid, Barcelona and Valencia Stock Exchanges, through the Automated Quotation System (Sistema de Interconexión Bursátil) (Continuous Market), and shall carry out such acts and formalities as are required and submit the documents needed to the appropriate bodies for admission to trading of the New Shares issued as a result of each of the approved Increases in Capital, with an express statement for the record of the Company's submission to the rules that may now or hereafter exist with respect to Stock Exchange matters, and especially regarding trading, continued trading and removal from trading on official markets.*

*A subsequent request for removal from trading of the shares of the Company shall be adopted with the same formalities as those that apply to the application for trading and, in such event, the interests of the shareholders opposing or not voting on the resolution to remove shall be safeguarded, in compliance with the requirements set out in applicable law at such time.*

### **5. Implementation of the "Iberdrola Flexible Remuneration" System. Implementations.**

*Within a period of one year from the date of approval of this resolution, the Board of Directors, with express power of substitution, may set the date on which each of the Implementations must be carried out and set the terms and conditions thereof as to all matters not provided for in this resolution (including, in particular, the Amount of the Option corresponding to each of the Implementations and the Supplementary Dividend).*

*Furthermore, it is expected that prior to 31 December 2019, the Board of Directors will determine the Interim Dividend to be paid for purposes of the Second Implementation as well as the other conditions applicable to the Interim Dividend, pursuant to the provisions of section 277 of the Companies Act. To this end, and in accordance with the provisions of section 161 of the Companies Act, the shareholders acting at this General Shareholders' Meeting hereby instruct the Board of Directors, if the requirements established in section 277 of the Companies Act are met, to approve the distribution of the Interim Dividend and set the terms and conditions applicable to the corresponding Dividend Payment, all in order to carry out the Second Implementation.*





*Notwithstanding the foregoing, if the Board of Directors, with express power of substitution, does not deem it advisable to carry out one or both Implementations, in whole or in part, within the aforementioned period, it may refrain from doing so, with the duty to inform the shareholders thereof at the next General Shareholders' Meeting.*

*Specifically, the Board of Directors, with express power of substitution, shall analyse and take into account the market conditions, the circumstances of the Company itself or those deriving from an event that has social or financial significance for the Company, and if these or other factors make it inadvisable, in its opinion, to carry out one or both Implementations, it may refrain from doing so. In addition, the resolutions of the shareholders at this General Shareholders' Meeting relating to the Supplementary Dividend and to the Increases in Capital shall be deprived of any and all effect in the event that the Board of Directors does not exercise the powers delegated thereto, or in the case of the Second Implementation, does not approve the distribution of the Interim Dividend or honour the Purchase Commitment (if the requirements of section 277 of the Companies Act are not met) within a period of one year from approval of the resolutions.*

*Once the period for trading the free-of-charge allocation rights corresponding to each of the Increases in Capital has ended, the following shall apply:*

- (a) The New Shares shall be allocated to those who, according to the book-entry records maintained by "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR) and its participants, are the holders of free-of-charge allocation rights in the proportion resulting from section 4 above due to not having waived them upon the terms set forth above.*
- (b) The period for trading the free-of-charge allocation rights shall be declared to have ended and the appropriation of the account(s) with a charge to which the relevant Increase in Capital will be implemented shall be formalised on the books in the respective amount, with which appropriation the Increase in Capital will be paid up.*
- (c) The Company shall pay the Supplementary Dividend or the Interim Dividend (or, if the requirements of section 277 of the Companies Act are not met within the framework of the Second Implementation, the Fixed Purchase Price), as applicable, to the shareholders that have expressly chosen to receive it within the period and subject to the terms and conditions determined for these purposes by the Board of Directors, pursuant to the provisions of section 2 above.*

*Likewise, once each of the periods for trading the free-of-charge allocation rights has ended, the Board of Directors, with express power of substitution, shall adopt the resolutions required to amend the By-Laws so that they reflect the new amount of the share capital and the number of shares resulting from the implementation of the relevant Increase in Capital, and to make application for trading of the resulting New Shares on the Bilbao, Madrid, Barcelona and Valencia Stock Exchanges, through the Automated Quotation System (Continuous Market).*

## **6. Delegation to Carry Out Each of the Implementations.**

*In particular, and by way of example only, the following powers are delegated to the Board of Directors, with express power of substitution:*

- (a) To set the date on which each of the Implementations must be carried out, which shall in any case be within a period of one year from the approval of this resolution, and to determine the specific schedule for each of the Implementations.*
- (b) As regards each of the Implementations, to set the Amount of the Option, the amount of the Supplementary Dividend (in the case of the First Implementation), the number of New Shares and the number of free-of-charge allocation rights necessary for the allocation of one New Share, applying the rules established by this resolution for such purpose.*
- (c) To determine the reserve(s), among those contemplated in this resolution, with a charge to which each of the Increases in Capital will be implemented.*
- (d) To designate the company or companies that will assume the duties of agent and/or financial adviser in connection with each of the Implementations, and sign all required contracts and documents for such purpose. In particular, to appoint the entity that must act as paying agent in each of the Dividend Payments.*
- (e) To set the duration of the periods for trading the free-of-charge allocation rights corresponding to each of the Increases in Capital.*



- (f) As regards each of the Implementations, to set the specific duration of the Common Election Period and the terms and conditions under which the shareholders may state their preferences regarding the receipt of their remuneration (in cash or in New Shares).
- (g) After the Common Election Period for each Implementation, to determine the aggregate gross amount in euros corresponding to the Dividend Payment in question and to make payment thereof through the participants in "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR).
- (h) To declare the Increases in Capital to be closed and implemented, for such purpose setting the number of New Shares actually allocated in each of them, and therefore the amount by which the Company's share capital must be increased in accordance with the rules established by the shareholders at this General Shareholders' Meeting, as well as declare, if applicable, the existence of an incomplete allocation of each of the Increases in Capital.
- (i) To rescind the resolution on distribution of the corresponding Dividend with respect to the amounts that were not distributed to those shareholders who elected (expressly or implicitly) to receive New Shares.
- (j) In the case of the First Implementation, to determine the aggregate total amount to be distributed as a dividend with a charge to the results for the financial year ended 31 December 2018 pursuant to the provisions of item number seven on the agenda (i.e. the final amount of the Supplementary Dividend), to specify, in view of said amount, the amount of the total basis for distribution established in said item on the agenda to be allocated to remainder, and to complete the resulting proposed application of profits/losses and distribution of the dividend for financial year 2018.
- (k) In the case of the First Implementation and if the Board of Directors, with express power of substitution, does not deem it appropriate to implement the First Implementation, in whole or in part, during said period, to determine the aggregate total amount to be distributed as a dividend with a charge to the results for the financial year ended 31 December 2018 pursuant to the provisions of item number seven on the agenda, to specify the amount of the total basis for distribution established in said item on the agenda to be allocated to remainder, and to complete the resulting proposed application of profits/losses and distribution of the dividend for financial year 2018.
- (l) To amend the article of the By-Laws setting the share capital such that it reflects the amount of share capital and the number of outstanding shares resulting from the implementation of the relevant Increase in Capital.
- (m) To waive any free-of-charge allocation rights to subscribe for New Shares in each of the Increases in Capital, for the sole purpose of facilitating that the number of New Shares be a whole number and not a fraction.
- (n) If the Purchase Commitment must be honoured within the framework of the Second Implementation due to the requirements of section 277 of the Companies Act for the distribution of the Interim Dividend not having been met, to determine the acquisition by the Company of the corresponding free-of-charge allocation rights, set the period of time during which the Purchase Commitment will be in effect (within the limits established in these resolutions), honour the Purchase Commitment by paying the corresponding amounts to the shareholders who have accepted said commitment, waive the free-of-charge allocation rights owned by the company at the end of the trading period of the Second Implementation as a result of the Purchase Commitment, and thus the New Shares corresponding to such rights, and take any other measures or actions needed to fully honour the Purchase Commitment.
- (o) To take all steps required for the New Shares to be included in the book-entry records of "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR) and admitted to trading on the Bilbao, Madrid, Barcelona and Valencia Stock Exchanges through the Automated Quotation System (Continuous Market) after each of the Increases in Capital.
- (p) To take any actions that are necessary or appropriate to implement and formalise each of the Increases in Capital before any Spanish or foreign public or private entities or agencies, including acts for purposes of representation, supplementation, or correction of defects or omissions that might prevent or hinder the full effectiveness of the foregoing resolutions.

## 7. Sample Calculation relating to the First Implementation.

Set out below, solely for purposes of facilitating an understanding of the application hereof, is a sample calculation, in the case of the First Implementation, of the maximum number of new shares to be issued in the increase in capital submitted for the approval of the shareholders at the General Shareholders' Meeting under item number eight on the agenda, of the maximum nominal value of such increase, of the number of free-of-charge allocation rights required for the allocation of one new share and of the Dividend (which in this First Implementation would be equal to the Supplementary Dividend).



*The results of these calculations are not representative of those that might be obtained, which, in the case of the First Implementation, will depend on the different variables used in the formulas (basically, the listing price of Iberdrola shares at that time (ListPri) and the Amount of the Option, as determined by the Board of Directors (with express power of substitution) in exercise of the power delegated by the shareholders at the General Shareholders' Meeting).*

*Solely for the purposes of this example:*

- *The Amount of the Option is 1,281million euros.*
- *The TNShrs is 6,240,000,000<sup>3</sup>.*
- *A ListPri of 7.182 euros is assumed (solely for the purposes of this example, the listing price of the Iberdrola shares at the closing of the trading session of 8 February 2019 has been used as a reference).*

*Therefore:*

<i>Provisional number of shares = Amount of the Option / ListPri</i>	<i>1,281,000,000 / 7.182 = 178,362,573.0994150 = 178,362,573 shares</i>  <i>(rounded downwards)</i>
<i>Num. rights = TNShrs. / Provisional number of shares</i>	<i>6,240,000,000 / 178,362,573 = 34.98491805228670 = 35 rights</i>  <i>(rounded upwards)</i>
<i>NNS = TNShrs. / Num. rights</i>	<i>6,240,000,000 / 35 = 178,285,714.2857140 = 178,285,714 shares</i>  <i>(rounded downwards)</i>
<i>Dividend = ListPri / (Num. rights +1)</i>	<i>7.182 / (35+ 1) = 0.19950 = 0.200 euros</i>  <i>(rounded to the closest thousandth of one euro)</i>

*Therefore:*

- (i) The maximum number of shares to be issued in the First Implementation would be 178,285,714.*
- (ii) The maximum nominal amount of the increase in capital submitted for approval of the shareholders at the General Shareholders' Meeting under item number eight on the agenda would be 133,714,285.50 euros (178,285,714 x 0.75).*
- (iii) 35 free-of-charge allocation rights (or old shares) would be necessary for the allocation of one new share.<sup>4</sup>*

*In this example, the Supplementary Dividend would be equal to 0.200 euros (gross) per share."*

In Bilbao, on 19 February 2019.

<sup>3</sup> For purposes of this example, it is assumed that this would be the total number of shares of the Company outstanding after the implementation of the reduction in capital provided for in the resolution corresponding to item number ten on the agenda if it is implemented in the total maximum amount thereof (i.e. 280,457,000 shares).

<sup>4</sup> In this example, the Company (or an entity of its group that holds shares of the Company) would be required to waive 10 free-of-charge allocation rights corresponding to 10 own shares in order for the number of shares to be issued to be an integer.