Report of the Board of Directors
Proposed reduction in capital
REPORT AUTHORISED FOR ISSUE BY THE BOARD OF DIRECTORS OF IBERDROLA, S.A. REGARDING THE PROPOSED REDUCTION IN SHARE CAPITAL BY MEANS OF THE REDEMPTION OF OWN SHARES INCLUDED IN ITEM 13 ON THE AGENDA FOR THE 2022 GENERAL SHAREHOLDERS’ MEETING

1. Object of the report

This report has been prepared by the Board of Directors of IBERDROLA, S.A. ("Iberdrola" or the "Company") pursuant to the provisions of Sections 286 and 318 of the Companies Act (Ley de Sociedades de Capital), in order to provide a rationale for the proposed reduction in share capital by means of the redemption of own shares (the "Reduction in Capital") being submitted for the approval of the shareholders at the General Shareholders' Meeting under item 13 on the agenda.

Pursuant to such sections of the Companies Act, to the extent that the Reduction in Capital entails the amendment of Article 10 of the By-Laws setting the share capital, the Board of Directors must prepare a report with the rationale for the proposal being submitted to the shareholders at the General Shareholders' Meeting.

2. Purpose of and rationale for the proposal

Pursuant to the provisions of the Shareholder Remuneration Policy, the Company maintains a strategy for growth in such remuneration in line with the increase in results, with a payout of between 65% and 75% of net profits attributed to the Company in its consolidated annual financial statements, which since 2018 has been implemented through the "Iberdrola Retribución Flexible" optional dividend system, and which consists of the implementation of increases in capital by means of scrip issues, combined with the ability of the shareholders to decide to receive all or part of their remuneration in cash, choosing in this case to receive a dividend instead of receiving shares.

The issue of new shares as a result of said increases in capital by means of scrip issues is offset with reductions in capital—such as the one now proposed, and such as those that the Company has implemented each year since 2013—, which are intended to maintain the number of outstanding shares of the Company at approximately 6,240 million.

This avoids dilution of the shareholders’ stake in the share capital and contributes to maintaining the profit per share of the Company, all of which benefits the shareholders.

Therefore, the Board of Directors has resolved to propose to the shareholders at the General Shareholders’ Meeting a reduction in capital that offsets the effects of the increases in share capital by means of scrip issues approved by the shareholders at the General Shareholders’ Meeting held on 18 June 2021 under items number eighteen and nineteen on the agenda1 and which were implemented in July 2021 and January 2022, respectively. If the Reduction in Capital is ultimately approved, it is provided that the Company’s own shares in treasury will be redeemed, with a corresponding reduction in share capital by an

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1 And under the section entitled “Common terms and conditions of the dividend distribution and increase in capital resolutions proposed under items number seventeen, eighteen and nineteen on the agenda, by virtue of which the new “Iberdrola Retribución Flexible” optional dividend system is implemented".
amount equal to the nominal value of such shares, and that the number of outstanding shares will be established at the target figure of 6,240 million.

A portion of such own shares are held in treasury as at the close of the trading session on 9 May 2022, while the rest of the shares to be redeemed will be acquired no later than 10 June 2022 as a result of the settlement of the derivatives acquired by the Company prior to 10 May 2022, as well as within the framework of a programme for the buyback of up to 15 million own shares approved by the Board of Directors at its meeting held on 10 May 2022 pursuant to (a) Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse and Commission Delegated Regulation (EU) No 2016/1052 of 8 March 2016 supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the conditions applicable to buy-back programmes and stabilisation measures; and (b) the authorisation granted by the shareholders at the General Shareholders’ Meeting held on 13 April 2018 under item number twelve on the agenda (the “Buy-back Programme”).

3. Main terms and conditions of the Reduction in Capital

It is proposed to reduce the share capital by the amount resulting from the sum of:

(i) €114,062,864.25, through the redemption of 152,083,819 currently existing own shares held in treasury after the close of the trading session on 9 May 2022, each with a nominal value of €0.75, acquired under the authorisation granted by the shareholders at the General Shareholders’ Meeting held on 13 April 2018 under item twelve on the agenda and within the limits established by Section 146 and related provisions and Section 509 of the Companies Act (the “Existing Treasury Shares”); and

(ii) the aggregate nominal value, up to the maximum amount of €34,109,385.75, of the own shares of the Company, each with a nominal value of €0.75, up to a limit of 45,479,181 own shares (the “Overall Limit”), that are acquired for their redemption both through the settlement, no later than 10 June 2022, of the derivatives acquired by the Company prior to 10 May 2022 (the “Derivatives”), and under the Buy-back Programme that will be in effect until no later than 10 June 2022.

Therefore, the maximum amount of the Reduction in Capital will be €148,172,250. The Reduction in Capital will be implemented through the redemption of a maximum of 197,563,000 own shares, each with a nominal value of €0.75, representing not more than 3.069% of the share capital at the time of the approval of the corresponding resolution by the shareholders at the General Shareholders’ Meeting.

If the resolution regarding the Reduction in Capital covered by this report is adopted, the final amount of the reduction would be set by the Company’s Board of Directors (with express power of substitution) depending upon the final number of shares acquired both by virtue of the settlement of the Derivatives and within the framework of the Buy-back Programme, provided they do not exceed the Overall Limit. If the Overall Limit is exceeded, there will be a redemption of all of the shares acquired pursuant to the Buy-back Programme as well as of the number of shares acquired as a result of the settlement of the Derivatives equal to the difference between the Overall Limit and the shares acquired in implementation of the Buy-back Programme. In this latter case, the remaining treasury shares acquired as a result of the settlement of the Derivatives will not be redeemed on occasion of the Reduction in Capital.
In addition, if the aforementioned resolution regarding the Reduction in Capital is approved, Article 10 of the By-Laws setting the share capital would be amended such that it reflects the new amount of share capital and the new number of outstanding shares (after deducting the number of own shares proposed to be redeemed).

The Reduction in Capital would not entail a return of contributions because the Company itself is the holder of the redeemed shares and it would be carried out with a charge to unrestricted reserves by funding a redeemed capital reserve in an amount equal to the nominal value of the redeemed shares; such reserve could only be used by complying with the same requirements as those applicable to a reduction in share capital, as provided by Section 335 c) of the Companies Act.

Therefore, in order to make the implementation as simple as possible, and under the provisions of Section 335 c) of the Companies Act, creditors would not be entitled to assert the right of objection contemplated by Section 334 of the Companies Act.

It is also proposed that the shareholders at the General Shareholders’ Meeting ratify the acts performed to date by the Board of Directors in connection with the Buy-back Programme approved on 10 May 2022 and that they authorise the Board of Directors to implement the Reduction in Capital resolution (with express power of substitution pursuant to the provisions of Section 249 bis.1 of the Companies Act) within a period not to exceed one month following the expiration of the Buy-back Programme, with authority to establish any terms that are not expressly set forth in the resolution approving the reduction or that are a consequence thereof and to approve the resolutions, publish the announcements, take the steps, and execute the public or private documents that may be required or appropriate for the successful implementation of the Reduction in Capital.

Specifically, it is proposed to authorise the Board of Directors, with express powers of substitution, to adopt the corresponding resolutions amending the By-Laws in order to reflect the new amount of share capital and the number of shares resulting from the Reduction in Capital, as well as to take the steps and carry out the formalities required to cause the exclusion from trading of the redeemed shares from the Spanish Stock Exchanges and the removal thereof from the book-entry registers once the resolution regarding the Reduction in Capital has been implemented.

4. Proposed resolution submitted to the shareholders at the General Shareholders’ Meeting

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

“ITEM 13 ON THE AGENDA

Reduction in capital by means of the redemption of a maximum of 197,563,000 own shares (3.069% of the share capital)

RESOLUTION

1. Reduction in capital by means of the redemption of both currently existing own shares held in treasury and of own shares to be acquired through the settlement of derivatives acquired prior to the date of formulation of this proposed resolution through a buy-back programme for the redemption thereof

To reduce the share capital of IBERDROLA, S.A. (the “Company”) by the amount resulting
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from the sum of:

i. €114,062,864.25 through the redemption of 152,083,819 currently existing own shares held in treasury after the close of the trading session on 9 May 2022, each with a nominal value of €0.75, acquired under the authorisation granted by the shareholders at the General Shareholders’ Meeting held on 13 April 2018 under item number twelve on the agenda and within the limits established by Section 146 and related provisions and Section 509 of the Companies Act (the “Existing Treasury Shares”); and

ii. the aggregate nominal value, up to the maximum amount of €34,109,385.75, of the own shares of the Company, each with a nominal value of €0.75, up to a limit of 45,479,181 own shares (the “Overall Limit”), that are acquired for their redemption both through the settlement, no later than 10 June 2022, of the derivatives acquired by the Company prior to 10 May 2022 (the “Derivatives”) and under the programme for the buy-back of up to 15 million own shares that will be in effect until no later than 10 June 2022 and that was approved by the Board of Directors on 10 May 2022 (the “Buy-back Programme”), under (a) the provisions of Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse and of Commission Delegated Regulation (EU) No 2016/1052 of 8 March 2016 supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the conditions applicable to buy-back programmes and stabilisation measures; and (b) the aforementioned authorisation granted by the shareholders at the General Shareholders’ Meeting held on 13 April 2018 under item number twelve on the agenda.

Consequently, the maximum amount of the reduction in capital (the “Reduction in Capital”) shall be €148,172,250, through the redemption of a maximum of 197,563,000 own shares, each with a nominal value of €0.75, representing not more than 3.069% of the share capital at the time this resolution is approved.

As set out below, the final amount of the Reduction in Capital will be set by the Company’s Board of Directors (with express power of substitution) depending upon the final number of shares acquired both as a result of the settlement of the Derivatives and within the framework of the Buy-back Programme, provided they do not exceed the aforementioned Overall Limit. If the Overall Limit is exceeded, there will be a redemption of all of the shares acquired pursuant to the Buy-back Programme, as well as of the number of shares acquired as a result of the settlement of the Derivatives equal to the difference between the Overall Limit and the shares acquired in implementation of the Buy-back Programme. In this latter case, the remaining treasury shares acquired as a result of the settlement of the Derivatives will not be redeemed on occasion of the Reduction in Capital.

Once the Board of Directors (or the body acting by delegation therefrom) has determined the final amount of the Reduction in Capital, Article 10 of the By-Laws setting the share capital would be amended such that it reflects the new amount of share capital and the new number of outstanding shares.

2. Procedure for acquisition of the shares that will be redeemed under the Buy-back Programme

Without prejudice to the Existing Treasury Shares, and in accordance with the resolution approved by the Board of Directors at its meeting of 10 May 2022, the Company may, by way of implementation of the Buy-back Programme for all of the shareholders, acquire a maximum number of 15 million own shares for their redemption, each of such own shares
having a nominal value of €0.75 and representing a maximum of 0.233% of the share capital of the Company on the date of approval of this resolution, which number is within the legal limit and the limit provided for in the authorisation for the acquisition of own shares granted by the shareholders at the General Shareholders’ Meeting held on 13 April 2018 under item number twelve on the agenda.

As provided in the aforementioned resolution of the Board of Directors, the own shares shall be acquired subject to such terms as to price and volume as are established in Article 5 of Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse and in Articles 2, 3 and 4 of Commission Delegated Regulation (EU) No 2016/1052 of 8 March 2016 supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Counsel with regard to regulatory technical standards for the conditions applicable to buy-back programmes and stabilisation measures.

In accordance with the foregoing, pursuant to Section 340.3 of the Companies Act, if the Company fails to acquire the maximum number of 45,479,181 own shares, each with a nominal value of €0.75, both through the settlement, no later than 10 June 2022, of the Derivatives and under the Buy-back Programme, it shall be understood that the share capital is reduced by the sum of (i) the amount corresponding to the Existing Treasury Shares, and (ii) the amount corresponding to the sum of the shares effectively acquired within the framework of the Buy-back Programme and pursuant to the settlement of the Derivatives no later than 10 June 2022.

3. **Procedure for the reduction and reserves with a charge to which it is carried out**

Pursuant to the provisions of Section 342 of the Companies Act, the Reduction in Capital must be implemented within one month following the expiration of the Buy-back Programme.

The Reduction in Capital does not entail a return of contributions to the shareholders because the Company itself is the holder of the shares being redeemed, and it shall be carried out with a charge to unrestricted reserves by funding a redeemed capital reserve in an amount equal to the nominal value of the redeemed shares; such reserve may only be used by complying with the same requirements as those applicable to a reduction in share capital, as provided by Section 335 c) of the Companies Act.

Therefore, in accordance with the provisions of such section, creditors of the Company will not be entitled to assert the right of objection contemplated by Section 334 of the Companies Act in connection with the Reduction in Capital.

4. **Ratification of the resolutions of the Board of Directors**

To ratify the resolutions of the Board of Directors regarding the approval of the Buy-back Programme and the establishment of the terms and conditions thereof, including the determination of the maximum number of shares to be acquired within the framework and the effective period thereof, as well as to ratify the acts, statements and formalities carried out through the date hereof in connection with the public communication of the Buy-back Programme.

5. **Delegation of powers**

To delegate to the Board of Directors, with express power of substitution, the powers necessary to implement this resolution within a period not to exceed one month following the expiration of the Buy-back Programme, with authority to establish any terms that are
not expressly set forth in this resolution or that are a consequence hereof. 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 modify the maximum number of shares that may be bought back by the Company, within the limits set in this resolution and by law, as well as any other terms and conditions of the Buy-back Programme, all in accordance with the provisions of Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse and in Commission Delegated Regulation (EU) No 2016/1052 of 8 March 2016 supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the conditions applicable to buy-back programmes and stabilisation measures.

(b) To perform any acts, make any statements or take any steps that may be required in connection with the public communication of the Buy-back Programme and with the formalities, if any, that must be carried out at Spanish regulatory agencies and Stock Exchanges; negotiate, agree to and sign all contracts, agreements, commitments or instructions that may be necessary or appropriate for the successful completion of the Buy-back Programme.

(c) To cause all announcements required by law to be published, acquire the shares under the Buy-back Programme and redeem them within one month following the expiration of the Buy-back Programme, in accordance with the terms approved herein.

(d) To declare the approved Reduction in Capital to be completed and implemented, establishing, for such purpose, the final number of shares that must be redeemed and, as a result, the amount by which the share capital of the Company must be reduced in accordance with the rules specified in this resolution.

(e) To set the final amount of the Reduction in Capital based on the provisions of this resolution and establish any other terms that may be required to implement it, including, without limitation, the setting of the unrestricted reserves account that will be used to fund the redeemed capital reserve, all in accordance with the terms and conditions set forth above.

(f) To amend Article 10 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 Reduction in Capital.

(g) To take such steps and carry out such formalities as may be required and submit such documents as may be necessary to the competent bodies such that, once the shares of the Company have been redeemed and the notarial instrument for the Reduction in Capital has been executed and registered with the Commercial Registry, the redeemed shares are delisted from the Bilbao, Madrid, Barcelona and Valencia Stock Exchanges, through the Automated Quotation System (Continuous Market), and they are removed from the corresponding book-entry records of “Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.” (Sociedad Unipersonal) (IBERCLEAR).

(h) To perform all acts that may be necessary or appropriate to implement and formalise the Reduction in Capital before any Spanish or foreign public or private entities and 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.
Pursuant to the provisions of Section 249 bis 1) of the Companies Act, to expressly authorise the Board of Directors to further delegate the powers referred to in this resolution.

In Bilbao, on 10 May 2022