



Julián Martínez-Simancas  
Secretary to the Board of Directors

Bilbao, 25 October 2016

**To the National Securities Market Commission**

**Subject: Implementation of the second paid-up capital increase approved by the shareholders acting at the General Shareholders' Meeting of Iberdrola, S.A. on 8 April 2016 and publication of the relevant information memorandum (documento informativo)**

Dear Sirs,

Pursuant to article 17 of Regulation (EU) No. 596/2014 on market abuse and article 228 of the restated text of the Securities Market Law approved by the Royal Legislative Decree 4/2015, of 23 October (*texto refundido de la Ley del Mercado de Valores aprobado por el Real Decreto Legislativo 4/2015, de 23 de octubre*) and related provisions, we hereby inform you that the Board of Directors of Iberdrola, S.A. ("**Iberdrola**" or the "**Company**"), at its meeting held today, has resolved to carry out the implementation of the second paid-up capital increase, approved by the shareholders acting at the General Shareholders' Meeting of Iberdrola held on 8 April 2016 under sections B and 1 to 11 (both inclusive) of item number six on the agenda (the "**Capital Increase**").

For the purposes of article 26.1.e) of *Royal Decree 1310/2005, of 4 November, which partially elaborates upon the provisions of Law 24/1988 of 28 July, on the Securities Market, in connection with the admission of securities to trading on official secondary markets, public offers for the sale or subscription of securities and the prospectus required for such purposes (Real Decreto 1310/2005, de 4 de noviembre, por el que se desarrolla parcialmente la Ley 24/1988, de 28 de julio, del Mercado de Valores, en materia de admisión a negociación de valores en mercados secundarios oficiales, de ofertas públicas de venta o suscripción y del folleto exigible a tales efectos)*, we provide you, enclosed hereto as an annex, with the information memorandum (*documento informativo*) regarding the implementation of the Capital Increase approved by the Board of Directors of Iberdrola in the aforementioned meeting.

This information is provided to you for the appropriate purposes.

Yours faithfully,

Secretary to the Board of Directors

---

NOTICE: This document is a translation of a duly approved Spanish-language document, and is provided for informational purposes only. In the event of any discrepancy between the text of this translation and the text of the original Spanish-language document which this translation is intended to reflect, the text of the original Spanish-language document shall prevail.



Take care of the environment.  
Printed in black and white and only if necessary



## IMPORTANT INFORMATION

This communication does not constitute an offer to purchase, sell or exchange or the solicitation of an offer to purchase, sell or exchange any securities. The shares of Iberdrola, S.A. may not be offered or sold in the United States of America except pursuant to an effective registration statement under the Securities Act or pursuant to a valid exemption from registration.

This communication contains forward-looking information and statements about Iberdrola, S.A., including financial projections and estimates and their underlying assumptions, statements regarding plans, objectives and expectations with respect to future operations, capital expenditures, synergies, products and services, and statements regarding future performance. Forward-looking statements are statements that are not historical facts and are generally identified by the words “expects”, “anticipates”, “believes”, “intends”, “estimates” and similar expressions.

Although Iberdrola, S.A. believes that the expectations reflected in such forward-looking statements are reasonable, investors and holders of Iberdrola, S.A. shares are cautioned that forward-looking information and statements are subject to various risks and uncertainties, many of which are difficult to predict and generally beyond the control of Iberdrola, S.A., that could cause actual results and developments to differ materially from those expressed in, or implied or projected by, the forward-looking information and statements. These risks and uncertainties include those discussed or identified in the public documents sent by Iberdrola, S.A. to the *Comisión Nacional del Mercado de Valores*.

Forward-looking statements are not guarantees of future performance. They have not been reviewed by the auditors of Iberdrola, S.A. You are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date they were made. All oral or written forward-looking statements hereby made or otherwise attributable to Iberdrola, S.A. or any of its members, directors, officers, employees or any persons acting on its behalf are expressly qualified on its entirety by the cautionary statement above. All the forward-looking statements included herein are based on information available to Iberdrola, S.A. on the date hereof. Except as required by applicable law, Iberdrola, S.A. does not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

---

NOTICE: This document is a translation of a duly approved Spanish-language document, and is provided for informational purposes only. In the event of any discrepancy between the text of this translation and the text of the original Spanish-language document which this translation is intended to reflect, the text of the original Spanish-language document shall prevail.



Take care of the environment.  
Printed in black and white and only if necessary

**Annex**  
**Information memorandum relating to the implementation of the second paid-up capital increase with a charge to reserves approved by the shareholders of Iberdrola, S.A. acting at the General Shareholders' Meeting on 8 April 2016**

---

NOTICE: This document is a translation of a duly approved Spanish-language document, and is provided for informational purposes only. In the event of any discrepancy between the text of this translation and the text of the original Spanish-language document which this translation is intended to reflect, the text of the original Spanish-language document shall prevail.



Take care of the environment.  
Printed in black and white and only if necessary

**INFORMATION MEMORANDUM RELATING TO THE IMPLEMENTATION OF THE SECOND PAID-UP CAPITAL INCREASE WITH A CHARGE TO RESERVES APPROVED BY THE SHAREHOLDERS OF IBERDROLA, S.A. ACTING AT THE GENERAL SHAREHOLDERS' MEETING ON 8 APRIL 2016**

**1. PURPOSE**

**1.1. Background**

At the General Shareholders' Meeting of Iberdrola, S.A. (hereinafter, "**Iberdrola**" or the "**Company**") held on 8 April 2016, the shareholders approved, under sections B and 1 to 11 (both inclusive) of item number six on the agenda (the "**Shareholders' Resolution**"), a wholly paid-up share capital increase with a charge to the reserves contemplated in article 303.1 of the *Companies Act (Ley de Sociedades de Capital)*, by means of the issuance of ordinary shares for the free allocation thereof to the shareholders of the Company (the "**Capital Increase**").

Under the Shareholders' Resolution, the maximum market value of reference of the Capital Increase would be 985 million euros and it could be implemented within one year following approval thereof.

Likewise, by means of the Shareholders' Resolution, the following powers were delegated in favour of the Board of Directors, with express substitution powers and in accordance with article 297.1.a) of the *Companies Act*: (i) to determine the date, within one year following the approval of the Shareholders' Resolution, on which the Capital Increase should take place and agree on the timetable for the implementation of the Capital Increase; (ii) to determine the reserves, among those included in the Shareholders' Resolution, with a charge to which the implementation of the Capital Increase and the acquisition by the Company of the free allocation rights pursuant to the purchase commitment assumed by Iberdrola will be carried out; (iii) to determine, within the limits set forth in the Shareholders' Resolution, the object of such purchase commitment; and (iv) to establish the conditions of the Capital Increase in all matters not provided for in the Shareholders' Resolution.

In this regard, the Board of Directors of the Company has approved, on the date hereof, to implement the Capital Increase and set the market value of reference for the Capital Increase in an amount within the minimum of 867 million euros and the maximum of 938 million euros, which is –in any case– within the limits established in the Shareholders' Resolution. The specific amount corresponding to the market value of reference of the Capital Increase, which shall in all cases guarantee a fixed price of the purchase commitment assumed by Iberdrola of, at least, 0.135 gross euros per right, will be communicated by means of a supplement to this information memorandum that is expected to be published on 3 January 2017.

All the foregoing without prejudice to the payment of a dividend of 0.03 gross euros per each share of Iberdrola with the right of receiving dividends, that was approved by the shareholders acting at the General Shareholders' Meeting under item number five of the agenda, and that took place on 8 July 2016.

**1.2. Purpose**

Pursuant to article 26.1.e) of *Royal Decree 1310/2005, of 4 November, which partially elaborates upon the provisions of Law 24/1988 of 28 July, on the Securities Market, in connection with the admission of securities to trading on official secondary markets, public offers for the sale or subscription of securities and the prospectus required for such purposes (Real Decreto 1310/2005, de 4 de noviembre, por el que se desarrolla parcialmente la Ley 24/1988, de 28 de julio, del Mercado de Valores, en materia de admisión a negociación de valores en mercados secundarios oficiales, de ofertas públicas de venta o suscripción y del folleto exigible a tales efectos)*, the admission to trading of the new shares of Iberdrola issued on the Capital Increase shall not require the preparation and publication of a prospectus relating thereto "*provided that the said shares are of the same class as the shares already admitted to trading on the same regulated market and there is a document available containing information regarding the number and types of shares and the rationale for and details of the offer.*"

In view of the foregoing, Iberdrola issues this information memorandum, the purpose of which is to provide all of the information referred to in the preceding paragraph that is available on the date hereof with respect to the Capital Increase. Upon determination of the market value of reference of the Capital Increase, the number of free allocation rights needed to allocate one new share of Iberdrola, as well as the fixed price for the purchase of such rights under the purchase commitment assumed by the Company, this information will be made available to the public by means of a supplement to this memorandum through a notice of a significant event (*comunicación de hecho relevante*) that is expected to be published on 3 January 2017. In addition, once the implementation of the

---

NOTICE: This document is a translation of a duly approved Spanish-language document, and is provided for informational purposes only. In the event of any discrepancy between the text of this translation and the text of the original Spanish-language document which this translation is intended to reflect, the text of the original Spanish-language document shall prevail.



Take care of the environment.  
Printed in black and white and only if necessary

Capital Increase has been completed and all of the remaining information is available, it will be published by means of the corresponding notice of significant event.

## **2. REASONS AND PROCEDURE FOR THE CAPITAL INCREASE**

### **2.1. Reasons for the Capital Increase**

The Capital Increase was approved by the shareholders at Iberdrola's General Shareholders' Meeting in order to implement, for the seventh consecutive year, a system for compensating shareholders called "Iberdrola Flexible Dividend" ("*Iberdrola Dividendo Flexible*"). Through this system, which was implemented by the Company for the first time in the fiscal year 2010, Iberdrola intends to:

- (i) offer its shareholders the ability to decide whether they prefer to receive all or a portion of their compensation of the system in cash or in new paid-up shares of the Company; and
- (ii) allow those shareholders who so desire to benefit from the favourable tax treatment applicable to paid-up shares, without in any way limiting their ability to receive the amount of the compensation to which they are entitled in cash.

### **2.2. Procedure for the Capital Increase**

Pursuant to the terms provided for the implementation of the Capital Increase, the Company's shareholders will receive one free allocation right for each share of Iberdrola that they hold. These rights will be traded on the Bilbao, Madrid, Barcelona and Valencia Stock Exchanges between 5 and 19 January 2017, both inclusive. At the end of this period, the free allocation rights shall be automatically converted into newly-issued shares of the Company.

Under the "Iberdrola Flexible Dividend" system, the shareholders of Iberdrola will be able to freely choose among<sup>1</sup>:

- (a) Not transferring their free allocation rights. In this case, at the end of the trading period, the shareholders will receive the number of new totally paid-up shares to which they are entitled.
- (b) Transfer all or a portion of their free allocation rights to Iberdrola pursuant to the purchase commitment assumed by it and which will be referred to later in this document. In this way, the shareholders may choose to monetise their rights and receive a guaranteed fixed price.
- (c) Transfer all or a portion of their free allocation rights on the market. In this case, the shareholders may also choose to monetise their rights, although they would not receive a guaranteed fixed price, but rather the consideration for the rights would depend on market conditions, in general, and on the listing prices for such rights, in particular.

The shareholders of the Company will be able to combine any of the alternatives mentioned in paragraphs (a) through (c) above based on their needs. In this regard, it should be kept in mind that such alternatives will be subject to a different tax treatment.

For its part, and pursuant to the Shareholders' Resolution, Iberdrola has made an irrevocable commitment to acquire the free allocation rights at a fixed price. In turn, the Board of Directors is empowered to determine the extension of such commitment between the following two alternatives: (i) the free allocation rights received without a charge by the shareholders, excluding those rights that have been transferred on the market; or (ii) all of the free allocation rights, regardless of whether the holders thereof have received them from the Company without a charge or have acquired them on the market.

In the exercise of the aforementioned powers and taking into account the current market conditions, the Board of Directors has resolved at its meeting held today that the referred purchase commitment will be extended to every free allocation right, regardless of whether the holders (i) have received them from the Company for appearing

---

<sup>1</sup> The options available to the holders of American Depositary Receipts ("**ADRs**") or CREST Depository Interests ("**CDIs**") may have special characteristics with respect to the options described herein given the terms and conditions applicable to the programs in which they participate.



legitimated in the book-entry records of “*Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal*” (IBERCLEAR) or (ii) have acquired them on the market.

The fixed price at which Iberdrola will acquire such rights, which will be calculated prior to the commencement of the trading period for the free allocation rights<sup>2</sup> in accordance with the formula set forth below, will allow the Company to guarantee its shareholders the ability to monetise their rights if they do not want to receive new shares. In this regard, it is estimated that the referred fixed price of the purchase commitment will amount to, at least, 0.135 gross euros per right. This purchase commitment will take effect and may be accepted between 5 and 16 January 2017, both inclusive, pursuant to the estimated timetable for the implementation of the Capital Increase set forth in section 3.1 below.

The acquisition by Iberdrola of the free allocation rights as a consequence of the exercise of such purchase commitment shall be made with a charge to the unrestricted reserves account called “Voluntary Reserves” (“*Reservas Voluntarias*”).

Specifically, the number of free allocation rights needed to receive one new share, as well as the fixed price for the purchase of such rights under such purchase commitment, will be calculated as follows:

- The number of free allocation rights required to receive one new share of Iberdrola will be the number resulting from the application of the following formula, rounded to the next highest whole number:

$$\text{Num. rights} = \text{TNShrs.} / \text{Provision num. of shrs.}$$

where,

“**Num. rights**” = Number of free allocation rights needed for the allocation of one new share of Iberdrola.

“**TNShrs**” = Number of outstanding shares of Iberdrola on the date of implementation of the Capital Increase<sup>3</sup>. For the purposes hereof, the “**date of implementation of the Capital Increase**” shall be that date on which the Executive Committee or the chairman and chief executive officer of the Company, pursuant to the delegation of powers made by the Board of Directors at its meeting held today, performs the arithmetical calculations arising from the application of the formulas referred to herein in order to calculate the provisional number of shares to be issued, the number of free allocation rights needed for the allocation of one share, the “**ListPri**,” and the maximum nominal amount of the Capital Increase, which is expected to occur on 3 January 2017.

“**Provisional num. of shrs.**” = Market value of reference of the Capital Increase<sup>4</sup> / ListPri.

For these purposes, “**ListPri**” will be the arithmetic mean of the average weighted listing prices of the Company’s shares on the Bilbao, Madrid, Barcelona and Valencia Stock Exchanges at the five trading sessions corresponding to 27, 28, 29 and 30 December 2016 and 2 January 2017, as such average appears in a certification to be issued by the Governing Company (*Sociedad Rectora*) of the Bilbao Stock Exchange, rounded to the closest one-thousandth part of one euro.

The number of free allocation rights required to receive one new share of Iberdrola based on the application of this formula will be specified in a supplement to this memorandum, which is expected to be delivered to the National Securities Market Commission on 3 January 2017 by means of a notice of significant event.

If necessary, Iberdrola will waive the number of free allocation rights needed for the number of new shares to be a whole number and not a fraction. In such event, there will be an incomplete allocation of the Capital Increase, and the share capital will be increased solely by the amount of free allocation rights that have not been waived, pursuant to the provisions of article 311 of the *Companies Act*.

<sup>2</sup> The calculation of this fixed price will occur on 3 January 2017.

<sup>3</sup> The number of outstanding shares of Iberdrola that will be taken into account for these purposes is 6,362,079,000.

<sup>4</sup> The determination of the market value of reference of the Capital Increase will take place on 3 January 2017.

NOTICE: This document is a translation of a duly approved Spanish-language document, and is provided for informational purposes only. In the event of any discrepancy between the text of this translation and the text of the original Spanish-language document which this translation is intended to reflect, the text of the original Spanish-language document shall prevail.



- The purchase price of the free allocation rights under the purchase commitment made by Iberdrola will be calculated in accordance with the following formula (rounded to the closest one-thousandth part of one euro and, in case of a half of a thousandth part of one euro, to the next higher one-thousandth part of one euro):

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

where “ListPri” and “Num. rights” have the meaning provided above.

### 3. **DETAILS OF THE IMPLEMENTATION OF THE CAPITAL INCREASE**

#### 3.1. **Estimated timetable**

The estimated timetable for the implementation of the Capital Increase will be as follows:

- |                   |                                                                                                                                                                                                                                                                                                                                                                                      |
|-------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| • 3 January 2017  | • Notice of significant event regarding the number of free allocation rights required to receive one newly-issued share and the price of the commitment assumed by Iberdrola to purchase free allocation rights.                                                                                                                                                                     |
| • 4 January 2017  | • Publication of the announcement of the implementation of the Capital Increase in the Official Gazette of the Commercial Registry.<br>• <i>Last trading date</i> on which the shares of Iberdrola are traded with the right to participate in the “Iberdrola Flexible Dividend” system.                                                                                             |
| • 5 January 2017  | • <i>Ex date</i> from which – inclusive – the shares of Iberdrola will be traded without the right to participate in the system “Iberdrola Flexible Dividend” implemented through the Capital Increase.<br>• Commencement of the trading period for the free allocation rights and of the period to request compensation in cash under the purchase commitment assumed by Iberdrola. |
| • 16 January 2017 | • End of the period to request compensation in cash under the purchase commitment assumed by Iberdrola.                                                                                                                                                                                                                                                                              |
| • 19 January 2017 | • End of the trading period for the free allocation rights.<br>• Acquisition by Iberdrola of the free allocation rights to those who have elected to receive cash under the purchase commitment assumed by Iberdrola.                                                                                                                                                                |
| • 23 January 2017 | • Payment of cash to the holders of free allocation rights who have elected to receive cash under the purchase commitment assumed by Iberdrola.                                                                                                                                                                                                                                      |
| • 31 January 2017 | • Registration of the newly-issued shares to be issued under the Capital Increase in the book-entry records of “Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal” (IBERCLEAR).                                                                                                                                               |
| • 1 February 2017 | • Expected commencement of trading of the newly-issued ordinary shares to be issued under the Capital Increase.                                                                                                                                                                                                                                                                      |

It is stated that this timetable is adapted to the provisions of Royal Decree 878/2015, of 2 October, on clearing, settlement and registry of marketable securities represented by book entries, on the legal regime of the central securities depositories and of the central counterparties entities and on the transparency requirements of the issuers of securities admitted to trading in an official secondary market (*Real Decreto 878/2015, de 2 de octubre, sobre compensación, liquidación y registro de valores negociables representados mediante anotaciones en*

---

NOTICE: This document is a translation of a duly approved Spanish-language document, and is provided for informational purposes only. In the event of any discrepancy between the text of this translation and the text of the original Spanish-language document which this translation is intended to reflect, the text of the original Spanish-language document shall prevail.



Take care of the environment.  
Printed in black and white and only if necessary

*cuenta, sobre el régimen jurídico de los depositarios centrales de valores y de las entidades de contrapartida central y sobre requisitos de transparencia de los emisores de valores admitidos a negociación en un mercado secundario oficial)* published in the State Official Gazette on 3 October 2015, which, among other matters, entails the reform of the system of registry, clearing and settlement of securities.

Additionally, both the period for accepting the commitment to purchase the free allocation rights, as well as the scheduled dates for actual payment of cash and delivery of shares, may be different for holders of ADRs (in the United States of America) and CDIs (in the United Kingdom) representing shares of the Company.

### **3.2. Negotiation of the free allocation rights and procedure for choosing cash or new shares of the Company**

The free allocation rights will be traded on the Bilbao, Madrid, Barcelona and Valencia Stock Exchanges through the Automated Quotation System (Electronic Market) between 5 and 19 January 2017. During such term, a sufficient number of free allocation rights may be acquired on the market in the proportion required to receive new shares<sup>5</sup>.

During the period for trading the free allocation rights, their holders may choose between receiving newly-issued shares of the Company or an amount in cash equivalent to the fixed and guaranteed purchase price to which they are entitled, all upon the terms described above, as well as acquiring sufficient free allocation rights on the market in the proportion required to subscribe for new shares. However, holders of free allocation rights who wish to accept the irrevocable commitment assumed by Iberdrola to purchase such rights, in the terms described above, and thus receive an amount in cash, equal to the fixed and guaranteed purchase price to which they are entitled, must communicate their decision to the entity with which their shares are deposited no later than 16 January 2017.

In order to choose from among the options that Iberdrola is offering on occasion of the Capital Increase, holders of free allocation rights must contact the entities with which their free allocation rights are deposited within the periods set forth in the preceding paragraph. A failure to make an express decision will cause the shareholder to receive a number of new shares in proportion to their totally paid-up shares<sup>6,7</sup>.

### **3.3. Expenses and fees**

The Capital Increase is made free of expenses and fees with respect to the allocation of newly-issued shares. Iberdrola will assume the expenses of issuance, subscription, flotation, admission to trading and other expenses relating to the Capital Increase.

Without prejudice to the foregoing, the shareholders of the Company and the holders of free allocation rights must bear in mind that the member entities of “*Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal*” (IBERCLEAR) with which they keep their shares and free allocation rights on deposit may, pursuant to applicable legislation, establish such pass-through management fees and expenses as they may freely determine as a consequence of maintaining the securities in their book-entry registries. Likewise, such member entities may, pursuant to applicable legislation, establish such pass-through

<sup>5</sup> Those who do not have free allocation rights in a number sufficient to receive one new share may: (a) acquire on the market a sufficient number of free allocation rights which, added to those already held by them, give them the right to receive one new share; (b) transfer all or part of their free allocation rights to Iberdrola under the purchase commitment at a guaranteed fixed price; or (c) transfer all or part of their free allocation rights on the market (in which case they will not be entitled to receive a guaranteed fixed price; rather, the consideration for their rights will depend on market conditions, in general, and on the listing price of the free-of-charge allocation rights, in particular).

<sup>6</sup> However, as regards the conditions described in this paragraph, the holders of ADRs and CDIs must comply with the particularities of the programs in which they participate.

<sup>7</sup> It is possible that, at the end of the trading period for the free allocation rights, the number of rights held by a particular holder is a number that, taking into account the calculation formulas referred to in this memorandum, does not give such holder the right to receive a whole number of shares. In such case, the entity with which the holder of the free allocation rights has deposited them may sell the number of rights resulting in a fraction of a new share, such that the holder will receive the proceeds from the sale in cash and will not lose the intrinsic value of such rights. Notwithstanding the foregoing, this possibility is subject to the terms and conditions of the securities deposit and management agreement signed with the relevant depositary entity or the instructions that the holder of the rights has given thereto.





fees and expenses as they may freely determine for the processing of orders to purchase and sell free allocation rights.

#### **4. NUMBER AND NATURE OF THE SHARES**

##### **4.1. Maximum number of shares to be issued in the Capital Increase**

The maximum number of shares to be issued as a result of the Capital Increase will be the result of the formula approved by the shareholders at Iberdrola's General Shareholders' Meeting, which is set forth below (the result to be rounded to the next lower integer):

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

where,

“NNS” = Maximum number of new shares to be issued; and

“TNShrs” and “Num. shares” have the meanings set forth above.

In any event, in accordance with the Shareholders' Resolution, as well as the resolution of the Board of Directors of the Company approved at its meeting held today, the maximum number of shares to be issued in the Capital Increase will be such that the reference market value of such shares (calculated at the “ListPri”) will in no event be greater than the amount that will be determined on 3 January 2017, which will be within the minimum of 867 million euros and the maximum of 938 million euros.

It is expected that the maximum number of new shares to be issued will be publicly disclosed on 3 January 2017 by means of a supplement to this information memorandum.

However, the number of shares actually issued will depend on the number of holders of free allocation rights who decide not to transfer their rights. Iberdrola will waive the new shares corresponding to the free allocation rights acquired by application of the above-referenced purchase commitment<sup>8</sup>. In any event, the final number of shares to be issued within the context of the Capital Increase will be made available to the public on a timely basis by means of a notice of significant event regarding the close of the implementation of the Capital Increase.

Enclosed as an annex to this information memorandum is an example of the calculation of the maximum number of shares that would be issued on the Capital Increase, of the number of free allocation rights required for the allocation of a new share, and of the purchase price of each free allocation right corresponding to the irrevocable purchase commitment made by Iberdrola.

##### **4.2. Rights attached to the new shares**

The new shares to be issued in the Capital Increase will be ordinary shares having a par value of 0.75 euros each, of the same class and series as those currently outstanding, for which reason the Capital Increase will be made at par and, therefore, without a share premium. The new shares to be issued will be 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).

The new shares will grant their holders the same political and economic rights as the ordinary shares of Iberdrola currently outstanding as from the date that the Capital Increase implemented is declared to be subscribed for and paid up. In particular, holders of the new shares will be entitled to receive the interim dividends and supplemental dividend amounts, if any, that are paid as from the date that the Capital Increase is declared to be subscribed for and paid up.

<sup>8</sup> In addition, in the event that the number of outstanding Iberdrola shares after deducting the shares corresponding to the free allocation rights acquired by Iberdrola pursuant to the purchase commitment (which Iberdrola will waive pursuant to the Shareholders' Resolution) is a fraction, Iberdrola will also waive that number of its free allocation rights that are required for the number of new shares ultimately issued under the Capital Increase to be a whole number and not a fraction.



#### **4.3. Balance sheet and reserve with a charge to which the Capital Increase is carried out**

The balance sheet used as a basis for the Capital Increase is the one for the fiscal year ended 31 December 2015, which was audited by “Ernst & Young, S.L.” and approved by the General Shareholders’ Meeting of Iberdrola held on 8 April 2016, under item number one on the agenda.

The Capital Increase will be carried out with a charge to the reserve called “RDL Update 7/1996” (“*Actualización RDL 7/1996*”), which, as of 31 December 2015, amounted to 505,242,383.24 euros. Likewise, it is expressly stated that, as of the date hereof, the aforementioned reserve amounts to 368,437,883.24 euros, and that the difference between the two amounts (136,804,500 euros) is solely due to the partial allocation of such balance to pay up: (i) 45,245,250 euros corresponding to the implementation of the second paid-up capital increase approved by the shareholders acting at the General Shareholder’s Meeting of the Company held on 27 March 2015 under section B of item six of its agenda, which was formalised on 26 January 2016 before the notary of the Illustrious College of the Basque Country Mr. José Antonio Isusi Ezcurdia under number 228 of his protocol, and registered at the Commercial Registry of Biscay; and (ii) 91,559,250 euros corresponding to the implementation of the first paid-up capital increase approved by the shareholders acting at the General Shareholder’s Meeting of the Company held on 8 April 2016 under section A of item six of its agenda, which was formalised on 26 July 2016 before the notary of the Illustrious College of Madrid Mr. Miguel Ruiz-Gallardón García de la Rasilla under number 3,608 of his protocol, and registered at the Commercial Registry of Biscay.

#### **4.4. Shares on deposit**

At the end of the period for trading the free allocation rights and once the implementation of the Capital Increase has been closed, the new shares, if any, that could not be allocated for reasons not attributable to Iberdrola will be maintained on deposit available to the parties who show that they are the rightful owners of the corresponding free allocation rights. After the passage of three years from the date of deposit of the new shares that could not have been allocated for reasons not attributable to Iberdrola, the new shares that are still pending allocation may be sold in accordance with the provisions of article 117 of the *Companies Act*, for the account and risk of the interested parties. The cash amount of such sale will be deposited with *Banco de España* or *Caja General de Depósitos*, and will be available to the interested parties.

#### **4.5. Admission to trading of the new shares**

Iberdrola will make application for the trading of the new shares to be issued as a consequence of the Capital Increase on the Bilbao, Madrid, Barcelona and Valencia Stock Exchanges, through the Automated Quotation System (Electronic Market), and will carry out such acts and formalities as are required for the admission of the new shares to trading.

#### **4.6. Tax treatment**

On the occasion of the first implementation of the “Iberdrola Flexible Dividend” system, the Company submitted a request for binding tax ruling to the General Tax Directorate (*Dirección General de Tributos*) (the “GTD”) regarding the tax treatment applicable in Spain to the Iberdrola shareholders that was filed with the referred body on 23 November 2009. Such request for binding tax ruling was answered by the GTD on 27 April 2010, and, in turn, was clarified by the GTD —at Iberdrola’s request— on 1 October 2010.

The tax treatment that derives from such tax ruling, taking into consideration the applicable changes in the relevant legislation, is the one described below.

Pursuant to the Spanish tax legislation, both in the common territory and in the Historic Territories of the Basque Country (*Territorios Históricos del País Vasco*) and in the Autonomous Region of Navarre (*Comunidad Foral de Navarra*), shareholders who choose to receive newly-issued shares as a consequence of the Capital Increase will not be taxed for such choice for the purposes of the Personal Income Tax (*Impuesto sobre la Renta de las Personas Físicas*, “IRPF”), of the Corporate Income Tax (*Impuesto sobre Sociedades*) (“IS”) nor the Non-Resident Income Tax (*Impuesto sobre la Renta de no Residentes*, “IRNR”), whether or not non-residents act through a permanent establishment in Spain. Furthermore, they will not be subject to any withholdings or payments on account.

The acquisition value for these shareholders, both for the new shares received as a consequence of the Capital Increase and for the shares from which they derive, will result from distributing the total cost of acquisition among the number of securities (both those existing and those issued as paid-up shares corresponding thereto). Such

---

NOTICE: This document is a translation of a duly approved Spanish-language document, and is provided for informational purposes only. In the event of any discrepancy between the text of this translation and the text of the original Spanish-language document which this translation is intended to reflect, the text of the original Spanish-language document shall prevail.



Take care of the environment.  
Printed in black and white and only if necessary

paid-up shares belonging to those shareholders will be deemed to have been held for as long as the shares from which they derive. Consequently, in the event of a subsequent transfer, the income subject to taxation obtained will be calculated with reference to this new value.

In the event that the shareholders sell their free 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:

- For purposes of the IRPF and the IRNR on non-residents without a permanent establishment in Spain, the amount obtained for the transfer of the free allocation rights on the market is subject to the same treatment that tax regulations provide for the transfer of pre-emptive rights.

Accordingly, and taking into account that the transfers of free allocation rights corresponding to this edition of the "Iberdrola Flexible Dividend" (*"Iberdrola Dividendo Flexible"*) program will occur after 1 January 2017, the amount obtained as a result of the transfer of free allocation rights will be deemed a capital gain for transferors that are subject to the IRPF and to the IRNR on non-residents without a permanent establishment in Spain; this capital gain being accrued in the tax period in which the abovementioned transfer is effected. All of the foregoing is without prejudice to the potential application to the IRNR taxpayers (acting without a permanent establishment in Spain) of the international treaties, including the treaties for the avoidance of double taxation and the prevention of tax evasion on Income Tax subscribed by Spain and to those benefits to whom they may be entitled, and to the exemptions established in the IRNR regulations.

In addition, for the transferors subject to the IRPF applicable in the common territory of Spain, the amount obtained as a result of the transfers of the free allocation rights will be subject to the relevant withholding on account of such tax from 1 January 2017 (currently at a rate of 19%).

This withholding will be levied by the relevant depositary entity (and, alternatively, by the financial intermediary or the notary public who has intervened in the transfer). Iberdrola will not be involved in such withholding nor will it provide to its shareholders any tax information in connection thereof. Accordingly, it is recommended that the shareholders contact the relevant depositary entities for these purposes.

- 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 applicable accounting regulations and, in such case, to the special regimes of the above referred taxes. And all of this without prejudice to the rules of determination of the taxable base of such taxes which, as the case may be, shall be applicable.

In the event that holders of free allocation rights in respect to which the Company has made the purchase commitment decide to accept the irrevocable purchase commitment assumed by Iberdrola, the tax treatment applicable to the amount received for the transfer to the Company of their free allocation rights will be equal to the tax treatment applicable to dividends directly distributed in cash and, consequently, such amount will be subject to the corresponding withholding tax and taxation in Spain.

It should be borne in mind that this analysis of the tax treatment (which has been performed on the basis of concrete assumptions) does not cover all the possible tax consequences of the different alternatives related to the compensation system "Iberdrola Flexible Dividend" or to the implementation of the Capital Increase. In the event that a change in these assumptions alters the description of the taxation subject matter of this document, its new tax treatment will be duly communicated to the market. Specifically, the consequences that may arise for those shareholders who are not resident in Spain for tax purposes in their respective countries of tax residency are not detailed. Therefore, it is recommended that the shareholders consult their tax advisors on the specific tax effects resulting from the proposed compensation system, taking into account the particular circumstances of each shareholder or holder of free allocation rights, and that they pay attention to any amendments that may be made, both to the law applicable as of the date of this memorandum and to the rules for interpretation thereof.

Finally, holders of American Depositary Receipts (ADRs) and CREST Depositary Interests (CDIs) representing shares of the Company are advised to consult their tax advisors before making a decision in connection with the Capital Increase.

---

NOTICE: This document is a translation of a duly approved Spanish-language document, and is provided for informational purposes only. In the event of any discrepancy between the text of this translation and the text of the original Spanish-language document which this translation is intended to reflect, the text of the original Spanish-language document shall prevail.



Take care of the environment.  
Printed in black and white and only if necessary

**5. SUPPLEMENTS TO THIS INFORMATION MEMORANDUM**

As indicated in the preceding sections, a portion of the information regarding the implementation of the Capital Increase is not available on the date of issuance of this memorandum. Specifically, the market value of reference of the Capital Increase, the number of rights required to receive one share, as well as the final price of the commitment by Iberdrola to purchase each free allocation right pursuant to the referred commitment will be published by means of a supplement to this memorandum which will be made available to the public by means of a notice of significant event which is expected to occur on 3 January 2017. In turn, as soon as the implementation of the Capital Increase is closed and all of the remaining information is available, such information will be published by means of a corresponding notice of significant event.

Both this memorandum as well as the supplement hereto will be available on Iberdrola's corporate website ([www.iberdrola.com](http://www.iberdrola.com)) and on the website of the National Securities Market Commission ([www.cnmv.es](http://www.cnmv.es)) as from the day of their publication.

In Bilbao, on 25 October 2016.

Iberdrola, S.A.  
By

---

Julián Martínez-Simancas Sánchez  
Secretary to the Board of Directors

---

NOTICE: This document is a translation of a duly approved Spanish-language document, and is provided for informational purposes only. In the event of any discrepancy between the text of this translation and the text of the original Spanish-language document which this translation is intended to reflect, the text of the original Spanish-language document shall prevail.



Take care of the environment.  
Printed in black and white and only if necessary

## ANNEX

### SAMPLE CALCULATION OF THE MAXIMUM NUMBER OF NEW SHARES TO BE ISSUED, OF THE MAXIMUM NOMINAL AMOUNT OF THE SHARE CAPITAL INCREASED, OF THE NUMBER OF FREE ALLOCATION RIGHTS FOR THE ALLOCATION OF ONE NEW SHARE, AND OF THE PURCHASE PRICE THEREOF

For the sole purpose of facilitating and understanding the calculation, below is a sample calculation of the maximum number of new shares to be issued, of the maximum nominal amount of the share capital increased in the Capital Increase, of the number of free allocation rights required for the allocation of one new share, and of the Purchase Price under the commitment made by Iberdrola.

The results of these calculations are not representative of the results that may actually be obtained as a consequence of the implementation of the Capital Increase, which will depend on the different variables used in the formulas.

Merely for purposes of this example:

- The TNShr is 6,362,079,000 (number of shares of Iberdrola as of the date of this information memorandum).
- It is assumed that the market value of reference of the Capital Increase is 889,000,000 euros (such amount is within the maximum and minimum range of values established by the General Shareholders' Meeting and by the Board of Directors of Iberdrola).
- A ListPri of 6.147 euros is assumed (solely for purposes of this example, a listing price per share of Iberdrola as of the close of trading on 20 October 2016 has been used).

Therefore:

Provisional num. shrs. = Market value of reference of the Capital Increase / ListPri =  $889,000,000 / 6.147 = 144,623,393.525297 \approx 144,623,393$  (rounded down)

Num. rights = TNShrs / Provisional num. shrs. =  $6,362,079,000 / 144,623,393 = 43.9906634 \approx 44$  (rounded up)

NNS = TNShrs / Num. rights =  $6,362,079,000 / 44 = 144,592,704.545455 \approx 144,592,704$  (rounded down).

Therefore, in this example: (i) the maximum number of new shares to be issued in the implementation of the Capital Increase would be 144,592,704, (ii) the maximum nominal amount of increased capital in the implementation of the Capital Increase would come to 108,444,528.00 euros ( $144,592,704 \times 0.75$ ), and (iii) 44 free allocation rights (or existing shares) would be required for the allocation of a new share<sup>9</sup>.

The Purchase Price would be calculated in accordance with the following formula (rounding the result to the closest one-thousandth of a euro):

Purchase Price = ListPri / (Num. rights + 1)

where:

Purchase Price =  $6.147 / (44 + 1) = 0.1366$  euros  $\approx 0.137$  euros (rounded to the closest one-thousandth of a euro).

---

<sup>9</sup> In this sample calculation, Iberdrola should waive 24 free allocation rights corresponding to 24 shares of the Company for the number of new shares to be issued to be a whole number.

---

NOTICE: This document is a translation of a duly approved Spanish-language document, and is provided for informational purposes only. In the event of any discrepancy between the text of this translation and the text of the original Spanish-language document which this translation is intended to reflect, the text of the original Spanish-language document shall prevail.



Take care of the environment.  
Printed in black and white and only if necessary