



Julián Martínez-Simancas  
Secretary to the Board of Directors

Bilbao, 7 November 2017

**To the National Securities Market Commission**

**Subject: Terms and conditions of the second edition of the “Iberdrola Flexible Dividend” remuneration system corresponding to the fiscal year 2017**

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**”), resolved yesterday to carry out the second edition of the “Iberdrola Flexible Dividend” remuneration system corresponding to the fiscal year 2017.

As a new feature, in this edition, the traditional options of the “Iberdrola Flexible Dividend” system are supplemented with the distribution of an interim dividend corresponding to the fiscal year 2017. As a consequence, the shareholders will be entitled to choose between the following options:

- (i) receive completely paid-up new shares;
- (ii) transfer all or a part of their free allocation rights in the market;
- (iii) transfer all or a part of their free allocation rights to the Company, at a guaranteed fixed price, pursuant to a purchase commitment assumed by Iberdrola; or
- (iv) receive cash by means of the interim dividend corresponding to the fiscal year 2017.

The value of the remuneration that the shareholders will receive under options (i), (iii) and (iv) above is equivalent (in terms of market value and notwithstanding the different tax treatment applicable to each of them). Therefore, the purchase price committed by the Company for each free allocation right will be equal to the gross amount to be paid to each share as interim dividend for the fiscal year 2017.

Iberdrola estimates that both: (a) the purchase price of each free allocation right committed by the Company, and (ii) the amount of the interim dividend corresponding to the fiscal year 2017 will be, at least, 0.140 euros gross per share.

As a consequence of the above, the Company’s Board of Directors resolved yesterday to: (a) carry out the second paid-up capital increase approved by the shareholders acting at the General Shareholders’ Meeting of Iberdrola held on 31 March 2017 under item number thirteen of the agenda; and (b) the payment of the interim dividend corresponding to the fiscal year 2017, subject, in any event, to the fulfilment of the requirements set out in article 277 of the Spanish Companies Act (*Ley de Sociedades de Capital*). The Company is expected to attest the fulfilment of these requirements during December 2017 and to publish it by means of a notice of significant event (*hecho relevante*).

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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 this new edition of the “Iberdrola Flexible Dividend” remuneration system approved yesterday by the Board of Directors of Iberdrola.

This information is provided to you for the appropriate purposes.

Yours faithfully,

Secretary to the Board of Directors

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### 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 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.

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**Annex**  
**Information memorandum regarding the terms and conditions of the second edition of the “Iberdrola Flexible Dividend” remuneration system corresponding to the fiscal year 2017**

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**INFORMATION MEMORANDUM REGARDING THE TERMS AND CONDITIONS OF THE SECOND EDITION OF THE "IBERDROLA FLEXIBLE DIVIDEND" REMUNERATION SYSTEM CORRESPONDING TO THE FISCAL YEAR 2017**

**1. PURPOSE**

**1.1. Background**

At the General Shareholders' Meeting of Iberdrola, S.A. (hereinafter, "**Iberdrola**" or the "**Company**") held on 31 March 2017, the shareholders approved, under item number thirteen on the agenda and under the section titled "*Terms common to the increase in capital resolutions proposed under item numbers twelve and thirteen on the agenda in order to implement two new editions of the "Iberdrola Flexible Dividend" system*" (the "**Shareholders' Resolution**"), a wholly paid-up share capital increase with a charge to the reserves contemplated in article 303.1 of the *Spanish 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 1,168 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 *Spanish Companies Act (Ley de Sociedades de Capital)*: (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 resolved yesterday to implement the Capital Increase and set the market value of reference for the Capital Increase in an amount within the minimum of 898 million euros and the maximum of 947 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, 0.140 gross euros per right, will be communicated by means of a supplement to this information memorandum that is expected to be published on 9 January 2018.

For the first time, in this edition of the "Iberdrola Flexible Dividend" remuneration system, its traditional options will be supplemented with an interim dividend corresponding to the fiscal year 2017 (the "**Interim Dividend**" and, together with the three traditional options, the "**Flexible Remuneration Options**").

This change seeks to address the fact that, in certain jurisdictions, the transfer of free allocation rights to the Company, at a guaranteed fixed price, does not qualify as a dividend for the transferors. To make the remuneration system more attractive to investors, the holders of free allocation rights that prefer to be remunerated in cash, by means of a payment that has the consideration of dividend, can elect to do so under this new option.

As a result, the shareholders will be able to choose between the following Flexible Remuneration Options:

- (i) receive completely paid-up new shares;
- (ii) transfer all or a part of their free allocation rights in the market;
- (iii) transfer all or a part of their free allocation rights to the Company, at a guaranteed fixed price, pursuant to a purchase commitment assumed by Iberdrola; or
- (iv) receive cash by means of the interim dividend corresponding to the fiscal year 2017 (either for all or

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some of their shares).

The value of the remuneration received by the shareholders from the Company under the Flexible Remuneration Options (i), (iii) and (iv) above is equivalent (in terms of market value and notwithstanding the different tax treatment applicable to each of them). Therefore, the purchase price committed by the Company for each free allocation right will be equal to the gross amount to be paid to each share as interim dividend for the fiscal year 2017.

To achieve the above, this edition of the “Iberdrola Flexible Dividend” remuneration system will be carried out through two legal instruments (the implementation of the Shareholders’ Resolution and the Interim Dividend). This does not imply, however, that these are separate transactions. On the contrary, they are deemed integrated transactions under this edition of the remuneration system. These transactions were approved yesterday by the Board of Directors to implement the shareholders’ alternatives to receive their remuneration from the Company, for a given value, under the “Iberdrola Flexible Dividend” remuneration system. In any case, the payment of the Interim Dividend is conditioned to the Company attesting compliance of the requirements of article 277 of the *Spanish Companies Act (Ley de Sociedades de Capital)*.

As a consequence of the above, the election of one of these alternatives excludes the right to choose any of the remaining options (for the avoidance of doubt, if a shareholder chooses one of the Flexible Remuneration Options for some but not all of its shares, the shareholder will be entitled to choose any of the Flexible Remuneration Options for its remaining shares).

Subject to be the approval by the General Shareholders’ Meeting of the Company, in future editions of the “Iberdrola Flexible Dividend” remuneration system, the option to transfer free allocation rights to the Company, at a guaranteed fixed price, will be replaced by the possibility of collecting a supplementary or interim dividend (*dividendo complementario o una cantidad a cuenta del dividendo*) of the year in which the system is implemented and depending on whether it is the first or the second edition of the remuneration system.

## **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 second edition of the “Iberdrola Flexible Dividend” remuneration system of the fiscal year 2017 and with the Flexible Remuneration Options. As soon as the Company attests the fulfilment of the requirements set out in article 277 of the *Spanish Companies Act (Ley de Sociedades de Capital)* in connection with the payment of the Interim Dividend, this circumstance will be published by means of a notice of significant event (*hecho relevante*).

In addition, 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, the fixed price for the purchase of such rights under the purchase commitment assumed by the Company and the gross amount of the Interim Dividend per share<sup>1</sup>, this information will be made available to the public by means of a supplement to this memorandum through a notice of a significant event (*hecho relevante*) that is expected to be published on 9 January 2018.

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<sup>1</sup> The Interim Dividend’s gross amount per share will be equal to the fixed purchase price guaranteed by the Company for each free allocation right.



Finally, once the implementation of the Capital Increase has been completed and all of the remaining information (including the final gross amount of the Interim Dividend) is available, it will be published by means of a notice of significant event (*hecho relevante*).

## **2. REASONS AND PROCEDURE OF THE “IBERDROLA FLEXIBLE DIVIDEND” REMUNERATION SYSTEM**

### **2.1. Reasons for the “Iberdrola Flexible Dividend” remuneration system**

The Capital Increase was approved by the shareholders at Iberdrola’s General Shareholders’ Meeting in order to implement, for the eighth consecutive year, a system for remunerating 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 remuneration under 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 remuneration to which they are entitled in cash.

For the first time, this edition of the “Iberdrola Flexible Dividend” remuneration system includes the payment of the Interim Dividend. This new feature supplements the system’s traditional remuneration options. As pointed out, this change seeks to make the remuneration system more attractive to all kinds of investors.

### **2.2. Procedure of the second edition of the “Iberdrola Flexible Dividend” remuneration system corresponding to the fiscal year 2017**

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 11 and 25 January 2018, both inclusive. At the end of this period, the free allocation rights that are not waived pursuant to the terms of this document will automatically be converted into newly-issued shares of the Company.

Under this new edition of the “Iberdrola Flexible Dividend” remuneration system, the shareholders of Iberdrola will be able to freely choose among<sup>2</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.
- (d) Collect their remuneration in cash through the payment of the Interim Dividend (which gross amount per share shall be equal to the fixed purchase price committed by the Company for each free allocation right under (b) above). In this case, the shareholder will be expressly waiving its right to receive free allocation rights for the shares which receive the Interim Dividend.

<sup>2</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.

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For the avoidance of doubt, the election of one of the Flexible Remuneration Options excludes the right to choose any of the remaining ones for the same shares or free allocation rights in respect of which an election has been made.

The shareholders of the Company will be able to combine any of the alternatives mentioned in paragraphs (a) through (d) above based on their needs. Attention should be drawn to the fact that these alternatives are subject to different tax treatment.

Those shareholders who want to choose options (b) or (d) above shall do so between 11 and 22 January 2018, both inclusive (the “**Common Election Period**”) in the terms explained below.

As a result of the new feature introduced in this edition of the “Iberdrola Flexible Dividend” remuneration system and subject to the fulfilment of the requirements set out in article 277 of the Spanish Companies Act (*Ley de Sociedades de Capital*)<sup>3</sup>, the Board of Directors approved yesterday the payment of an interim dividend corresponding to the fiscal year 2017 of up to a maximum amount of 0.144 gross euros per share, which implies a total maximum amount of 909,722,160 euros. This amount results from multiplying the total number of outstanding shares that exist to this date (without deducting treasury stock) by the gross amount per share previously mentioned (*i.e.*, 0.144 euros). This is without prejudice to the fact that, after applying the formulas included in this section, the Company estimates that the Interim Dividend amount will be of, at least, 0.140 gross euros per share.

It was also resolved that, on 9 January 2018, the Executive Committee or the chairman and chief executive officer of the Company will fix the final gross amount per share of the Interim Dividend. This amount shall be the same as the fixed purchase price committed by the Company for each free allocation right and shall not exceed 0.144 gross euros per share.

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 in 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 in the market.

In the exercise of the aforementioned powers, the Board of Directors resolved yesterday that the referred purchase commitment will be extended only to the free allocation rights received by those appearing in the book-entry records of “*Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal*” (*IBERCLEAR*) on 12 January 2018 (record date), excluding those rights which have been acquired in the market.

As a consequence of the above, those who acquire free allocation rights during the trading period will only be able to choose between: (i) receiving their remuneration through paid-up new shares; or (ii) transferring all or a part of their free allocation rights in the market.

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<sup>3</sup> The payment of the interim dividend corresponding to the fiscal year 2017 is subject to the preparation of a statement of accounts evidencing: (i) sufficient liquidity to pay an interim dividend corresponding to the fiscal year 2017 of at least 0.144 euros per share; and (ii) that the maximum amount to be distributed does not exceed the year-to-date results minus prior fiscal years’ losses, amounts earmarked for legal or statutory reserves, and the estimated tax resulting from said provisional results.

Based on the information available as of the date of this information memorandum, the Company expects those requirements to be fulfilled during December 2017, when the Board of Directors will prepare the corresponding statement of accounts. When these requirements are fulfilled, the Company will publish it by means of a notice of significant event (*hecho relevante*), which is expected to be published on or around December 19, 2017.

Pursuant to applicable regulations, this statement of accounts will be included in the annual report included in the Company’s financial statements of the fiscal year 2017. The annual report will include a reference to the amount finally distributed as interim dividend corresponding to the fiscal year 2017 as a result of this edition of the “Iberdrola Flexible Dividend” system.

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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>4</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, 0.140 gross euros per right. Likewise, taking into account that the committed purchase price must be equal to the Interim Dividend per share, it is expected that the amount of the Interim Dividend will also be, at least, 0.140 gross euros per share.

This purchase commitment will take effect and may be accepted by the shareholders during the Common Election Period, pursuant to the estimated timetable for the implementation of the Flexible Remuneration Options 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>5</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 yesterday, 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 9 January 2018.

"**Provisional num. of shrs.**" = Market value of reference of the Capital Increase<sup>6</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 2, 3, 4, 5 and 8 January 2018, 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 filed with the National Securities Market Commission on 9 January 2018 by means of a notice of significant event (*hecho relevante*).

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

<sup>4</sup> The calculation of this fixed price will occur on 9 January 2018.

<sup>5</sup> The number of outstanding shares of Iberdrola at the date of this document is 6,317,515,000.

<sup>6</sup> The determination of the market value of reference of the Capital Increase will take place on 9 January 2018.

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that have not been waived, pursuant to the provisions of article 311 of the *Spanish Companies Act (Ley de Sociedades de Capital)*.

- 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.

This formula will also be used to determine the gross amount of the Interim Dividend per share since, as explained above, this amount has to be equal to the purchase price of each free allocation right<sup>7</sup>.

The payment of the Interim Dividend and of the fixed purchase price to those shareholders having chosen any of these Flexible Remuneration Options during the Common Election Period will be made on 29 January 2018. After making such payment, the resolution regarding the Interim Dividend will become ineffective in respect of the amount which has not been distributed to the shareholders as a result of their express or tacit election of any of the remaining Flexible Remuneration Options.

### **3. DETAILS OF THE IMPLEMENTATION OF THE “IBERDROLA FLEXIBLE DIVIDEND” REMUNERATION SYSTEM**

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

The estimated timetable for the implementation of the “Iberdrola Flexible Dividend” remuneration system will be as follows:

- During December 2017
  - Notice of significant event (*hecho relevante*) regarding, if applicable, the fulfilment of the requirements set out in article 277 of the Spanish Companies Act (*Ley de Sociedades de Capital*) in connection with the payment of the Interim Dividend.<sup>8</sup>
- 9 January 2018
  - Notice of significant event (*hecho relevante*) regarding the number of free allocation rights required to receive one newly-issued share, the price of the commitment assumed by Iberdrola to purchase free allocation rights and the gross Interim Dividend per share.
- 10 January 2018
  - Publication of the announcement of the implementation of the Capital Increase in the Official Gazette of the Commercial Registry.
  - Last date on which the shares of Iberdrola are traded with the right to participate in the “Iberdrola Flexible Dividend” system, that is, traded with the right to choose any of the Flexible Remuneration Options offered by this system (including the Interim Dividend).
- 11 January 2018
  - Ex date from which –inclusive– the shares of Iberdrola will be traded without the right to participate in the “Iberdrola Flexible Dividend” system.
  - Commencement of the Common Election Period and of the trading period for the free allocation rights.

<sup>7</sup> The aforesaid is without prejudice of the tax withholdings Iberdrola may have to apply according to the relevant applicable law.

<sup>8</sup> It is expected that this notice of significant event (*hecho relevante*) will be published on or around December 19, 2017.

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- 22 January 2018
  - End of the Common Election Period and, consequently, of the period to request remuneration in cash under the purchase commitment assumed by Iberdrola or the Interim Dividend.
- 25 January 2018
  - End of the trading period for the free allocation rights.
  - Acquisition by Iberdrola of the free allocation rights to those who have elected to receive cash under the purchase commitment assumed by Iberdrola.
- 29 January 2018
  - Payment of cash to the holders of free allocation rights who have elected to receive cash under the purchase commitment assumed by Iberdrola.
  - Payment of the Interim Dividend to those shareholders who have elected to receive cash through this Flexible Remuneration Option.
- 6 February 2018
  - 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).
- 7 February 2018
  - Expected commencement of trading of the newly-issued ordinary shares to be issued under the Capital Increase.

It is stated that 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. Trading of the free allocation rights and procedure to opt to receive cash or new shares of the Company**

Shareholders who wish to receive all or part of their remuneration in cash, either by selling their free allocation rights to Iberdrola or under the Interim Dividend in the terms mentioned above, shall communicate their decision to the entities in which they have deposited their free allocation rights before the end of the Common Election Period. It will be understood that the shareholders who choose to receive the Interim Dividend during the Common Election Period expressly waive all or part (as the case may be) of their free allocation rights.

The free allocation rights will be traded on the Bilbao, Madrid, Barcelona and Valencia Stock Exchanges through the Automated Quotation System (Electronic Market) between 11 and 25 January 2018. During the period for trading the free allocation rights, their holders may likewise choose between (a) receiving newly-issued shares of the Company; or (b) selling all or a part of their free allocation rights in the market; all upon the terms described above. In addition, during this period a sufficient number of free allocation rights may be acquired in the market in the proportion required to receive new shares<sup>9</sup>.

For the avoidance of doubt, the free allocation rights purchased in the market during the said trading period of 15 calendar days will not entitle their owners to receive the Interim Dividend or to transfer all or a portion of their free allocation rights to the Company at the Purchase Price. Thus, those who have purchased free allocation rights in

<sup>9</sup> Those who do not have free allocation rights in a number sufficient to receive one new share may: (a) acquire in 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 in 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). In any case, the free allocation rights purchased in the market during the trading period of 15 calendar days will not entitle their owners to receive the Interim Dividend or to transfer all or a portion of their free allocation rights to the Company at the Purchase Price.

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the market will only be able to choose among: (i) receiving their remuneration in newly-issued paid-up shares of the Company; or (ii) transferring all or a portion of their free allocation rights in the market. Only the owners of Iberdrola shares on 12 January 2018 (record date) will be entitled to receive the Interim Dividend or to transfer all or a portion of their free allocation rights to the Company at the Purchase Price in the context of this new edition of the “Iberdrola Flexible Dividend” system.

The shareholders may combine the Flexible Remuneration Options based on their needs. As mentioned above, the alternatives available under the “Iberdrola Flexible Dividend” system are subject to a different tax treatment.

To choose between the Flexible Remuneration Options that Iberdrola is offering on occasion of this edition of the “Iberdrola Flexible Dividend” remuneration system, 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 paragraphs (that is, during the Common Election Period or during the trading period of the free allocation rights, depending on the option they prefer). Failure to make an express election during the periods mentioned in this section will cause the holder of free allocation rights to receive newly-issued completely paid-up shares of the Company<sup>10 11</sup>.

Iberdrola will not be liable as a result of the elections made by the holders of the free allocation rights (nor as a result of the failure to make an express election, in the absence of an express notice by the aforementioned holders).

### **3.3. Expenses and fees of the Capital Increase**

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 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

<sup>10</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>11</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.



“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 yesterday, 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 9 January 2018, which will be within the minimum of 898 million euros and the maximum of 947 million euros.

It is expected that the maximum number of new shares to be issued will be publicly disclosed on 9 January 2018 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>12</sup>. Likewise, it will be understood that shareholders opting to receive the Interim Dividend during the Common Election Period expressly waive all or part (as may be the case) of the free allocation rights to which they are entitled<sup>13</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 (*hecho relevante*) 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, of the purchase price of each free allocation right corresponding to the irrevocable purchase commitment made by Iberdrola and of the gross amount of the Interim Dividend per share.

#### **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 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.

#### **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 2016, which was audited by “Ernst & Young, S.L.” and approved by the General Shareholders’ Meeting of Iberdrola held on 31 March 2017, under item number one on the agenda.

The Capital Increase will be carried out in full with a charge to the reserve called “RDL Update 7/1996” (“*Actualización RDL 7/1996*”), which, as of 31 December 2016, amounted to 368,437,883.24 euros. Likewise, it is expressly stated that, as of the date hereof, the aforementioned reserve amounts to 236,868,383.24 euros, and that the difference between the two amounts (131,569,500 euros) is solely due to the partial allocation of such balance to: (i) pay up an amount of 73,433,250 euros for 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 8 April 2016 under section B of item six of its agenda, which was formalised on 25 January 2017 before the notary of

<sup>12</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.

<sup>13</sup> Likewise, those shareholders or holders of free allocation rights who decide to receive their remuneration through any of the remaining applicable Flexible Remuneration Options will not be entitled to choose to receive the Interim Dividend.

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Bilbao and of the Illustrious College of the Basque Country Mr. Ramón Múgica Alcorta under number 113 of his protocol, and registered with the Commercial Registry of Biscay; and (ii) pay up an amount of 58,136,250 euros for the implementation of the first paid-up capital increase approved by the shareholders acting at the General Shareholders' Meeting held on 31 March 2017 under item twelve of its agenda, which was formalised on 21 July 2017 before the notary of the Illustrious College of Madrid, Mr. Miguel Ruiz-Gallardón García de la Rasilla, under number 3,310 of his protocol, and registered with 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 those 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 *Spanish Companies Act (Ley de Sociedades de Capital)*, 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 Spanish 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 elect to receive newly-issued shares as a consequence of the Capital Increase will not be taxed for such election 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 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, 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

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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, 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 (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, if applicable, 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 tax withholdings and taxation. The sum obtained by transferring to the Company the free allocation rights purchased in the market will in no case benefit from the mechanisms provided under the CIT regulations in order to avoid double taxation.

Finally, the Company's shareholders who elect to receive the Interim Dividend (which gross amount per share will be equal to the guaranteed fixed price corresponding to the irrevocable purchase commitment), under the terms and conditions established in this memorandum, will have, in respect of this payment, the tax treatment applicable to cash dividends and, therefore, this income will be subject to the relevant withholding and taxation.

It should be considered 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 "Iberdrola Flexible Dividend" remuneration system 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 memorandum, 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 remuneration 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.

## **5. SUPPLEMENTS TO THIS INFORMATION MEMORANDUM**

As indicated in the preceding sections, part of the information regarding the implementation of the Capital Increase is not available on the date of issuance of this memorandum. In particular:

- The fulfilment of the requirements set out in article 277 of the *Spanish Companies Act (Ley de Sociedades de Capital)* regarding the payment of the Interim Dividend is expected to take place during

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December 2017. This circumstance will be published by means of the corresponding notice of significant event (*hecho relevante*)<sup>14</sup>.

- The market value of reference of the Capital Increase, the number of rights required to receive one share, the final price of the commitment by Iberdrola to purchase each free allocation right pursuant to the referred commitment and the gross amount of the Interim Dividend per share will be published by means of a supplement to this memorandum which will be made available to the public through a notice of significant event (*hecho relevante*) which is expected to occur on 9 January 2018.
- 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 the corresponding notice of significant event (*hecho relevante*).

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 7 November 2017.

Iberdrola, S.A.

By

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Julián Martínez-Simancas Sánchez  
Secretary to the Board of Directors

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<sup>14</sup> It is expected that this notice of significant event (*hecho relevante*) will be published on or around December 19, 2017.

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## 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, OF THE PURCHASE PRICE AND OF THE GROSS INTERIM DIVIDEND PER SHARE

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 as a result of the Capital Increase, of the number of free allocation rights required for the allocation of one new share, of the Purchase Price under the commitment made by Iberdrola and of the gross amount of the Interim Dividend per share<sup>15</sup>.

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 6,317,515,000 (in principle, number of shares of Iberdrola as of the date of implementation of the Capital Increase).
- It is assumed that the market value of reference of the Capital Increase is 908,000,000 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 6.896 euros is assumed (solely for purposes of this example, a listing price per share of Iberdrola as of the close of trading on 2 November 2017 has been used).

Therefore:

Provisional num. shrs. = Market value of reference of the Capital Increase / ListPri = 908,000,000 / 6.896 = 131,670,533.6426910 ≈ 131,670,533 (rounded down)

Num. rights = TNShrs / Provisional num. shrs. = 6,317,515,000 / 131,670,533 = 47.9797177 ≈ 48 (rounded up)

NNS = TNShrs / Num. rights = 6,317,515,000 / 48 = 131,614,895.8333330 ≈ 131,614,895 (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 131,614,895, (ii) the maximum nominal amount of increased capital in the implementation of the Capital Increase would come to 98,711,171.25 euros (131,614,895 x 0.75), and (iii) 48 free allocation rights (or existing shares) would be required for the allocation of a new share<sup>16</sup>.

The Purchase Price (and, consequently, the gross amount of the Interim Dividend per share) 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 = 6.896 / (48 + 1) = 0.14073469387755 euros ≈ 0.141 euros (rounded to the closest one-thousandth of a euro). This amount is equal to the gross Interim Dividend per share.

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<sup>15</sup> In this sample calculation, it is assumed that the requirements set out in article 277 of the *Spanish Companies Act (Ley de Sociedades de Capital)* for the payment of the Interim Dividend have been fulfilled.

<sup>16</sup> In this sample calculation, Iberdrola should waive 40 free allocation rights corresponding to 40 shares of the Company for the number of new shares to be issued to be a whole number.

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