

General Shareholders' Meeting

2 April 2020

Report of the Board of Directors
Proposed Amendment of the *By-Laws*
Included in Item Number Eight on the
Agenda



REPORT OF THE BOARD OF DIRECTORS OF IBERDROLA, S.A. REGARDING THE PROPOSED AMENDMENT OF THE *BY-LAWS* IN ORDER TO REFLECT THE AMOUNT OF SHARE CAPITAL RESULTING FROM THE REDUCTION THEREOF BY MEANS OF THE RETIREMENT OF OWN SHARES INCLUDED IN ITEM NUMBER EIGHT ON THE AGENDA FOR THE 2020 GENERAL SHAREHOLDERS' MEETING

1. Object of the Report.

This report has been prepared by the Board of Directors of IBERDROLA, S.A. ("**Iberdrola**" or the "**Company**") pursuant to the provisions of sections 286 and 318 of the *Companies Act (Ley de Sociedades de Capital)*, in order to provide a rationale for the proposed amendment of the *By-Laws* consisting of reflecting the amount of share capital resulting from the reduction thereof by means of the retirement of own shares (the "**Reduction in Capital**"), the approval of which is proposed under item number eight on the agenda.

Pursuant to such sections of the *Companies Act*, to the extent that the Reduction in Capital necessarily entails the amendment of the article of the *By-Laws* setting the share capital, the Board of Directors has prepared this report setting forth the purpose of and rationale for the proposal being submitted to the shareholders at the General Shareholders' Meeting.

Based on the distinct nature of the amendments of the *By-Laws* proposed under items six and seven on the agenda, which are intended to re-define the concepts of corporate interest and social dividend as well as to give recognition in the *By-Laws* to the Compliance System and to the Company's Compliance Unit, these proposed amendments have been the subject of a joint but separate report of the Board of Directors.

2. Purpose of and Rationale for the Proposal.

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

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

This avoids dilution of the shareholders' equity interest and contributes to maintaining the profit per share of the Company, all of which benefits the shareholders.

Therefore, the Board of Directors has resolved to propose to the shareholders at the General Shareholders' Meeting a reduction in capital that offsets the effects of the increases in share capital by means of scrip issues approved by the shareholders at the General Shareholders' Meeting held

on 29 March 2019 under items number eight and nine on the agenda¹ and which were implemented in July 2019 and January 2020, respectively. If the Reduction in Capital is ultimately approved, it is provided that the Company's own shares in treasury will be retired, with a corresponding reduction in share capital by an amount equal to the nominal value of such shares, and that the number of outstanding shares will be established at the target figure of approximately 6,240 million.

A portion of such own shares are held in treasury as at 24 February 2020, while the rest of the shares to be retired will be acquired as a result of the settlement of the derivatives acquired by the Company prior to 24 February 2020 (the "**Derivatives**"), as well as within the framework of a share buy-back programme approved by the Board of Directors at its meeting of 24 February 2020 under (a) *Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse and Commission Delegated Regulation (EU) No 2016/1052 of 8 March 2016 supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the conditions applicable to buy-back programmes and stabilisation measures*, and (b) the authorisation granted by the shareholders at the General Shareholders' Meeting held on 13 April 2018 under item twelve on the agenda.

3. Main Terms and Conditions of the Reduction in Capital

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

- (i) 76,293,207.75 euros, through the retirement of 101,724,277 existing own shares held in treasury as at 24 February 2020, each with a nominal value of 0.75 euro, acquired under the authorisation granted by the shareholders at the General Shareholders' Meeting held on 13 April 2018 under item twelve on the agenda and within the limits established by section 146 and related provisions and section 509 of the *Companies Act* (the "**Existing Treasury Shares**"); and
- (ii) the aggregate nominal value, up to the maximum amount of 83,900,792.25 euros, of the own shares of the Company, each with a nominal value of 0.75 euro, up to a limit of 111,867,723 own shares (the "**Overall Limit**"), that are acquired for their retirement both through the settlement, no later than 12 June 2020, of the Derivatives, and under the programme for the buy-back of up to 111,867,723 own shares that will be in effect until no later than 12 June 2020 and that was approved by the Board of Directors on 24 February 2020 (the "**Buy-back Programme**"), under (a) the provisions of *Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse and of Commission Delegated Regulation (EU) No 2016/1052 of 8 March 2016 supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the conditions applicable to buy-back programmes and stabilisation measures*, and (b) the authorisation granted by the shareholders at the General Shareholders' Meeting held on 13 April 2018 under item twelve on the agenda.

Consequently, the maximum amount of the Reduction in Capital would be 160,194,000 euros, through the retirement of a maximum of 213,592,000 own shares, each with a nominal value of 0.75 euro, representing not more than 3.31% of the share capital on the date of preparation of this report (said percentage likely being the same on the date of adoption of the resolution herein proposed to the shareholders at the General Shareholders' Meeting). If the resolution regarding the Reduction in Capital covered by this report is adopted, the final amount of the reduction would be set by the Company's Board of Directors (with express power of substitution) depending upon the final number

¹ And under the section entitled "*Common terms and conditions of the dividend distribution and increase in capital resolutions proposed under items seven, eight and nine on the agenda, pursuant to which the "Iberdrola Flexible Remuneration" optional dividend system is implemented*".

of shares acquired both by virtue of the settlement of the Derivatives and within the framework of the Buy-back Programme, provided they do not exceed the aforementioned Overall Limit. If the Overall Limit is exceeded, there will be a retirement of all of the shares acquired pursuant to the Buy-back Programme, as well as of the number of shares acquired as a result of the settlement of the Derivatives equal to the difference between the Overall Limit and the shares acquired in implementation of the Buy-back Programme. In this latter case, the remaining treasury shares acquired as a result of the settlement of the Derivatives will not be retired on occasion of the Reduction in Capital.

In addition, if the aforementioned resolution regarding the Reduction in Capital is approved and once the final amount of the reduction has been determined, article 10 of the *By-Laws* establishing the share capital would be amended such that it reflects the new amount of share capital and the new number of outstanding shares (after deducting the number of own shares proposed to be retired).

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

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

It is also proposed that the shareholders at the General Shareholders' Meeting ratify the acts performed to date by the Board of Directors in connection with the Buy-back Programme approved on 24 February 2020 and that they authorise the Board of Directors to implement the Reduction in Capital resolution (with express power of substitution) within a period not to exceed one month following the expiration of the Buy-back Programme, with authority to establish any terms that are not expressly set forth in the resolution approving the reduction or that are a consequence thereof and to approve the resolutions, publish the announcements, take the steps, and execute the public or private documents that may be required or appropriate for the successful implementation of the Reduction in Capital.

Specifically, it is proposed to authorise the Board of Directors (with express power of substitution) to take the steps and carry out the formalities required to cause the exclusion from trading of the retired shares from the Spanish Stock Exchanges and the removal thereof from the book-entry registers once the resolution regarding the Reduction in Capital has been implemented.

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

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

“ITEM NUMBER EIGHT ON THE AGENDA

Amendment of article 10 of the By-Laws in order to reflect the amount of share capital resulting from the reduction thereof by means of the retirement of a maximum of 213,592,000 own shares (3.31% of the share capital).

RESOLUTION

- 1. Reduction in Capital by means of the Retirement of Both Currently Existing Own Shares Held in Treasury and of Own Shares to Be Acquired through the Settlement of Derivatives Acquired prior to the Formulation of this Proposed Resolution through a Buy-back Programme for the Retirement thereof.**

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

- i. 76,293,207.75 euros, through the retirement of 101,724,277 existing own shares held in treasury as at 24 February 2020, each with a nominal value of 0.75 euro, acquired under the authorisation granted by the shareholders at the General Shareholders’ Meeting held on 13 April 2018 under item twelve on the agenda and within the limits established by section 146 and related provisions and section 509 of the Companies Act (the “**Existing Treasury Shares**”); and*
- ii. the aggregate nominal value, up to the maximum amount of 83,900,792.25 euros, of the own shares of the Company, each with a nominal value of 0.75 euro, up to a limit of 111,867,723 own shares (the “**Overall Limit**”), that are acquired for their retirement both through the settlement, no later than 12 June 2020, of the derivatives acquired by the Company prior to 24 February 2020 (the “**Derivatives**”) and under the programme for the buy-back of up to 111,867,723 own shares that will be in effect until no later than 12 June 2020 and that was approved by the Board of Directors on 24 February 2020 (the “**Buy-back Programme**”), under (a) the provisions of Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse and of Commission Delegated Regulation (EU) No 2016/1052 of 8 March 2016 supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the conditions applicable to buy-back programmes and stabilisation measures, and (b) the authorisation granted by the shareholders at the General Shareholders’ Meeting held on 13 April 2018 under item twelve on the agenda.*

Consequently, the maximum amount of the reduction in capital (the “**Reduction in Capital**”) shall be 160,194,000 euros, through the retirement of a maximum of 213,592,000 own shares, each with a nominal value of 0.75 euro, representing not more than 3.31% of the share capital at the time this resolution is approved.

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

Once the final figure of the Reduction in Capital has been determined, article 10 of the By-Laws setting the share capital will be amended such that it reflects the new amount of share capital and the new number of outstanding shares.

2. Procedure for Acquisition of the Shares that Will Be Retired under the Buy-back Programme.

Without prejudice to the Existing Treasury Shares, and in accordance with the resolution approved by the Board of Directors at its meeting of 24 February 2020, the Company may acquire a maximum number of 111,867,723 own shares by way of implementation of the Buy-back Programme for all of the shareholders and for their retirement, each of such own shares having a nominal value of 0.75 euro and representing a maximum of 1.733% of the share capital of the Company on the date of approval of this resolution, which number is within the legal limit and the limit provided for in the authorisation for the acquisition of own shares granted by the shareholders at the General Shareholders' Meeting held on 13 April 2018 under item twelve on the agenda.

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

In accordance with the foregoing, pursuant to section 340.3 of the Companies Act, if the Company fails to acquire the maximum number of 111,867,723 own shares, each with a nominal value of 0.75 euro, both through the settlement, no later than 12 June 2020, of the Derivatives and under the Buy-back Programme, it shall be understood that the share capital is reduced by the sum of (i) the amount corresponding to the Existing Treasury Shares, and (ii) the amount corresponding to the sum of the shares effectively acquired within the framework of the Buy-back Programme and pursuant to the settlement of the Derivatives no later than 12 June 2020.

3. Procedure for the Reduction and Reserves with a Charge to which It Is Carried Out.

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

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

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

4. Ratification of the Resolutions of the Board of Directors.

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

5. Delegation of Powers.

To delegate to the Board of Directors, with express power of substitution, the powers necessary to implement this resolution within a period not to exceed one month following the expiration of the Buy-back Programme, with authority to establish any terms that are not expressly set forth in this resolution or that are a consequence hereof. In particular, and by way of example only, the following powers are delegated to the Board of Directors, with express power of substitution:

- (a) To modify the maximum number of shares that may be bought back by the Company, within the limits set in this resolution and by law, as well as any other terms and conditions of the Buy-back Programme, all in accordance with the provisions of Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse and in Commission Delegated Regulation (EU) No 2016/1052 of 8 March 2016 supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the conditions applicable to buy-back programmes and stabilisation measures.
- (b) To perform any acts, make any statements or take any steps that may be required in connection with the public communication of the Buy-back Programme and with the formalities, if any, that must be carried out at Spanish regulatory agencies and Stock Exchanges; negotiate, agree to and sign all contracts, agreements, commitments or instructions that may be necessary or appropriate for the successful completion of the Buy-back Programme.
- (c) To cause all announcements required by law to be published, acquire the shares under the Buy-back Programme and retire them within one month following the expiration of the Buy-back Programme, in accordance with the terms approved herein.
- (d) To declare the approved Reduction in Capital to be completed and implemented, establishing, for such purpose, the final number of shares that must be retired and, as a result, the amount by which the share capital of the Company must be reduced in accordance with the rules specified in this resolution.
- (e) To set the final amount of the Reduction in Capital based on the provisions of this resolution and establish any other terms that may be required to implement it, all in accordance with the terms and conditions set forth above.
- (f) To amend article 10 of the By-Laws setting the share capital such that it reflects the amount of share capital and the number of outstanding shares resulting from the implementation of the Reduction in Capital.
- (g) To take such steps and carry out such formalities as may be required and submit such documents as may be necessary to the competent bodies such that, once the shares of the Company have been retired and the notarial instrument for the Reduction in Capital has been executed and registered with the Commercial Registry, the retired shares are delisted from the Bilbao, Madrid, Barcelona and Valencia Stock Exchanges, through the Automated Quotation System (Continuous Market), and they are removed from the corresponding book-entry records of "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U." (IBERCLEAR).
- (h) To perform all acts that may be necessary or appropriate to implement and formalise the Reduction in Capital before any Spanish or foreign public or private entities and agencies, including acts for purposes of representation, supplementation or correction of defects or omissions that might prevent or hinder the full effectiveness of the foregoing resolutions.

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

In Bilbao, on 24 February 2020