

# General Shareholders' Meeting

## 2 April 2020

**Report of the Board of Directors**  
Proposed Authorisation to Increase  
Share Capital |



EVENTO  
SOSTENIBLE



IBERDROLA

## REPORT OF THE BOARD OF DIRECTORS OF IBERDROLA, S.A. REGARDING THE PROPOSED AUTHORISATION TO INCREASE SHARE CAPITAL INCLUDED IN ITEM NUMBER TWENTY-TWO 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, 297.1.b) and 506 of the *Companies Act* in order to provide a rationale for the proposal regarding authorisation to the Board of Directors (with express power of substitution) to increase the share capital, within a term of five years, by up to one-half of the share capital existing at the time of the authorisation, on one or more occasions and at the time and in the amount it deems appropriate, with the power to exclude pre-emptive rights as provided in section 506 of the *Companies Act*.

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

Pursuant to section 297.1.b) of the *Companies Act*, the shareholders at the General Shareholders' Meeting may, by complying with the requirements established for the amendment of the *By-Laws*, delegate to the Board of Directors the power to resolve, on one or more occasions, to increase the share capital up to a given amount, at the time and in the amount the Board decides. The aforementioned legal provision establishes that the aggregate amount of such capital increases may under no circumstances exceed one-half of the share capital of the Company at the time of the authorisation and that they must be made by means of cash contributions within a maximum period of five years from the date that the resolution is adopted by the shareholders at the General Shareholders' Meeting.

The Board of Directors believes that the proposed resolution submitted for approval by the shareholders at the General Shareholders' Meeting is justified by the advisability of making use of the mechanism contemplated by current corporate laws and regulations whereby this body may approve one or more increases in share capital without the need to call and hold a new General Shareholders' Meeting for such purpose. Thus, the aim is to give the Company's Board of Directors greater responsiveness to operate in an environment in which the success of a strategic initiative frequently depends on the ability to deal with it quickly, without incurring the delays and costs associated with holding a General Shareholders' Meeting.

In addition, section 506 of the *Companies Act* provides that, at listed companies, when the shareholders at the General Shareholders' Meeting delegate the power to increase the share capital as permitted by section 297.1.b) of said Act, the Board of Directors may also be given the power to exclude pre-emptive rights when the circumstances described in such section are present.

In this case, the par value of the shares to be issued plus any share premium must be equal to the fair value of the shares of the Company as set forth in the report to be prepared, at the request of the Board of Directors, by a statutory auditor other than the statutory auditor of the Company, appointed for such purpose by the Commercial Registry on each occasion that the Board exercises the power to exclude pre-emptive rights.

The Board of Directors believes that the power to exclude pre-emptive rights, as a supplement to the power to increase share capital, is justified for several reasons. First, it tends to entail a relative reduction in the costs associated with the transaction (including, in particular, the fees of the financial institutions participating in the issuance) as compared to an issuance with pre-emptive rights. Second, it appreciably increases the promptness of action and responsiveness of the Board of Directors, such that the Company may thus take advantage of the times when market conditions are more favourable.

In addition, the exclusion of pre-emptive rights may allow the Company to optimise the financial conditions of the transaction and, in particular, the issue price of the new shares, as it may bring it closer to the expectations of the qualified investors to whom such capital increases are customarily addressed, while reducing execution risks through a lower exposure of the transaction to changes in market conditions.

Finally, it mitigates the effect of distortion in the trading of the Company's shares during the issuance period, which is normally shorter than in the case of an issuance with pre-emptive rights.

In sum, it is a device the use of which in a specific capital increase transaction can be critical to its success and the exclusion of which might entail the loss of manoeuvring capacity and a significant advantage vis-à-vis other companies competing with Iberdrola in raising funds on primary markets.

In any event, the ability to exclude pre-emptive rights is a power that the shareholders acting at the General Shareholders' Meeting delegate to the Board of Directors, and it is within the purview of the Board to resolve in each case, in view of the specific circumstances and the corporate interest and in compliance with legal requirements, whether or not such rights should effectively be excluded.

In the event that the Board of Directors resolves to use the power to exclude pre-emptive rights in connection with a specific capital increase that it may ultimately approve in exercise of the authorisation granted by the shareholders at the General Shareholders' Meeting, a directors' report and a statutory auditor's report shall be prepared as required by section 308 of the *Companies Act*, which shall be made available to the shareholders on the corporate website of the Company and reported to the shareholders at the first General Shareholders' Meeting held after the increase in capital resolution is approved.

On the other hand, pursuant to the provisions of article 6.3 of the Company's *Policy regarding Communication and Contacts with Shareholders, Institutional Investors and Proxy Advisors* and in view of the best internationally recognised corporate governance practices and the recommendations set out in the guides of the principal proxy advisors, it is proposed that the authorisation to totally or partially exclude pre-emptive rights in increases in capital carried out pursuant to this authorisation and to the authorisation contemplated in item twenty-three on the agenda be limited, in the aggregate, to 10% of the Company's share capital on the date of adoption of the resolution by the shareholders at the General Shareholders' Meeting. Thus, it is proposed to reduce to one-half –in comparison with the limit approved at the last General Shareholders' Meeting at which such delegations were approved and the limit set forth in the *Policy regarding Communication and Contacts with Shareholders, Institutional Investors and Proxy Advisors*– the maximum percentage to which the authorisations of the Board of Directors to increase share capital excluding pre-emptive rights are limited.

The proposal also contemplates making application, when appropriate, for listing of the shares to be issued by the Company under the delegation of powers on Spanish or foreign, official or unofficial, organised or other secondary markets, authorising the Board of Directors to carry out all acts and formalities that may be required for admission to listing with the appropriate authorities of the various Spanish or foreign securities markets.

Finally, all the powers to be granted to the Board of Directors if the resolution proposed herein is adopted shall be granted with express power of substitution, so as to further contribute to achieving the purpose of expediting the proposed transactions.

### **3. 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 TWENTY-TWO ON THE AGENDA**

**Authorisation to increase the share capital upon the terms and within the limits set out by law, with the power to exclude pre-emptive rights, limited to a maximum overall amount of 10% of the share capital.**

### **RESOLUTION**

*To authorise the Board of Directors to increase the share capital on one or more occasions and at any time upon the terms and within the limits set out in section 297.1.b) of the Companies Act, i.e. within a term of five years from the date of approval of this resolution and by up to one-half of the current share capital.*

*Increases in share capital under this authorisation shall be carried out through the issuance and flotation of new shares –with or without a premium– the consideration for which shall be cash contributions.*

*In each increase, the Board of Directors shall decide whether the new shares to be issued are ordinary, preferred, redeemable, non-voting or any other kinds of shares among those permitted by law.*

*As to all matters not otherwise contemplated, the Board of Directors may establish the terms and conditions of the increases in share capital and the characteristics of the shares, and may also freely offer the new shares that are not subscribed for within the period or periods for the exercise of pre-emptive rights. The Board of Directors may also resolve that, in the event of incomplete subscription, the share capital shall be increased only by the amount of the subscriptions made, and amend the article of the By-Laws relating to share capital.*

*In connection with the increases in share capital that may be carried out under this authorisation, the Board of Directors is authorised to totally or partially exclude pre-emptive rights as permitted by section 506 of the Companies Act, provided, however, that such power shall be limited to increases in share capital carried out pursuant to this authorisation and to the authorisation contemplated in item number twenty-three on the agenda up to a maximum amount equal, in the aggregate, to 10% of the share capital on the date this resolution is adopted.*

*The Company shall, when appropriate, make application for listing of the shares issued under this authorisation on Spanish or foreign, official or unofficial, organised or other secondary markets, and the Board of Directors shall be authorised to carry out all acts and formalities that may be required for admission to listing with the appropriate authorities of the various Spanish or foreign securities markets.*

*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