

General Shareholders' Meeting

2 April 2020

Report of the Board of Directors

Proposed Authorisation to
Issue Convertible and/or
Exchangeable Debentures
and Bonds



REPORT OF THE BOARD OF DIRECTORS OF IBERDROLA, S.A. REGARDING THE PROPOSED AUTHORISATION TO ISSUE DEBENTURES AND BONDS CONVERTIBLE FOR AND/OR EXCHANGEABLE INTO SHARES AND WARRANTS INCLUDED IN ITEM NUMBER TWENTY-THREE ON THE AGENDA FOR THE 2020 GENERAL SHAREHOLDERS' MEETING

1. Object of the Report.

This report has been drawn up by the Board of Directors of IBERDROLA, S.A. (hereinafter, “**Iberdrola**” or the “**Company**”) pursuant to the provisions of sections 511 of the *Companies Act (Ley de Sociedades de Capital)* and 319 of the *Regulations of the Commercial Registry (Reglamento del Registro Mercantil)*, applying the provisions of section 297.1.b) of the *Companies Act* by analogy, to provide a rationale for the proposal regarding authorisation to the Board of Directors (with express power of substitution) such that it may, within a term of five years, issue debentures and bonds that are convertible into and/or exchangeable for shares of the Company or of other companies within or outside of the group of companies of which the Company is the controlling entity, within the meaning established by law (the “**Group**”) and warrants on newly-issued shares or outstanding shares of the Company or of other companies within or outside of its Group.

2. Purpose of and Rationale for the Proposals.

The Board of Directors regards it as highly desirable to have the delegated powers allowed by current legislation in order to be at all times in a position to raise, on the primary securities markets, the funds that are necessary to satisfy the corporate interest.

The purpose of the authorisation to the Board is to provide the Company's decision-making body with the manoeuvrability and responsiveness required by the competitive environment in which the Company operates, in which the success of a strategic initiative or a financial transaction often depends on the possibility of dealing with it quickly, without incurring the delays and costs that inevitably ensue from the call to and holding of a General Shareholders' Meeting. The Board of Directors of the Company will thus be empowered, if necessary, to raise a significant volume of funds within a short period of time. This flexibility and agility is especially desirable in the current economic environment, where changing market circumstances make it advisable for the Board of Directors to have the necessary means to have recourse, at any time, to the different sources of financing available, in order to obtain the most advantageous financial terms.

The issuance of debentures that are convertible into and/or exchangeable for shares is one of the instruments for the financing of companies by raising third-party funds. These securities provide an advantage to both Iberdrola and investors in that they offer investors the possibility of converting their receivables from the Company into shares of the Company, receiving a potential return in excess of that offered by other debt instruments. As for Iberdrola, they may allow it to increase its equity. In addition, the convertible or exchangeable nature thereof means that the coupon on these debentures is generally lower than the cost of simple fixed-income securities and of bank financing, because the interest rate of the debentures reflects the value of the investors' option to convert them into shares of the Company.

For such purpose, pursuant to the provisions of section 319 of the Regulations of the Commercial Registry and of the general rules regarding issuance of debentures, and in accordance with article 17.1.p) of the *By-Laws* which gives the shareholders at the General Shareholders' Meeting the ability to delegate to the Board of Directors the power to issue the negotiable securities covered by the proposal, the resolution proposed under item twenty-three of the agenda is submitted to the shareholders for consideration at the General Shareholders' Meeting.

The proposal specifically grants the Board of Directors the power to issue, on one or more occasions, convertible and/or exchangeable debentures and bonds and warrants entitling the holders thereof to subscribe for newly-issued shares or to acquire shares of the Company or other companies that may then be outstanding and to resolve, when appropriate, to effect the increase in share capital required to accommodate the conversion or the exercise of the option to subscribe for the shares, provided such increase, individually or added to any increases resolved to be carried out in reliance on other authorisations proposed by the Board of Directors to the shareholders at a General Shareholders' Meeting pursuant to the provisions of section 297.1.b) of the *Companies Act*, does not exceed one-half of the Company's share capital at the time of the authorisation. The amount of the increases in capital, if any, carried out to accommodate the conversion or exchange of debentures, warrants or other securities pursuant to this authorisation will be deemed to be included within the limit available at any time to increase the share capital.

The proposed resolution submitted to the shareholders for approval at the General Shareholders' Meeting also establishes the standards to determine the basis for and terms and conditions applicable to the conversion and/or exchange, although it entrusts to the Board of Directors, in the event that it resolves to use this authorisation, the specific determination of some of such terms and conditions in respect of each specific issuance within the limits and in accordance with the standards established by the shareholders at the General Shareholders' Meeting. The Board of Directors shall thus be responsible for, among other things, determining the specific ratio for conversion and, for such purpose, upon approving an issuance of convertible securities in reliance on the authorisation granted by the shareholders at the General Shareholders' Meeting, it shall prepare a report describing the specific basis for and terms and conditions applicable to the conversion, on which the corresponding report of the statutory auditors mentioned in sections 414 and 511 of the *Companies Act* shall be prepared.

Specifically, the proposed resolution submitted by the Board of Directors for approval by the shareholders at the General Shareholders' Meeting provides that, for purposes of the conversion and/or exchange, the securities issued pursuant to the authorisation shall be valued at their nominal amount and the shares at the fixed (determined or determinable) or variable ratio established in the respective resolution of the Board of Directors on the date(s) indicated in the resolution itself, based on the listing price of the Company's shares on the date(s) or during the period(s) used as a reference in the resolution.

In any event, the value may not be less than the average exchange ratio for the Company's shares on the Continuous Market of the Bilbao, Madrid, Barcelona and Valencia Stock Exchanges, through the Automated Quotation System (Continuous Market) in accordance with closing listing prices during a period to be set by the Board of Directors and which shall not be greater than three months or less than five calendar days prior to the date of approval by the Board of Directors of the relevant resolution providing for the issuance of the fixed-income securities or prior to the date of payment for the securities by the subscribers. A premium or discount, as appropriate, on such price per share may also be set.

It may also be resolved that the convertible and/or exchangeable fixed-income securities be issued at a variable conversion and/or exchange ratio. In such case, the price of the shares for purposes of the conversion and/or exchange shall be the arithmetic mean of the closing prices of the shares of the Company on the Bilbao, Madrid, Barcelona and Valencia Stock Exchanges, through the Automated Quotation System (Continuous Market) during a period to be determined by the Board of Directors, which shall not be greater than three months or less than five calendar days prior to the date of conversion and/or exchange. A premium or discount, as appropriate, may also be set on such price per share in this case.

In any of the cases described in the two preceding paragraphs, it is provided that, if a discount on the price per share is established, such discount may not exceed 25%.

The Board of Directors thus considers it is given an adequate degree of flexibility to set the value of the shares for purposes of the conversion and/or exchange on the basis of market conditions and other applicable considerations.

Similar standards shall be used, with any changes that may be required and to the extent applicable, for the issuance of debentures (or warrants) exchangeable for shares of other companies (in this case, any references to the Spanish Stock Exchanges shall be deemed to be references to the markets where such shares are listed).

In the case of warrants on newly-issued shares, the rules on convertible debentures set forth in the proposed resolution shall apply, to the extent that they are consistent with the nature thereof.

Furthermore, and as provided in section 415.2 of the *Companies Act*, the resolution authorising the Board of Directors to issue convertible securities provides, for purposes of the conversion thereof, that the nominal value of the debentures may not be less than the par value of the shares. Convertible debentures may likewise not be issued for an amount lower than the nominal value thereof.

In addition, it is stated for the record that the authorisation to issue convertible and/or exchangeable securities as well as warrants or similar securities that may carry the right, directly or indirectly, to subscribe for or acquire shares of the Company includes, pursuant to the provisions of section 511 of the *Companies Act*, the grant to the Board of Directors of the power to totally or partially exclude the pre-emptive rights of the shareholders when so required to raise funds on the markets or otherwise justified by the corporate interest.

The Board of Directors believes that the exclusion of pre-emptive rights allows for a significant reduction in the financial cost and the costs associated with the transaction (including, in particular, the fees of the financial institutions participating in the issuance), as compared to an issue with pre-emptive rights, while causing less distortion in the trading of the shares of the Company during the issuance period.

In sum, the use of this tool within the framework of a specific issue could be crucial to the success thereof, and a failure to provide it could entail the loss of a significant advantage over companies competing with Iberdrola in raising funds on the primary markets.

In any event, pursuant to the provisions of section 511 of the *Companies Act*, in the event that the Board of Directors decides to exclude the pre-emptive rights of the shareholders in connection with a specific issue, it must, when adopting the respective resolution to effect the issue, issue a report specifying the reasons of corporate interest that justify such measure, on which there shall also be prepared the corresponding report of a statutory auditor appointed by the Commercial Registry other than the Company's auditor. This report must contain a technical opinion regarding the reasonableness of the data contained in the Board of Directors' report and regarding the fairness of the conversion ratio and, if applicable, of the adjustment formulas to offset a possible dilution of the financial interest of the shareholders.

In case of the exercise of such power to totally or partially exclude pre-emptive rights, pursuant to the provisions of section 511 of the *Companies Act*, the two reports mentioned in the preceding paragraph shall be made available to the shareholders on the Company's corporate website and disclosed to them at the first General Shareholders' Meeting held after the capital increase resolution is adopted.

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, 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-two on the agenda is limited, in the aggregate, to 10% of the Company's share capital at the time 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 convertible and/or exchangeable debentures and/or bonds or warrants to be issued by the Company pursuant to the authorisation 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.

Furthermore, it may sometimes be desirable to issue the securities under this proposed resolution through a subsidiary, with the Company acting as guarantor. Accordingly, it is deemed to be of interest for the shareholders at the General Shareholders' Meeting to authorise the Board of Directors to guarantee, in the name of the Company, within the limits describe above, such new issuances of convertible and/or exchangeable fixed-income securities or warrants as may be made by subsidiaries during the effective period of this resolution, in order that the Board of Directors may be granted the utmost degree of flexibility in structuring the issuances of securities in such manner as may be most appropriate in the circumstances.

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-THREE ON THE AGENDA

Authorisation to issue debentures that are exchangeable for and/or convertible into shares and warrants in the amount of up to 5,000 million euros, for a term of five years, with the power to exclude pre-emptive rights, limited to a maximum overall amount of 10% of the share capital.

RESOLUTION

1. Authorisation to the Board of Directors to Issue Securities.

To authorise the Board of Directors to issue debentures and bonds exchangeable for shares of the Company or of any other company and/or convertible into shares of the Company, as well as warrants (options to subscribe for new shares of the Company or to acquire outstanding shares of the Company or of any other company).

2. Term.

The issuance of the securities covered by the authorisation may be effected on one or more occasions within a maximum period of five years following the date of approval of this resolution.

3. Maximum Amount.

The maximum total amount of the issuance(s) of securities approved under this authorisation shall be up to 5,000 million euros or the equivalent thereof in another currency. For purposes of calculation of the aforementioned limit, in the case of warrants, the sum of the premiums and exercise prices of the warrants on issuances approved under this authorisation shall be taken into account.

4. Scope.

For each issuance, the Board of Directors shall be authorised to, among other things, determine the amount thereof, always within the above-mentioned overall quantitative limit, the place of issuance (in Spain or abroad) and the domestic or foreign currency and, in the case of foreign currency, its equivalence in euros; the specific instrument to be issued, whether bonds or debentures, including subordinated bonds or debentures, warrants (which may in turn be settled by means of the physical delivery of the shares or, if applicable, through the payment of differences in price), or any other form permitted by law; the date or dates of issuance; the number of securities and the nominal value thereof, which, in the case of convertible and/or exchangeable bonds or debentures, shall not be less than the par value of the shares; in the case of warrants and similar securities, the issue price and/or premium, the exercise price (which may be fixed or variable) and the procedure, period, and other terms and conditions applicable to the exercise of the right to subscribe for the underlying shares or, if applicable, the exclusion of such right; the interest rate (whether fixed or variable); the dates and procedures for payment of the coupon; whether the instrument issued is perpetual or subject to repayment and, in the latter case, the period for repayment and the maturity date or dates; guarantees, reimbursement rate, premiums and lots; the form of representation, as securities or book entries; the establishment of anti-dilution provisions; the rules applicable to subscription; the rank of the securities and the subordination clauses, if any; the law applicable to the issuance; the power to make application, where appropriate, for the trading of the securities to be issued on Spanish or foreign, official or unofficial, organised or other secondary markets, subject to the requirements established by applicable regulations in each case and, in general, any other terms of the issuance, as well as, if applicable, the appointment of the security-holders' syndicate representative (comisario) and the approval of the basic rules that are to govern the legal relations between the Company and the syndicate of holders of the securities to be issued in the event that such syndicate must or is decided to be created.

In addition, the Board of Directors is authorised such that, when it deems it appropriate and subject, if applicable, to any appropriate authorisations being secured and to the consent of security-holders coming together at a meeting of the corresponding syndicates of security-holders, it may modify the terms and conditions applicable to the repayment of the fixed-income securities issued as well as the respective period thereof, and the rate of interest, if any, accrued by the securities included in each of the issuances effected under this authorisation.

5. Basis for and Terms and Conditions Applicable to the Conversion and/or Exchange.

In the case of issuance of convertible and/or exchangeable debentures or bonds, and for purposes of determining the basis and terms and conditions for conversion and/or exchange, it is resolved to establish the following standards:

- (a) The securities issued pursuant to this resolution shall be exchangeable for shares of the Company or of any other company and/or convertible into shares of the Company, in accordance with a fixed or variable conversion and/or exchange ratio determined or to be determined, with the Board of Directors being authorised to determine whether they are convertible and/or exchangeable, as well as to determine whether they are mandatorily or voluntarily convertible and/or exchangeable, and if voluntarily, at the option of the holder thereof or of the Company, at the intervals, and during the period established in the resolution providing for the issuance and which, without prejudice to perpetual issuances, may not exceed thirty years from the date of issuance.*

- (b) *In the event that the issue is convertible and/or exchangeable, the Board of Directors may also provide that the issuer reserves the right at any time to elect between conversion into new shares or the exchange thereof for outstanding shares of the Company, with the nature of the shares to be delivered being determined at the time of conversion or exchange, and may also elect to deliver a combination of newly-issued shares and existing shares of the Company and even to pay the difference in cash. In any event, the issuer shall afford equal treatment to all holders of fixed-income securities converting and/or exchanging their securities on the same date.*
- (c) *For purposes of the conversion and/or exchange, the securities shall be valued at the nominal amount thereof and the shares at the fixed exchange ratio established in the resolution of the Board of Directors making use of this authorisation, or at the variable ratio to be determined on the date or dates specified in the resolution of the Board, based on the listing price of the Company's shares on the date(s) or during the period(s) used as a reference in such resolution. In any event, the fixed ratio thus determined may not be less than the average exchange ratio for the shares on the Bilbao, Madrid, Barcelona and Valencia Stock Exchanges, through the Automated Quotation System (Continuous Market), in accordance with closing listing prices during a period to be set by the Board of Directors, which shall not be greater than three months or less than five calendar days prior to the date of approval by the Board of Directors of the resolution providing for the issuance of the fixed-income securities or prior to the date of payment of the securities by the subscribers, at a premium or at a discount, as the case may be, on such price per share, provided, however, that if a discount on the price per share is established, it shall not be greater than 25% of the value of the shares used as a reference as set forth above.*
- (d) *It may also be resolved that the convertible and/or exchangeable fixed-income securities be issued at a variable conversion and/or exchange ratio. In such case, the price of the shares for purposes of the conversion and/or exchange shall be the arithmetic mean of the closing prices of the shares of the Company on the Continuous Market during a period to be determined by the Board of Directors, which shall not be greater than three months or less than five calendar days prior to the date of conversion and/or exchange, at a premium or at a discount, as the case may be, on such price per share. The premium or discount may be different for each date of conversion and/or exchange of each issuance (or for each tranche of an issuance, if any), provided, however, that if a discount is established on the price per share, it shall not be greater than 25% of the value of the shares used as a reference as set forth above.*
- (e) *Whenever a conversion and/or exchange is admissible, any fractional shares to be delivered to the holder of the debentures or bonds shall be rounded downwards by default to the immediately lower integer, and each holder shall receive in cash, if so provided in the terms of issuance, any difference that may arise in such case.*
- (f) *In no event may the value of the shares for purposes of the ratio for conversion of debentures into shares be less than the par value thereof. Furthermore, debentures may not be converted into shares if the nominal value of the former is less than that of the latter.*
- (g) *When approving an issuance of convertible and/or exchangeable debentures or bonds under the authorisation granted in this resolution, the Board of Directors shall issue a directors' report, elaborating on and specifying, on the basis of the standards described above, the basis and terms and conditions for conversion and/or exchange that are specifically applicable to the respective issuance. This report shall be accompanied by the corresponding report of the statutory auditors as provided by law.*

6. *Basis for and Terms and Conditions Applicable to the Exercise of Warrants and Other Similar Securities.*

In the case of issuance of warrants, it is resolved to establish the following standards:

- (a) In the case of issuances of warrants, to which the provisions of the Companies Act on convertible debentures shall apply by analogy, the Board of Directors is authorised to determine, in the broadest terms, in connection with the basis for and terms and conditions applicable to the exercise of such warrants, the standards applicable to the exercise of rights to subscribe for or acquire shares of the Company or of another company, or to a combination thereof, arising from the securities of this kind issued under this authorisation. The standards set forth in section 5 above shall apply to such issuances, with such adjustments as may be necessary in order to bring them into compliance with the legal and financial rules governing these kinds of securities.*
- (b) The preceding standards shall apply, with any changes that may be required and to the extent applicable, to the issuance of fixed-income securities (or warrants) that are exchangeable for shares of other companies. Where appropriate, all references to the Spanish Stock Exchanges shall be deemed made to the markets, if any, on which the respective shares are listed.*

7. Admission to Trading.

The Company shall, when appropriate, make application for the admission to trading of the convertible and/or exchangeable debentures and/or bonds or warrants issued by the Company under this authorisation on Spanish or foreign, official or unofficial, organised or other secondary markets, and the Board of Directors shall be authorised as broadly as required 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.

It is expressly stated for the record that if application is subsequently made for delisting, it shall be made in compliance with the same formalities as the application for listing, to the extent any such formalities are required, and in such case, the interests of the shareholders or debenture-holders opposing or not voting in favour of the resolution shall be safeguarded as provided by applicable law.

In addition, it is expressly stated that the Company undertakes to abide by stock market regulations, whether now existing or as may hereafter be issued, particularly as regards trading, continued trading and removal from trading.

8. Guarantee in Support of Issuances of Convertible and/or Exchangeable Fixed-income Securities or Warrants by Subsidiaries.

The Board of Directors is also authorised to guarantee, on behalf of the Company and within the limits set forth above, new issuances of convertible and/or exchangeable fixed-income securities or warrants carried out by subsidiaries during the effective period of this resolution.

9. Delegation of Powers to the Board of Directors.

This authorisation to the Board of Directors also includes, without limitation, the delegation thereto of the following powers:

- (a) The power of the Board of Directors, pursuant to the provisions of section 511 of the Companies Act, to totally or partially exclude the pre-emptive rights of the shareholders. In any event, if the Board of Directors decides to exclude the pre-emptive rights of the shareholders in connection with any specific issuance of convertible bonds or debentures, warrants and other securities similar thereto that it ultimately decides to effect under this authorisation, the Board shall issue, at the time of approval of the issuance and pursuant to applicable laws and regulations, a report setting forth the specific reasons based on the corporate interest that justify such measure, on which there shall be prepared the corresponding report of a statutory auditor appointed by the Commercial Registry other than the Company's auditor, mentioned in sections 414 and 511 of the Companies Act. Such reports shall be made available to the shareholders and disclosed at*

the first General Shareholders' Meeting that is held following approval of the resolution providing for the issuance.

This power shall in any event be limited to those increases in capital carried out pursuant to this authorisation and to the authorisation contemplated in item number twenty-two on the agenda up to a maximum amount equal, in the aggregate, to 10% of the share capital on the date of adoption of this resolution.

- (b) The power to increase share capital in the amount required to accommodate requests for conversion and/or for exercise of the right to subscribe for shares. Such power may only be exercised to the extent that the Board of Directors, adding the increase in capital effected to accommodate the issuance of convertible debentures, warrants and other similar securities and the other increases in capital approved under authorisations granted by the shareholders at this General Shareholders' Meeting, does not exceed the limit of one-half of the amount of the share capital provided by section 297.1.b) of the Companies Act. This authorisation to increase capital includes the authorisation to issue and float, on one or more occasions, the shares representing such capital that are necessary to carry out the conversion and/or to exercise the right to subscribe for shares, as well as the power to amend the article of the By-Laws relating to the amount of the share capital and, if appropriate, to cancel the portion of such increase in capital that was not required for the conversion and/or the exercise of the right to subscribe for shares.*
- (c) The power to elaborate on and specify the basis for and terms and conditions applicable to the conversion, exchange and/or exercise of the rights to subscribe for and/or acquire shares arising from the securities to be issued, taking into account the standards set out in sections 5 and 6 above.*

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.

10. Revocation of Current Authorisation.

This resolution deprives of effect the authorisation to issue debentures or bonds that are exchangeable for and/or convertible into shares of the Company and warrants on newly-issued or outstanding shares of the Company granted to the Board of Directors by the shareholders at the General Shareholders' Meeting held on 8 April 2016 under item eight on the agenda."

In Bilbao, on 24 February 2020