


IBERDROLA

General Shareholders' Meeting

Report of the Board of Directors
Proposed Authorisation to Issue Simple Debentures / 2017

REPORT SUBMITTED BY THE BOARD OF DIRECTORS OF IBERDROLA, S.A. REGARDING THE PROPOSED AUTHORISATION TO ISSUE SIMPLE DEBENTURES AND OTHER FIXED-INCOME SECURITIES THAT ARE NEITHER EXCHANGEABLE FOR NOR CONVERTIBLE INTO SHARES, AS WELL AS TO GUARANTEE THE ISSUE OF SECURITIES BY THE COMPANY'S SUBSIDIARIES, INCLUDED IN ITEM NUMBER SEVENTEEN ON THE AGENDA FOR THE GENERAL SHAREHOLDERS' MEETING CALLED TO BE HELD ON 31 MARCH AND 1 APRIL 2017, ON FIRST AND SECOND CALL, RESPECTIVELY.

1. Purpose of the Report

This report is prepared by the Board of Directors of IBERDROLA, S.A. ("Iberdrola" or the "Company") in order to provide a rationale for the proposed delegation to the Board of Directors, with express power of substitution, of the power to issue simple debentures or bonds, notes, and other fixed-income securities of a similar nature that are neither exchangeable for nor convertible into shares, and authorisation for the Company to be able to guarantee obligations of all kinds that might arise for its subsidiaries from issues of securities thereby.

2. Rationale for the Proposal

Although under the provisions of the *Companies Act*, the issue of simple debentures or bonds, notes, and other similar fixed-income securities that are neither exchangeable for nor convertible into shares is not a power that must necessarily belong to the shareholders acting at a General Shareholders' Meeting, Iberdrola's *By-Laws* vest the final decision regarding these types of issues to said body, without prejudice to the power of the shareholders, when they so deem appropriate, to delegate the power to issue these kinds of securities to the Board of Directors.

Within this context, the Board of Directors regards it as quite desirable to have this power in order to be at all times in a position to raise the funds needed to properly manage the corporate interests on the primary securities markets, in accordance with customary practices at listed companies (many of which vest this power directly in the Board of Directors).

The purpose of this delegation is to provide the Company with the manoeuvrability and responsiveness required by the current competitive environment, 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.

Thus, the proposal being submitted for approval of the shareholders at the General Shareholders' Meeting is intended to authorise the Board of Directors to raise an appropriate volume of funds within a short period of time, if necessary and taking into account the potential future needs of the Company. The Company thus gains flexibility and agility when financing its activities, thereby facilitating the optimisation of the costs associated with the raising of funds on the markets.

For such purpose, pursuant to the provisions of section 319 of the Regulations of the Commercial Registry and in accordance with article 17.1.p) of the *By-Laws* (which provide that the shareholders at the General Shareholders' Meeting delegate to the Board of Directors the power to issue the negotiable securities covered by the proposal), the authorisation to the Board of Directors to be able to issue simple bonds or debentures, notes, and other similar fixed-income securities that are neither exchangeable for nor convertible into shares, and to guarantee issues by subsidiaries of Iberdrola, is submitted to the shareholders at the General Shareholders' Meeting.

The proposed delegation to the Board of Directors is quantitatively limited in order not to distort the provisions of the *By-Laws* and to allow the shareholders to better evaluate the scope of the authorisation requested of them at the General Shareholders' Meeting. The Board of Directors believes that the limit on the authorisation requested of the shareholders is reasonable and sufficiently broad to permit the raising of required funds on the capital markets within the context of the financing needs expected to comply with the 2016-2020 Strategic Plan.

Within this context, the proposed maximum limit of the amount of the issue or issues of simple bonds or debentures and other similar fixed-income securities other than notes approved under this delegation is the net amount of 20,000 million euros, which means that, for the calculation of said limit, the amount corresponding to retirements or repurchases of said securities made or occurring during the effective period of the authorisation will be deducted from the new issues approved under this authorisation. This limit will not apply to the issue of notes, for which a separate and independent limit is proposed in the amount of 6,000 million euros, also with respect to the net amount of the issue, i.e. in order to calculate said limit, the amount corresponding to retirements or repurchases of notes made or occurring during the effective period of the authorisation will be deducted from the new issues approved under this authorisation. This formula allows for the authorisation to be quantitatively limited in a clear and objective manner, while at the same time giving the Board of Directors an increased margin of flexibility, inasmuch as issues that have been redeemed and repurchases of securities made during the authorisation period are taken into account in calculating the limit.

Furthermore, it may sometimes be desirable to issue these securities through a subsidiary with the guarantee of the parent company, which is a circumstance also provided for in the *By-Laws*. 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 issues of securities as may be made by subsidiaries of the Company 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 issues of securities in such manner as may be most appropriate based on the specific circumstances in each case.

In addition, it is provided that the securities issued pursuant to the powers delegated hereby may be admitted to trading on the appropriate Spanish or foreign, official or unofficial, organised or other secondary market.

Finally, a proposal is made to deprive of effect, to the extent of the unused amount, the authorisation to issue simple debentures or bonds and other similar fixed-income securities, including notes, granted to the Board of Directors by the shareholders at the General Shareholders' Meeting held on 22 June 2012. For purposes of clarification, this will not in any way affect the securities issued or the guarantees provided under said authorisation (or any prior ones), which will continue in effect upon the terms thereof for so long as such issues and/or guarantees exist.

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 SEVENTEEN ON THE AGENDA

Authorisation to the Board of Directors to issue simple debentures and other fixed-income securities that are neither exchangeable for nor convertible into shares, as well as to guarantee the issue of securities by the Company's subsidiaries, with a limit of 6,000 million euros for notes and of 20,000 million euros for other fixed-income securities.

RESOLUTION

1. Authorisation to the Board of Directors to Issue Securities

To authorise the Board of Directors to issue simple bonds or debentures, notes, and other similar fixed-income securities that are neither exchangeable for nor convertible into shares.

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

- (a) *The maximum net total amount of the simple bonds or debentures and other similar fixed-income securities (other than notes) issued under this authorisation may not exceed 20,000 million euros or the equivalent thereof in another currency. This limit is independent of the limit established in paragraph b) below.*
- (b) *For its part, the maximum net total amount of notes issued under this authorisation may not exceed 6,000 million euros or the equivalent thereof in another currency. This limit is independent of the limit established in paragraph a) above.*

To determine whether each of said limits has been reached, the amounts corresponding to retirements or repurchases made or occurring during the effective period thereof will be deducted from the new issues approved under this authorisation.

4. Scope

For each issue, the Board of Directors shall be responsible for determining, among other things: the nominal value, the issue price, the repurchase price, the currency, the form of representation, the interest rate, the repayment terms, the subordination clauses, the security, the place of the issue, any applicable law, the setting of the internal rules for the bondholders' syndicate, and the appointment of the representative in the case of an issue of simple debentures or bonds, when required, as well as the taking of any steps necessary for the implementation of the specific issues approved under this authorisation.

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 issues effected under this authorisation.

5. Admission to Trading

The Company shall, when appropriate, make application for trading of the securities issued within the framework of 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 by law, to carry out all acts and formalities that may be required for these purposes with the appropriate authorities of the various domestic or foreign securities markets.

It is expressly stated for the record that if application is subsequently made for the exclusion from trading of the securities issued by the Company under this authorisation, it shall be made in compliance with the same formalities as the application for admission, to the extent any such formalities are required, and in such case, the interests of the shareholders or debenture-holders opposing or not voting on 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.

6. Guarantee in Support of Issues of Fixed-Income Securities

The Board of Directors is also authorised to guarantee on behalf of the Company and within the limits set forth above new issues of securities effected by subsidiaries during the effective period of this resolution.

7. Power of Substitution

The Board of Directors is expressly authorised to further delegate the powers contemplated in this resolution.

8. Revocation of Current Authorisation

This resolution deprives of effect, to the extent of the unused amount, the authorisation to issue simple debentures or bonds and other similar fixed-income securities, including notes, granted for this purpose to the Board of Directors by the shareholders at the General Shareholders' Meeting held on 22 June 2012, expressly maintaining such authorisation in effect to the extent of the amount already utilised for the issue of securities and the provision of guarantees with respect to said issues and guarantees."

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In Bilbao, on 21 February 2017.