



General Shareholders' Meeting

Report of the Board of Directors
Proposed Increases in Capital by means of a Scrip Issue / 2018



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REPORT SUBMITTED BY THE BOARD OF DIRECTORS OF IBERDROLA, S.A. REGARDING THE PROPOSED IMPLEMENTATION OF TWO INCREASES IN CAPITAL BY MEANS OF SCRIP ISSUES IN ORDER TO IMPLEMENT THE "IBERDROLA FLEXIBLE REMUNERATION" SYSTEM INCLUDED IN ITEMS NUMBER SEVEN AND EIGHT ON THE AGENDA FOR THE GENERAL SHAREHOLDERS' MEETING CALLED TO BE HELD ON 13 AND 14 APRIL 2018, ON FIRST AND SECOND CALL, RESPECTIVELY

1. Object of the Report

This report has been prepared by the Board of Directors of IBERDROLA, S.A. (the "**Company**" or "**Iberdrola**") pursuant to the provisions of sections 286 and 296 of the *Companies Act (Ley de Sociedades de Capital)*, in order to provide a rationale for the two proposed increases in share capital by means of scrip issues through the issuance of new shares with a charge to reserves, which are submitted to the shareholders for approval at the General Shareholders' Meeting under items number seven and eight on the agenda and under the section "*Common terms and conditions of the dividend distribution and increase in capital resolutions proposed under items number six, seven and eight on the agenda, by virtue of which the "Iberdrola Flexible Remuneration" system is implemented*" (the "**Common Terms**").

Pursuant to such sections, the Board of Directors must prepare a report setting forth the rationale for the proposals being submitted to the shareholders at the General Shareholders' Meeting, to the extent that the approval of each increase and the implementation thereof necessarily entails the amendment of the article of the *By-Laws* regarding share capital.

Given that the two increases in share capital by means of scrip issues have the same purpose and are implemented in a similar manner, this report provides the rationale for both proposals. For purposes of easier understanding by the shareholders of the transaction that gives rise to the proposals, a description of the purpose of and rationale for both increases in share capital is first provided. A description is then presented of the main terms and conditions thereof. Finally, the proposed resolutions submitted to the shareholders for approval at the General Shareholders' Meeting are included.

2. Purpose of and Rationale for the Proposals

2.1 Purpose of the Proposals

The "Iberdrola Flexible Remuneration" system reflects Iberdrola's desire to make continuous improvements in its corporate governance practices, particularly in the area of its shareholder remuneration policy.

From 2010 to 2017, Iberdrola has been continuously implementing the "Iberdrola Flexible Dividend" (Scrip Dividend) system, which allows shareholders to receive bonus shares of the Company, giving them the benefit of favourable tax treatment but without limiting their ability to alternatively receive an amount in cash equal to the payment of the traditional dividend.

Thanks to the ongoing dialogue and interaction maintained with its shareholders under the *Shareholder Engagement Policy*, Iberdrola identified the possibility of improving the "Iberdrola Flexible Dividend" system, particularly the formula used to monetise the traditional dividend, which until now has been implemented through the sale to the Company of the free-of-charge allocation rights at a guaranteed fixed price, and which in some jurisdictions could have a different tax and accounting treatment than the one that would apply to the receipt of a cash dividend.

As a consequence of the foregoing, the Company has developed an alternative to monetise the traditional dividend that is more attractive for all shareholders, particularly including the international shareholders. The result is the remuneration system called "Iberdrola Flexible Remuneration", which now replaces the traditional "Iberdrola Flexible Dividend" system.

This new system, the approval of which is submitted to the shareholders at the General Shareholders' Meeting for the first time, is based on the same principle of offering the shareholders the ability to receive bonus shares or to monetise the amount of their remuneration, although it optimises the alternative remuneration consisting of receiving a fixed amount in cash instead of shares.

Thus, shareholders who prefer to receive their remuneration in cash may do so through a supplementary dividend approved by the shareholders or through payment of the interim dividend for financial year 2018 approved by the Board of Directors, instead of transferring to the Company at a guaranteed fixed price the free-of-charge allocation rights they receive within the context of the implementation of the increases in capital, as happened under the traditional system. In many cases, this clarifies and simplifies the tax and accounting treatment of the remuneration of

the shareholders, particularly including international shareholders, choosing the option to receive an amount in cash. In addition, shareholders who desire to receive their remuneration in cash will continue to have the option to sell their free-of-charge allocation rights on the market, although in this case the amount of the remuneration they receive will depend on market conditions in general and the listing price of the free-of-charge allocation rights in particular.

For this reason, in addition to the dividend contemplated in the proposed resolution corresponding to item number six on the agenda (the **"Supplementary Dividend"**), it is expected that, prior to 31 December 2018, the Board of Directors will adopt a resolution approving the distribution of an amount on account of the dividend for financial year 2018 (the **"Interim Dividend"**), which will in any case be subject to compliance with the requirements of section 277 of the *Companies Act*.

Notwithstanding the foregoing, if the requirements of section 277 of the *Companies Act* are not met in the Second Implementation (as such term is defined below), there will be a reversion to the traditional "Iberdrola Flexible Dividend" system, with the Company making an irrevocable commitment to acquire the free-of-charge allocation rights arising from the second Increase in Capital at a guaranteed fixed price upon the terms and conditions described below (the **"Purchase Commitment"** and the **"Fixed Purchase Price"**, respectively).

2.2 Structure of the Proposals

The proposals submitted to the shareholders for approval at the General Shareholders' Meeting under items number seven and eight on the agenda and under the Common Terms have been structured in the form of two increases in share capital with a charge to the reserves contemplated in section 303.1 of the *Companies Act* (each such increase in capital shall be referred to as an **"Increase in Capital"** and both of them collectively as the **"Increases in Capital"**), which shall be implemented together with the payment of the Supplementary Dividend and the Interim Dividend (each a **"Dividend"** and collectively the **"Dividends"**), respectively. In particular:

- (i) The first implementation of the "Iberdrola Flexible Remuneration" system (the **"First Implementation"**) shall be carried out through the implementation of the Increase in Capital submitted for approval of the shareholders at the General Shareholders' Meeting under item number seven on the agenda, together with the payment of the Supplementary Dividend.
- (ii) The second implementation of the "Iberdrola Flexible Remuneration" system (the **"Second Implementation"**, and collectively with the First Implementation, the **"Implementations"** and each of the Implementations, individually, an **"Implementation"**) shall be carried out through the implementation of the Increase in Capital submitted for approval of the shareholders under item number eight on the agenda together with the payment of the Interim Dividend, to the extent that the requirements set out in section 277 of the *Companies Act* are met. The Purchase Commitment would be implemented if said requirements are not met.

It is expected that the First Implementation will take place in the month of July 2018, while the Second Implementation is expected to take place in the months of December 2018 or January 2019.

In each of the Implementations, the shareholders may choose from among the following remuneration options upon the terms and conditions established by the Board of Directors.

- (a) Receiving their remuneration in cash by collecting the Dividend in question (whether with respect to all of their shares or a portion thereof), for which purpose the shareholders shall be required to make an express election in this regard.
- (b) Receiving their remuneration by delivery of newly-issued bonus shares. To this end, they must refrain from transferring their free-of-charge allocation rights on the market. In this case, at the end of the trading period, the shareholders shall receive such number of new shares as they are proportionately entitled to receive, entirely as bonus shares.
- (c) Transferring all or part of their free-of-charge allocation rights on the market during the trading period pursuant to the provisions of section 3.2 below. In this case, the consideration for such rights would depend on market conditions in general and on the listing price of such rights in particular.

The shareholders may only elect remuneration option (a) above during the **"Common Election Period"**. The Common Election Period will begin on the same day as the trading period for the free-of-charge allocation rights, and the Board of Directors (with express power of substitution) must establish the specific term of the Common Election Period, which may in no event exceed the term of said trading period.

Based on their preferences and needs, the Company's shareholders may combine any of the alternatives mentioned in paragraphs (a) through (c) above with respect to different groups of shares that each of them own. In any event, the election of remuneration option (a) will automatically exclude the ability to choose option (c) regarding the same shares, and vice versa.

Furthermore, as already mentioned, if the requirements of section 277 of the *Companies Act* are not met on occasion of the Second Implementation, and therefore the Company cannot distribute the Interim Dividend, the shareholders may monetise their free-of-charge allocation rights by transferring them to the Company at the Fixed Purchase Price within the framework of the Purchase Commitment and thus receive a cash amount equal to the payment of the Interim Dividend that the Company would otherwise have distributed.

In this regard, it should be borne in mind that the tax treatment of the above alternatives is different, as described in section 3.5 below.

3. Main Terms and Conditions of the Increases in Capital

Set forth below are the main terms and conditions of the Increases in Capital.

3.1 Nominal Amount of the Increases in Capital, Number of Shares to Be Issued, and Number of Free-of-charge Allocation Rights Required for the Allocation of One New Share

The amount of each of the Increases in Capital shall be the result of multiplying the nominal value of each share of the Company (seventy-five euro cents per share) by the total determinable number of new shares of the Company to be issued on the date of each of the Implementations. The Increases in Capital will thus be carried out at par (i.e. without a share premium).

In turn, the maximum number of new shares to be issued in each Increase in Capital shall be the number resulting from the application of the following formula (rounding the result to the next lower integer):

$$\text{NNS} = \text{TNShrs.} / \text{Num. rights}$$

where:

NNS = Number of new shares to be issued;

TNShrs. = Number of shares of the Company outstanding on the date that the Board of Directors or the body acting by delegation therefrom resolves to implement each Increase in Capital; and

Num. rights = Number of free-of-charge allocation rights required for the allocation of one new share in the Increase in Capital in question, which number will result from the application of the following formula, rounded to the next higher integer:

$$\text{Num. rights} = \text{TNShrs.} / \text{Provisional number of shares}$$

where:

$$\text{Provisional number of shares} = \text{Amount of the Option} / \text{ListPri}$$

For these purposes, "**Amount of the Option**" shall mean the maximum reference market value of the relevant Increase in Capital to be set by the Board of Directors (or the body acting by delegation therefrom) and which will be a maximum amount of 1,310 million euros in the Increase in Capital submitted for the approval of the shareholders under item number seven on the agenda and of 1,140 million euros in the Increase in Capital submitted for the approval of the shareholders at the General Shareholders' Meeting under item number eight on the agenda.

"ListPri" shall be the arithmetic mean of the average weighted listing prices of the Company's shares on the Bilbao, Madrid, Barcelona and Valencia Stock Exchanges in the five trading sessions prior to the resolution of the Board of Directors (or of the body acting by delegation therefrom) which determines the number of free-of-charge allocation rights needed for the allocation of one new share, rounded to the closest one-thousandth part of one euro.

The number thus calculated shall be rounded as required to obtain a whole number of shares and a ratio for the conversion of rights into shares that is also an integer. In addition, and for the same purposes, the Company or a company of its group that holds shares of the Company shall waive the corresponding free-of-charge allocation rights as provided in section 3.2 below.

Furthermore, “Cash Remuneration” shall mean the gross amount per share resulting from the application of the following formula:

$$\text{Cash Remuneration} = \text{ListPri} / (\text{Num. rights} + 1)$$

The Cash Remuneration shall be equal to: (a) the amount of the Supplementary Dividend per share in the case of the First Implementation; (b) the amount of the Interim Dividend per share in the case of the Second Implementation; or (c) if the requirements of section 277 of the *Companies Act* to distribute the Interim Dividend are not met, the amount of the Fixed Purchase Price per free-of-charge allocation right.

Solely for purposes of facilitating an understanding of the application hereof, the Common Terms include a sample calculation of the maximum number of new shares to be issued in the Increase in Capital submitted for the approval of the shareholders under item number seven on the agenda, of the maximum nominal value of such increase, of the number of free-of-charge allocation rights required for the allocation of one new share, and of the Cash Remuneration that, as mentioned above, will be equal to the amount of the gross Supplementary Dividend per share.

The Amount of the Option of each Increase in Capital, together with the other items to be determined on each of the Implementations, shall be made public by means of a notice of significant event (*hecho relevante*) to be sent to the National Securities Market Commission (*Comisión Nacional del Mercado de Valores*).

3.2 Free-of-charge Allocation Rights

In each Increase in Capital, each outstanding share will grant its holder one free-of-charge allocation right.

It shall be deemed that those shareholders choosing to receive their remuneration in cash through the Dividend with respect to all or part of their shares expressly, automatically and irrevocably waive the free-of-charge allocation rights corresponding to said shares and the ability to transfer them on the market. To this end, the participants in “Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal” (IBERCLEAR) will block said free-of-charge allocation rights, which may not be transferred on the market and which shall automatically expire at the end of the trading period, without the holders thereof being entitled to receive new shares.

The number of free-of-charge allocation rights required to receive one new share in each Increase in Capital shall be automatically determined according to the ratio existing between the number of shares of the Company then outstanding on the date of implementation of the Increase in Capital in question (TNShrs.) and the provisional number of new shares, calculated by using the formula contained in section 3.1 above. Specifically, the holders of free-of-charge allocation rights shall be entitled to receive one new share in exchange for the number of free-of-charge allocation rights held by them, which shall be determined as provided in section 3.1 above.

In the event that the number of free-of-charge allocation rights required for the allocation of one new share (Num. rights) multiplied by the number of new shares to be issued (NNS) results in a number that is lower than the number of outstanding shares of the Company on the date of implementation of the Increase in Capital in question, the Company (or such entity within its group, if any, as holds shares of the Company) shall waive a number of free-of-charge allocation rights equal to the difference between both figures for the sole purpose that the number of new shares be a whole number and not a fraction. In such an event, as well as to the extent that shareholders of the Company elect to receive the Dividend, there will be an incomplete allocation of the Increase in Capital in question, and share capital shall be increased solely by the amount corresponding to the free-of-charge allocation rights that have not been waived, pursuant to the provisions of section 311 of the *Companies Act*.

The free-of-charge allocation rights shall be allocated to those who are registered as being entitled thereto in the book-entry records of “Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal” (IBERCLEAR) on the relevant date pursuant to the securities clearing and settlement rules from time to time in effect. The free-of-charge allocation rights may be traded during such term as is established by the Board of Directors (with express power of substitution), which term shall not be less than fifteen calendar days. During such term, a sufficient number of free-of-charge allocation rights may be acquired on the market in the proportion required to receive new shares. Notwithstanding the foregoing, these free-of-charge allocation rights acquired on the market during the trading period shall not give the acquiring party the right to choose to receive the Dividend per share. Therefore, the new holders of these rights may only monetise their investment through the sale thereof on the market, or alternatively receive the new bonus shares to which they are entitled.

Shareholders that do not have free-of-charge allocation rights in a number sufficient to receive one new share in each Increase in Capital may: (a) acquire on the market a sufficient number of free-of-charge allocation rights which, added to those already held by them, grant them the right to receive one new share; (b) transfer all or part of their free-of-

charge allocation rights on the market (with the consideration for their rights depending on market conditions in general and on the listing price of the free-of-charge allocation rights in particular); or (c) elect to receive the Dividend.

3.3 Gross Amount per Share to be Distributed to the Shareholders as the Dividend in the Implementations

As previously explained, upon the implementation of each Increase in Capital, the shareholders may choose to receive a certain Dividend per share. The gross amount to be distributed as the Dividend for each share of Iberdrola with the right to receive it shall be determined within the context of each of the Implementations by the Board of Directors, with express powers of substitution, pursuant to the rules set forth below.

In both Implementations, the amount of the gross Dividend per share shall be equal to the Cash Remuneration.

As mentioned above, “**Cash Remuneration**” shall mean the gross amount per share resulting from the application of the following formula:

$$\text{Cash Remuneration} = \text{ListPri} / (\text{Num. rights} + 1)$$

In the Second Implementation, the Board of Directors shall adopt the corresponding resolution on distribution of the Interim Dividend prior to 31 December 2018, subject in any case to the provisions of section 277 of the *Companies Act*.

During the Common Election Period for each Implementation, the Company's shareholders shall have the ability to expressly choose to receive the Dividend per share with respect to all or part of the shares they own and that are outstanding on the relevant date upon the terms set by the Board of Directors, with express power of substitution, and pursuant to applicable securities clearing and settlement rules. If they choose to receive the Dividend per share in question with respect to all or part of their shares, the shareholders shall expressly, automatically and irrevocably waive the free-of-charge allocation rights corresponding to said shares pursuant to the provisions of section 3.2 above.

After the Common Election Period, the Board of Directors, with express power of substitution, shall determine the aggregate gross amount in euros corresponding to the Dividend payment from each of the Implementations and shall make payment thereof through the participants in “Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal” (IBERCLEAR), the Board of Directors being hereby authorised for such purpose, with express power of substitution, to establish the specific date on which the Dividend Payment should occur, to designate the entity that is to act as paying agent and to take such other steps as may be required or appropriate for the successful completion of the Dividend Payment. Furthermore, after calculating said aggregate gross amount of the Dividend corresponding to each Implementation, the Board of Directors (with express power of substitution) shall rescind the resolution on distribution of the corresponding Dividend with respect to the amounts that were not distributed to those shareholders who elected (expressly or implicitly) to receive new shares.

3.4 Purchase Commitment within the framework of the Second Implementation

As already described, if the requirements of section 277 of the *Companies Act* are not met to distribute the Interim Dividend within the framework of the Second Implementation, said Implementation shall return to the traditional “Iberdrola Flexible Dividend” system in order to ensure that the shareholders can receive all or part of their remuneration in cash. As a result of the foregoing, if said circumstance occurs, the Company assumes an irrevocable commitment to acquire the free-of-charge allocation rights arising from the second Increase in Capital at a guaranteed fixed price upon the following terms and conditions.

The Fixed Purchase Price shall be calculated by applying the formula used to determine the Cash Remuneration, such that the amount that would be received by shareholders choosing this option would be equal to the amount they would have received if it had been possible to distribute the Interim Dividend. The Fixed Purchase Price shall be calculated prior to the commencement of the trading period for the free-of-charge allocation rights of the second Increase in Capital and shall be published as soon as it is determined.

The Purchase Commitment assumed by the Company shall cover the free-of-charge allocation rights received by those who are registered as being entitled thereto in the book-entry records of “Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal” (IBERCLEAR) on the relevant date pursuant to the securities clearing and settlement rules from time to time in effect, but excluding those rights that have been transferred on the market.

The Purchase Commitment shall be in effect and may be accepted during such term as is established for these purposes by the Board of Directors (with express power of substitution), and which must in any case be included within the trading period for the free-of-charge allocation rights.

For these purposes, the Company is authorised to acquire said free-of-charge allocation rights, with a maximum limit of all rights issued in the second Increase in Capital, but must in any case comply with applicable legal restrictions from time to time in effect.

The acquisition by the Company of the free-of-charge allocation rights as a result of the Purchase Commitment shall be carried out with a charge to the reserves contemplated in section 303.1 of the *Companies Act*.

The Company shall waive the new shares corresponding to the free-of-charge allocation rights that it has acquired by application of the Purchase Commitment. In such an event, there will be an incomplete allocation of the Increase in Capital corresponding to the Second Implementation, and share capital shall be increased solely by the amount corresponding to the free-of-charge allocation rights that have not been waived, pursuant to the provisions of section 311 of the *Companies Act*.

3.5 Rights Attaching to the New Shares

The new shares issued in each Increase in Capital shall be ordinary shares having a nominal value of seventy-five euro cents each, of the same class and series as those currently outstanding, 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) and its participants.

As from the date that each Increase in Capital is declared to be subscribed and paid up, the new shares shall grant the holders thereof the same financial, voting and like rights as the ordinary shares of the Company then outstanding.

The Increases in Capital shall be carried out free of expenses and fees as to the allocation of the new shares issued. The Company shall bear the costs of issuance, subscription, flotation, admission to trading and other costs associated with the Increases in Capital.

Without prejudice to the foregoing, the Company's shareholders should bear in mind that, pursuant to applicable law, the participants in "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR) with which they keep their shares on deposit may establish such pass-through management fees and expenses as they may freely determine as a consequence of maintaining the securities in their book-entry records. Moreover, pursuant to applicable law, these participants may establish such pass-through fees and expenses as they may freely determine for the processing of orders to purchase and sell free-of-charge allocation rights.

3.6 Balance Sheet for the Transaction and Reserves with a Charge to which the Increases in Capital are Carried Out

The balance sheet used as a basis for the Increases in Capital is the one for the financial year ended 31 December 2017, which has been audited by KPMG Auditores, S.L. and which is submitted to the shareholders for approval at the General Shareholders' Meeting under item number one on the agenda.

The Increases in Capital shall be entirely carried out with a charge to the reserves contemplated in section 303.1 of the *Companies Act*. When implementing each of them, the Board of Directors (with express power of substitution) shall determine the reserve(s) that will be used and the amount of such reserve(s) in accordance with the balance sheet used as a basis for the transaction.

3.7 Tax Regime

Within the framework of the implementation of the new "Iberdrola Flexible Remuneration" system, and particularly the option for the Supplementary Dividend and the Interim Dividend, the Company submitted a binding consultation to the General Tax Authority (*Dirección General de Tributos*) (the "DGT") regarding the tax treatment applicable to its shareholders in Spain subject to the Personal Income Tax (*Impuesto sobre la Renta de las Personas Físicas*) ("IRPF"), which was submitted to such agency on 14 July 2017. This binding consultation was answered by the DGT on 16 January 2018 with reference number V0042-18.

The treatment described below is taken from the answer to such binding consultation, as well as from the answers by the DGT to the binding consultations obtained by the Company on 27 April 2010 and 1 October 2010. Pursuant to Spanish tax regulations, both in the common regions and in the Historical Territories of the Basque Country and in the Chartered Community of Navarre, the shareholders that choose to receive new shares as a consequence of the Increases in Capital will not pay tax for such reason for purposes of the IRPF, of the Corporate Income Tax (*Impuesto sobre Sociedades*) ("IS"), or of the Non-Resident Income Tax (*Impuesto sobre la Renta de no Residentes*) ("IRNR"),

whether or not they act through a permanent establishment in Spain, nor will they be subject to any withholding or payment on account.

The acquisition value for these shareholders of both the new shares received as a consequence of each Increase in Capital and the shares from which they derive will result from distributing the total cost of acquisition among the applicable number of securities, including both existing securities and those issued as bonus shares. In respect of these shareholders, such bonus shares 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 that is obtained will be calculated by reference to such new value. In the event that the shareholders sell their free-of-charge 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:

In the IRPF and in the IRNR for non-residents without a permanent establishment in Spain, the amount obtained in transfers of free-of-charge allocation rights will be deemed to be a financial profit, all without prejudice to the potential application to persons subject to the IRNR without a permanent establishment of international treaties, including the treaties signed by Spain for the avoidance of double taxation and for the prevention of tax evasion in the area of Income Tax and to which they might be entitled, and the exemptions established in the IRNR rules.

In addition, for individual shareholders subject to the IRPF applicable within the common regions of Spain, the amount obtained in the transfers of free-of-charge allocation rights will be subject to the corresponding withholding on account of this tax. The withholding will be applied by the corresponding depository (and in the absence thereof, by the financial intermediary or notary public that has participated in the transfer thereof).

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, pursuant to the special regimes of the aforementioned taxes. All of the foregoing is without prejudice to the rules determining the tax basis that may apply in these taxes.

Finally, if the shareholders choose to receive the Supplementary Dividend or the Interim Dividend, the amount obtained will be covered by the tax regime for financial results, and will therefore be subject to the corresponding withholding and taxation.

It should be borne in mind that this analysis (which has been performed on the basis of specific assumptions) does not cover all the possible tax consequences of the proposals described in this report. If a change in these assumptions changes the description of the taxation of the proposals covered by this report, the new tax treatment will be communicated to the market as appropriate. In particular, it does not describe the consequences to which shareholders that are not residents in Spain for tax purposes may be subject in their countries of residence. Therefore, it is recommended that attention be paid to any amendments that may be made to the law applicable as of the date of this report, to the transitional provisions thereof and to the rules for interpretation, as well as to any changes that may occur in the particular circumstances of each shareholder or holder of free-of-charge allocation rights.

The holders of American Depositary Receipts (ADRs) and CREST Depositary Interests (CDIs) representing shares of the Company are advised to consult with their tax advisers on the taxation thereof in Spain or their jurisdictions of residence before making a decision in connection with the Increases in Capital.

3.8 Delegation to Carry Out One of the Implementations

It is proposed to delegate to the Board of Directors, with express power of substitution, the power to set the date on which each of the Implementations is to be carried out, as well as to establish the terms and conditions applicable to each of the Implementations as to all matters not provided for by the shareholders at the General Shareholders' Meeting (including, in particular, the Amount of the Option), all on the terms and within the period of one year contemplated in section 297.1.a) of the *Companies Act*. Notwithstanding the foregoing, if the Board of Directors (with express power of substitution) does not deem it advisable to carry out one or both Implementations, in whole or in part, within the aforementioned period, it may refrain from doing so, with the duty to inform the shareholders thereof at the next General Shareholders' Meeting. Specifically, the Board of Directors (with express power of substitution) shall analyse and take into account the market conditions, the circumstances of the Company itself or those deriving from an event that has social or financial significance, and if these or other factors make it inadvisable, in its opinion, to carry out one or both Implementations, it may refrain from doing so. In addition, the resolutions approved by the shareholders at this General Shareholders' Meeting relating to the Supplementary Dividend and to the Increases in Capital shall be deprived of any and all effect in the event that the Board of Directors does not exercise the powers delegated thereto, or in the case of the Second Implementation, does not approve the distribution of the Interim Dividend or honour the Purchase Commitment, within a period of one year from approval of the resolutions.

On the dates that the Board of Directors, or the body acting by delegation therefrom, decides to implement an Increase in Capital, establishing for such purpose all of the final terms and conditions thereof as to all matters not provided for by the shareholders at the General Shareholders' Meeting, the Company shall make public such terms and conditions. In particular, prior to the commencement of each free-of-charge allocation period, the Company shall make available to the public a document containing information on the number and nature of the shares, the reasons for the Increase in Capital and the gross amount of the Dividend per share, all as provided by section 26.1.e) of *Royal Decree 1310/2005 of 4 November partially developing Law 24/1988 of 28 July on the Securities Market regarding the admission of securities to trading on official secondary markets, public offerings for sale or subscription and the prospectus required for such purposes.*

Once the period for trading the free-of-charge allocation rights in respect of each Increase in Capital has ended:

- i. The new shares shall be allocated to those who, according to the records maintained by "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR) and its participants, are the holders of free-of-charge allocation rights in the required proportion (due to not having waived them on the terms provided above).
- ii. The period for trading the free-of-charge allocation rights shall be declared to have ended and the appropriation of the account(s) with a charge to which the Increase in Capital will be implemented shall be formalised on the books in the respective amount, with which appropriation the Increase in Capital shall be paid up.
- iii. The Company shall pay the Supplementary Dividend or the Interim Dividend (or, if the requirements of section 277 of the *Companies Act* are not met within the framework of the Second Implementation, the Fixed Purchase Price), as applicable, to the shareholders that have expressly chosen to receive it within the period and subject to the terms and conditions determined for these purposes by the Board of Directors.

Finally, in each Increase in Capital, the Board of Directors (with express power of substitution) shall adopt the resolutions required to amend the *By-Laws* so that they reflect the new amount of share capital and the number of shares resulting from the Increase in Capital in question, and to make application for trading the new shares as described in the next section.

3.9 Admission of the New Shares to Trading

The Company shall make application for trading the new shares to be issued as a consequence of each Increase in Capital on the Bilbao, Madrid, Barcelona and Valencia Stock Exchanges, through the Automated Quotation System (*Sistema de Interconexión Bursátil*) (Continuous Market), and shall carry out such acts and formalities as are required for admission to trading of the new shares issued in each Increase in Capital.

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

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

"ITEM NUMBER SEVEN ON THE AGENDA

Approval of a first increase in capital by means of a scrip issue at a maximum reference market value of 1,310 million euros in order to implement the "Iberdrola Flexible Remuneration" system.

RESOLUTION

To increase the share capital of IBERDROLA, S.A. (the "Company" or "Iberdrola") upon the terms and conditions described in the section below, entitled "Common terms and conditions of the dividend distribution and increase in capital resolutions proposed under items number six, seven and eight on the agenda, pursuant to which the "Iberdrola Flexible Remuneration" system is implemented" (the "Common Terms"), at a maximum reference market value of 1,310 million euros for the shares to be issued in implementation of said increase.

The increase in capital shall be implemented together with the supplementary payment of the dividend submitted for approval of the shareholders at the General Shareholders' Meeting under item six on the agenda, in order to offer the shareholders the ability to receive their remuneration in cash (receiving said supplementary payment of the dividend) or in newly-issued bonus shares of the Company (through the increase in capital). The delivery of bonus shares issued within the context of the increase in capital is thus configured as one of the alternatives that a shareholder can choose when receiving their remuneration, pursuant to the provisions of the Common Terms.

Pursuant to the provisions of section 297.1.a) of the Companies Act, to delegate to the Board of Directors the power to set the date on which the increase in capital is to be carried out, if at all, and to set the terms and conditions applicable to all matters not included in this resolution.

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.

This increase in capital is expected to be implemented together with the supplementary payment of the dividend contemplated in item number six on the agenda during the month of July 2018.

ITEM NUMBER EIGHT ON THE AGENDA

Approval of a second increase in capital by means of a scrip issue at a maximum reference market value of 1,140 million euros in order to implement the "Iberdrola Flexible Remuneration" system.

RESOLUTION

To increase the share capital of IBERDROLA, S.A. (the "**Company**" or "**Iberdrola**") upon the terms and conditions described in the section below, entitled "Common terms and conditions of the dividend distribution and increase in capital resolutions proposed under items number six, seven and eight on the agenda, pursuant to which the "Iberdrola Flexible Remuneration" system is implemented" (the "**Common Terms**"), at a maximum reference market value of 1,140 million euros for the shares to be issued in implementation of said increase.

The increase in capital is expected to be implemented together with the payment of an interim amount of the dividend for financial year 2018, if any, to be approved by the Company's Board of Directors (the "**Interim Dividend**") in order to offer the shareholders the ability to receive their remuneration in cash (by collecting the Interim Dividend) or in newly-issued bonus shares of the Company (through the increase in capital). The delivery of bonus shares issued within the context of the increase in capital is thus configured as one of the alternatives that a shareholder can choose when receiving their remuneration, pursuant to the provisions of the Common Terms.

Pursuant to the provisions of section 297.1.a) of the Companies Act, to delegate to the Board of Directors the power to set the date on which the increase in capital is to be carried out, if at all, and to set the terms and conditions applicable to all matters not included in this resolution.

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.

This increase in capital is expected to be implemented together with the Interim Dividend payment during the month of December 2018 or January 2019.

COMMON TERMS AND CONDITIONS OF THE DIVIDEND DISTRIBUTION AND INCREASE IN CAPITAL RESOLUTIONS PROPOSED UNDER ITEMS NUMBER SIX, SEVEN AND EIGHT ON THE AGENDA, PURSUANT TO WHICH THE "IBERDROLA FLEXIBLE REMUNERATION" SYSTEM IS IMPLEMENTED

1. Main Characteristics of the New "Iberdrola Flexible Remuneration" Shareholder Remuneration System

The purpose of the dividend distribution and increase in capital resolutions proposed under items number six, seven and eight on the agenda is to implement the new "Iberdrola Flexible Remuneration" system pursuant to which the shareholders of IBERDROLA, S.A. (the "**Company**" or "**Iberdrola**") are offered the ability to receive their remuneration in cash or through the delivery of newly-issued shares.

For this purpose, there shall be two implementations of the "Iberdrola Flexible Remuneration" system in which one or more dividend payments (each, a "**Dividend Payment**", and collectively, the "**Dividend Payments**") shall be made along with the implementations of the increases in capital (the "**Increases in Capital**" and each an "**Increase in Capital**") submitted for approval of the shareholders at the General Shareholders' Meeting under items number seven and eight on the agenda:

- (i) The first implementation of the "Iberdrola Flexible Remuneration" system, which is expected to take place during the month of July 2018 (the "**First Implementation**"), shall be carried out through the supplementary payment of the dividend contemplated in item number six on the agenda (the "**Supplementary Dividend**") together with the implementation of the Increase in Capital submitted for approval of the shareholders at the General Shareholders' Meeting under item number seven on the agenda.
- (ii) The second implementation of the "Iberdrola Flexible Remuneration" system, which is expected to take place during the months of December 2018 or January 2019 (the "**Second Implementation**", and collectively with the First Implementation, the "**Implementations**" and each of the Implementations, individually, an "**Implementation**"),

shall be carried out through the payment of an interim amount of the dividend for financial year 2018 (the "**Interim Dividend**") to be approved by the Board of Directors pursuant to the provisions of section 2.2 below, together with the implementation of the Increase in Capital submitted for approval of the shareholders at the General Shareholders' Meeting under item number eight on the agenda.

The Supplementary Dividend and the Interim Dividend shall hereinafter be referred to collectively as the "**Dividends**" and each of the Dividends individually as a "**Dividend**".

In each of the Implementations, the shareholders shall be offered the ability to receive their remuneration in cash (through the collection of the Supplementary Dividend or the Interim Dividend), in newly-issued bonus shares of the Company (through the Increases in Capital) or through a combination of both alternatives, without prejudice to the ability to transfer the free-of-charge allocation rights on the market in accordance with the provisions of these resolutions. The final amount of each of the Dividend Payments and of each of the Increases in Capital shall be determined within the context of each of the Implementations and pursuant to the provisions of the sections below.

Within the year following the date of approval of the resolutions included in items number six, seven and eight on the agenda, each of the Implementations may be made by the Board of Directors, with express power of substitution, at its sole discretion, and therefore without having to once again obtain the approval of the shareholders at a General Shareholders' Meeting, and based on the legal and financial conditions existing at the time of each of the Implementations, in order to offer the Company's shareholders a flexible and efficient remuneration formula.

In each of the Increases in Capital, the shareholders may choose from among the following options upon the terms and conditions established by the Board of Directors.

- (a) Receiving their remuneration in cash by collecting the Dividend in question (whether with respect to all of their shares or a portion thereof), for which purpose the shareholders shall be required to make an express election in this regard.
- (b) Receiving their remuneration by delivery of newly-issued bonus shares. To this end, they must refrain from transferring their free-of-charge allocation rights on the market. In this case, at the end of the trading period for the free-of-charge allocation rights, the shareholders shall receive such number of new shares (as they are proportionately entitled to receive), entirely as bonus shares.
- (c) Transferring all or part of their free-of-charge allocation rights on the market during the trading period pursuant to the provisions of section 5 below.

The shareholders may only elect remuneration option (a) above during the "**Common Election Period**". The Common Election Period will begin on the same day as the trading period for the free-of-charge allocation rights, and the Board of Directors (with express power of substitution) must establish the specific term of the Common Election Period, which may in no event exceed the term of said trading period.

Based on their preferences and needs, the Company's shareholders may combine any of the alternatives mentioned in paragraphs (a) through (c) above. In any event, the election of remuneration option (a) automatically excludes the ability to choose option (c) regarding the same shares, and vice versa.

It is hereby stated that, as a new development, in the editions of the "Iberdrola Flexible Remuneration" system to be implemented by virtue of this resolution, the shareholders will not be offered the ability to offer all or part of their free-of-charge allocation rights to Iberdrola at a guaranteed fixed price (which is different from what occurred under the traditional remuneration system called the "Iberdrola Flexible Dividend" or "Scrip Dividend"). This is because the Company's shareholders will have the option to receive the Dividends as an alternative to the delivery of bonus shares of the Company or the transfer of the free-of-charge allocation rights on the market, thus having the ability to choose to receive their remuneration in cash if they so desire.

As the only exception to the foregoing, it is proposed that if the requirements of section 277 of the Companies Act are not met within the framework of the Second Implementation (as such term is defined below) in order to distribute the Interim Dividend, the traditional "Iberdrola Flexible Dividend" remuneration system will apply, with the Company making an irrevocable commitment to acquire the free-of-charge allocation rights arising from the second Increase in Capital at a guaranteed fixed price upon the terms and conditions described below (the "**Purchase Commitment**" and the "**Fixed Purchase Price**", respectively). In this case, the shareholders may monetise their free-of-charge allocation rights by transferring them to the Company at the Fixed Purchase Price and thus receive a cash amount equal to the one that the Company would have distributed as the Interim Dividend.

2. Amount of the Dividends

2.1. Gross amount per share to be distributed to the shareholders as the Supplementary Dividend in the First Implementation

The gross amount to be distributed as the Supplementary Dividend for each share of Iberdrola with the right to receive it shall be determined within the context of the First Implementation by the Board of Directors, with express powers of substitution, subject to the terms and conditions set forth in item number six on the agenda and in this section (the "Supplementary Dividend per Share"). In particular, the amount of the Supplementary Dividend per Share must be equal to the Cash Remuneration (as this term is defined below).

During the Common Election Period for the First Implementation, the Company's shareholders shall have the ability to expressly choose to receive the Supplementary Dividend per Share with respect to all or part of the shares they own and that are outstanding on the relevant date upon the terms set by the Board of Directors, with express power of substitution, and pursuant to applicable securities clearing and settlement rules. If they choose to receive the Supplementary Dividend per Share with respect to all or part of their shares, the shareholders shall expressly, automatically and irrevocably waive the free-of-charge allocation rights corresponding to said shares.

After the Common Election Period, the Board of Directors, with express power of substitution, shall determine the aggregate gross amount in euros corresponding to the Dividend Payment from the First Implementation and shall make payment thereof through the participants in "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR), the Board of Directors being hereby authorised for such purpose, with express power of substitution, to establish the specific date on which the Dividend Payment should occur, to designate the entity that is to act as paying agent, and to take such other steps as may be required or appropriate for the successful completion of the Dividend Payment. Furthermore, after calculating said aggregate gross amount corresponding to the Dividend Payment for the First Implementation, the Board of Directors (with express power of substitution) shall, if applicable, rescind the resolution on distribution of the Supplementary Dividend with respect to the amounts that were not distributed to those shareholders who elected (expressly or implicitly) to receive new shares of the Company or who have sold their free-of-charge allocation rights to third parties on the market.

The free-of-charge allocation rights acquired on the market during the trading period established for this purpose by the Board of Directors shall not give the acquiring parties the right to choose to receive the Supplementary Dividend per Share. Therefore, the new holders of these rights may only monetise their investment through the sale thereof on the market, or alternatively receive the new bonus shares to which they are entitled.

2.2. Gross amount per share to be distributed to the shareholders as the Interim Dividend in the Second Implementation

The gross amount to be distributed as the Interim Dividend, if any, for each share of Iberdrola with the right to receive it shall be as determined by the Board of Directors pursuant to the corresponding resolution to be adopted prior to 31 December 2018 and pursuant to the provisions of section 277 of the Companies Act (the "Interim Dividend per Share").

During the Common Election Period for the Second Implementation, the Company's shareholders shall have the ability to expressly choose to receive the Interim Dividend per Share with respect to all or part of the shares they own and that are outstanding on the relevant date upon the terms set by the Board of Directors and pursuant to applicable securities clearing and settlement rules. If they choose to receive the Interim Dividend per Share with respect to all or part of their shares, the shareholders shall waive the free-of-charge allocation rights corresponding to said shares.

After the Common Election Period, the Board of Directors shall determine the aggregate gross amount in euros corresponding to the Dividend Payment from the Second Implementation and shall make payment thereof through the participants in "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR). To this end, the Board of Directors shall establish the specific date on which the Dividend Payment should occur, shall designate the entity that is to act as paying agent, and shall take such other steps as may be required or appropriate for the successful completion of the Dividend Payment. Furthermore, after calculating said aggregate gross amount corresponding to the Dividend Payment from the Second Implementation, the Board of Directors (with express power of substitution) shall, if applicable, rescind the resolution on distribution of the Interim Dividend with respect to the amounts that were not distributed to those shareholders who elected (expressly or implicitly) to receive new shares of the Company or who have sold their free-of-charge allocation rights on the market.

The free-of-charge allocation rights acquired on the market during the trading period established for this purpose by the Board of Directors shall not give the acquiring parties the right to choose to receive the Interim Dividend per Share. Therefore, the new holders of these rights may only monetise their remuneration through the sale thereof on the market, or alternatively receive the new bonus shares to which they are entitled.

Without prejudice to the foregoing, if the requirements of section 277 of the Companies Act are not met within the framework of the Second Implementation in order to distribute the Interim Dividend, there will be a reversion to the traditional "Iberdrola Flexible Dividend" remuneration system, with the Company making a Purchase Commitment in order for the shareholders to be able to monetise their free-of-charge allocation rights by transferring them to the Company at the Fixed Purchase Price upon the terms and conditions described in section 3 below.

3. Purchase Commitment within the framework of the Second Implementation

If the requirements of section 277 of the Companies Act are not met to distribute the Interim Dividend within the framework of the Second Implementation, said Implementation shall return to the traditional "Iberdrola Flexible Dividend" system in order to ensure that the shareholders can receive all or part of their remuneration in cash. As a result of the foregoing, the Company assumes the Purchase Commitment if said circumstance occurs. As soon as the Company verifies that the requirements of section 277 of the Companies Act are not met, it shall communicate this circumstance to the market.

The Fixed Purchase Price shall be calculated by applying the formula used to determine the Cash Remuneration, such that the amount that would be received by shareholders choosing this option would be equal to the amount they would have received if it had been possible to distribute the Interim Dividend. The Fixed Purchase Price shall be calculated prior to the commencement of the trading period for the free-of-charge allocation rights of the second Increase in Capital and shall be published as soon as it is determined.

The Purchase Commitment assumed by the Company shall cover the free-of-charge allocation rights received by those who are registered as being entitled thereto in the book-entry records of "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR) on the relevant date pursuant to the securities clearing and settlement rules from time to time in effect, but excluding those rights that have been transferred on the market.

The Purchase Commitment shall be in effect and may be accepted during such term as is established for these purposes by the Board of Directors (with express power of substitution), and which must in any case be included within the trading period for the free-of-charge allocation rights.

For these purposes, the Company is authorised to acquire said free-of-charge allocation rights, with a maximum limit of all rights issued in relation to the second Increase in Capital, but must in any case comply with applicable legal restrictions from time to time in effect.

The acquisition by the Company of the free-of-charge allocation rights as a result of the Purchase Commitment shall be carried out with a charge to the reserves contemplated in section 303.1 of the Companies Act.

The Company shall waive the new shares corresponding to the free-of-charge allocation rights that it has acquired by application of the Purchase Commitment. In such an event, there will be an incomplete allocation of the Increase in Capital corresponding to the Second Implementation, and share capital shall be increased solely by the amount corresponding to the free-of-charge allocation rights that have not been waived, pursuant to the provisions of section 311 of the Companies Act.

4. Common Characteristics of the Increases in Capital

The amount of each of the Increases in Capital shall be the amount resulting from multiplying: (a) the nominal value of each share of the Company, equal to seventy-five euro cents, by (b) the total determinable number of new shares of the Company to be issued, in accordance with the formula set forth in section 4.1 below, on the date of each of the Implementations (the new shares of the Company issued by way of implementation of each of the Increases in Capital shall be collectively referred to as the "New Shares", and each one, individually, as a "New Share").

Both Increases in Capital shall be carried out, if at all, by means of the issuance and flotation, on their respective dates of implementation, of the New Shares, which shall be ordinary shares having a nominal value of seventy-five euro cents each, of the same class and series as those currently outstanding, represented by book entries.

The Increases in Capital shall be entirely carried out with a charge to the reserves contemplated in section 303.1 of the Companies Act. When implementing each of the Increases in Capital, the Board of Directors, with express power of substitution, shall determine the reserve(s) to be used and the amount of such reserve(s) in accordance with the balance sheet used as a basis for the transaction.

The New Shares shall be issued at par, i.e. at their nominal value of seventy-five euro cents, without a share premium, and shall be allocated without charge to the shareholders of the Company who have opted for this remuneration alternative.

Pursuant to the provisions of section 311 of the Companies Act, the possibility of an incomplete allocation of the Increases in Capital is contemplated in the event that the Company, a company within its group, a shareholder or a third party waives all or part of the free-of-charge allocation rights to which they are entitled at the time of implementation of each of the Increases in Capital, for which reason, in the event of such waiver, the share capital shall be increased by the corresponding amount. For these purposes, it shall be deemed that those who have chosen to receive their remuneration in cash by means of collecting the Dividend in question with respect to all or part of their shares expressly, automatically and irrevocably waive the free-of-charge allocation rights corresponding to said shares, upon the terms and conditions set forth herein.

4.1 New Shares to Be Issued in each of the Increases in Capital

The maximum number of New Shares to be issued in each of the Increases in Capital shall be the number resulting from the application of the following formula, with the resulting number being rounded to the next lower integer:

$$NNS = TNShrs. / Num. rights$$

where:

NNS = Number of New Shares to be issued within the framework of the relevant Increase in Capital;

TNShrs. = Number of shares of the Company outstanding on the date that the Board of Directors, with express power of substitution, resolves to implement the relevant Increase in Capital; and

Num. rights = Number of free-of-charge allocation rights required for the allocation of one New Share within the framework of the relevant Increase in Capital, which number will result from the application of the following formula, with the result being rounded to the next higher integer:

$$Num. rights = TNShrs. / Provisional number of shares$$

where:

Provisional number of shares = Amount of the Option / *ListPri*.

For these purposes, "**Amount of the Option**" will mean the maximum reference market value of the relevant Increase in Capital to be set by the Board of Directors, with express power of substitution, and which will not be greater than the amount referred to in the proposed increase in capital resolutions submitted for the approval of the shareholders at the General Shareholders' Meeting under items number seven and eight on the agenda (i.e. 1,310 and 1,140 million euros, respectively).

For its part, "**ListPri**" shall be the arithmetic mean of the average weighted listing prices of the Company's shares on the Bilbao, Madrid, Barcelona and Valencia Stock Exchanges through the Automated Quotation System (Sistema de Interconexión Bursátil) (Continuous Market) during the five trading sessions prior to the relevant resolution adopted by the Board of Directors (with express power of substitution) which determines the number of free-of-charge allocation rights needed for the allocation of one New Share in the relevant Increase in Capital, rounded to the closest one-thousandth part of one euro.

Furthermore, "**Cash Remuneration**" shall mean the gross amount per share resulting from the application of the following formula:

$$Cash Remuneration = ListPri / (Num. rights + 1)$$

The Cash Remuneration shall be equal to: (a) the amount of the Supplementary Dividend per Share in the case of the First Implementation; (b) the amount of the Interim Dividend per Share in the case of the Second Implementation; or (c) if compliance with the requirements of Section 277 of the Companies Act is not verified in the Second Implementation, the Fixed Purchase Price per free-of-charge allocation right.

4.2 Free-of-charge Allocation Rights

In each of the Increases in Capital, each outstanding share of the Company will grant its holder one free-of-charge allocation right.

The number of free-of-charge allocation rights required to receive one New Share in each of the Increases in Capital shall be automatically determined according to the ratio existing between the number of outstanding shares of the Company on the date of implementation of the relevant Increase in Capital (*TNShrs.*) and the provisional number of New Shares, calculated by using the formula contained in section 4.1 above. Specifically, the holders of free-of-charge allocation rights shall be entitled to receive one New Share for the number of free-of-charge allocation rights held by them, which shall be determined as provided in section 4.1 above (*Num. rights*).

In the event that the number of free-of-charge allocation rights required for the allocation of one New Share (Num. rights) multiplied by the number of New Shares to be issued (NNS) results in a number that is lower than the number of outstanding shares of the Company on the date of implementation of the corresponding Increase in Capital (TNShrs.), the Company (or such entity within its group, if any, as holds shares of the Company) shall waive a number of free-of-charge allocation rights equal to the difference between both figures for the sole purpose that the number of New Shares be a whole number and not a fraction.

The free-of-charge allocation rights shall be allocated to those who are registered as being entitled thereto in the book-entry records of "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR) on the relevant date pursuant to the securities clearing and settlement rules from time to time in effect.

The free-of-charge allocation rights shall be transferable upon the same terms as the shares from which they derive. The free-of-charge allocation rights may be traded on the market during such term as is established by the Board of Directors (with express power of substitution) in implementing the relevant Increase in Capital, which term shall not be less than fifteen calendar days. During such term, a sufficient number of free-of-charge allocation rights may be acquired on the market in the proportion required to receive New Shares. Notwithstanding the foregoing, the free-of-charge allocation rights acquired on the market during the trading period established for this purpose shall not give the acquiring party the right to choose to receive the corresponding Dividend. Therefore, the new holders of these rights may only monetise their investment through the sale thereof on the market, or alternatively receive the new bonus shares to which they are entitled.

Therefore, during the trading period for the free-of-charge allocation rights, subject to any other terms and conditions established by the Board of Directors, with express power of substitution, the holders of the free-of-charge allocation rights may choose between:

- (a) receiving their remuneration in bonus shares of the Company, in which case, at the end of the trading period, they shall be allocated the New Shares to which they are entitled pursuant to the terms and conditions of the implementation of the Increase in Capital in question;*
- (b) transferring all or part of their free-of-charge allocation rights on the market, in which case the consideration that the holders of the free-of-charge allocation rights will receive for the sale thereof will depend on the listing price of said rights; or*
- (c) only during the Common Election Period determined by the Board of Directors (with express power of substitution), receiving their remuneration in cash by collecting the corresponding Dividend, for which purpose the shareholders shall be required to make an express election in this regard. The shareholders may choose to receive the Dividend in question with respect to all or part of their shares.*

In this case, it shall be deemed that those choosing to receive their remuneration in cash with respect to all or part of their shares expressly, automatically and irrevocably waive the free-of-charge allocation rights corresponding to said shares and the ability to transfer them on the market. To this end, the participants in "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR) will block said free-of-charge allocation rights, which may not be transferred on the market and which shall automatically expire at the end of the trading period, without the holders thereof being entitled to receive New Shares.

As mentioned above, the free-of-charge allocation rights acquired on the market during the trading period established for this purpose shall not give the acquiring parties the right to choose to receive the Dividend. Therefore, the new holders of these rights may only monetise their investment through the sale thereof on the market, or alternatively receive the new bonus shares to which they are entitled.

Based on their preferences and needs, the Company's shareholders may combine any of the alternatives mentioned in paragraphs (a) through (c) above with respect to different groups of shares that each of them own.

4.3 Balance Sheet for the Transaction and Reserve with a Charge to which the Increases in Capital are Carried Out

The balance sheet used as a basis for the two Increases in Capital is the one for the financial year ended 31 December 2017, duly audited and submitted to the shareholders for approval at this General Shareholders' Meeting under item number one on the agenda.

The Increases in Capital shall be entirely carried out with a charge to the reserves contemplated in section 303.1 of the Companies Act. When implementing each of the Increases in Capital, the Board of Directors, with express power of substitution, shall determine the reserve(s) to be used and the amount of such reserve(s) in accordance with the balance sheet used as a basis for the transaction.

4.4 Representation of the New Shares

The New Shares shall be represented by book entries, the book-entry registration of which is entrusted to "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR) and its participants.

4.5 Rights Attaching to the New Shares

As from the date on which the relevant Increase in Capital is declared to be subscribed and paid up, the New Shares shall grant the holders thereof the same financial, voting and like rights as the ordinary shares of the Company then outstanding.

4.6 Shares on Deposit

Once the period for trading the free-of-charge allocation rights during each of the Increases in Capital has ended, the New Shares that could not be allocated for reasons not attributable to the Company shall be kept on deposit for those who provide evidence that they are the lawful holders of the corresponding free-of-charge allocation rights. Once three years have passed from the end of each of the periods for trading the free-of-charge allocation rights, the New Shares issued by virtue of the relevant Increase in Capital that are still pending allocation may be sold in accordance with the provisions of section 117 of the Companies Act, at the expense and peril of the interested parties. The cash amount from such sale shall be deposited with Banco de España or with Caja General de Depósitos at the disposal of the interested parties.

4.7 Application for Admission to Trading

The Company shall make application for trading the New Shares to be issued as a consequence of each of the Increases in Capital on the Bilbao, Madrid, Barcelona and Valencia Stock Exchanges, through the Automated Quotation System (Sistema de Interconexión Bursátil) (Continuous Market), and shall carry out such acts and formalities as are required and submit the documents needed to the appropriate bodies for admission to trading of the New Shares issued as a result of each of the approved Increases in Capital, with an express statement for the record of the Company's submission to the rules that may now or hereafter exist with respect to Stock Exchange matters, and especially regarding trading, continued trading and removal from trading on official markets.

A subsequent request for removal from trading of the shares of the Company shall be adopted with the same formalities as apply thereto and, in such event, the interests of the shareholders opposing or not voting on the resolution to remove shall be safeguarded, in compliance with the requirements set out by applicable law at such time.

5. Implementation of the New "Iberdrola Flexible Remuneration" System. Implementations

Within a period of one year from the date of approval of this resolution, the Board of Directors, with express power of substitution, may set the date on which each of the Implementations must be carried out and set the terms and conditions thereof as to all matters not provided for in this resolution (including, in particular, the Amount of the Option corresponding to each of the Implementations and the Supplementary Dividend per Share).

Furthermore, it is expected that prior to 31 December 2018, the Board of Directors will determine the Interim Dividend per Share to be paid for purposes of the Second Implementation as well as the other conditions applicable to the Interim Dividend, pursuant to the provisions of section 277 of the Companies Act. To this end, and in accordance with the provisions of section 161 of the Companies Act, the shareholders acting at this General Shareholders' Meeting hereby instruct the Board of Directors, if the requirements established in section 277 of the Companies Act are met, to approve the distribution of the Interim Dividend and set the terms and conditions applicable to the corresponding Dividend Payment, all in order to carry out the Second Implementation.

Notwithstanding the foregoing, if the Board of Directors, with express power of substitution, does not deem it advisable to carry out one or both Implementations, in whole or in part, within the aforementioned period, it may refrain from doing so, with the duty to inform the shareholders thereof at the next General Shareholders' Meeting.

Specifically, the Board of Directors, with express power of substitution, shall analyse and take into account the market conditions, the circumstances of the Company itself or those deriving from an event that has social or financial significance for the Company, and if these or other factors make it inadvisable, in its opinion, to carry out one or both Implementations, it may refrain from doing so. In addition, the resolutions of the shareholders at this General Shareholders' Meeting relating to the Supplementary Dividend and to the Increases in Capital shall be deprived of any and all effect in the event that the Board of Directors does not exercise the powers delegated thereto, or in the case of the Second Implementation, does not approve the distribution of the Interim Dividend or honour the Purchase Commitment (if the requirements of section 277 of the Companies Act are not met) within a period of one year from approval of the resolutions.

Once the period for trading the free-of-charge allocation rights corresponding to each of the Increases in Capital has ended, the following shall apply:

- (a) *The New Shares shall be allocated to those who, according to the book-entry records maintained by "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR) and its participants, are the holders of free-of-charge allocation rights in the proportion resulting from section 4 above due to not having waived them upon the terms set forth above.*
- (b) *The period for trading the free-of-charge allocation rights shall be declared to have ended and the appropriation of the account(s) with a charge to which the relevant Increase in Capital will be implemented shall be formalised on the books in the respective amount, with which appropriation the Increase in Capital will be paid up.*
- (c) *The Company shall pay the Supplementary Dividend or the Interim Dividend (or, if the requirements of section 277 of the Companies Act are not met within the framework of the Second Implementation, the Fixed Purchase Price), as applicable, to the shareholders that have expressly chosen to receive it within the period and subject to the terms and conditions determined for these purposes by the Board of Directors, pursuant to the provisions of section 2 above.*

Likewise, once each of the periods for trading the free-of-charge allocation rights has ended, the Board of Directors, with express power of substitution, shall adopt the resolutions required to amend the By-Laws so that they reflect the new amount of the share capital and the number of shares resulting from the implementation of the relevant Increase in Capital, and to make application for trading of the resulting New Shares on the Bilbao, Madrid, Barcelona and Valencia Stock Exchanges, through the Automated Quotation System (Continuous Market).

6. Delegation to Carry Out Each of the Implementations

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 set the date on which each of the Implementations must be carried out, which shall in any case be within a period of one year from the approval of this resolution, and to determine the specific schedule for each of the Implementations.*
- (b) *As regards each of the Implementations, to set the Amount of the Option, the amount of the Supplementary Dividend per Share (in the case of the First Implementation), the number of New Shares, the number of free-of-charge allocation rights necessary for the allocation of one New Share and the Cash Remuneration, applying the rules established by this resolution for such purpose.*
- (c) *To determine the reserve(s), among those contemplated in this resolution, with a charge to which each of the Increases in Capital will be implemented.*
- (d) *To designate the company or companies that will assume the duties of agent and/or financial adviser in connection with each of the Implementations, and sign all required contracts and documents for such purpose. In particular, to appoint the entity that must act as paying agent in each of the Dividend Payments.*
- (e) *To set the duration of the periods for trading the free-of-charge allocation rights corresponding to each of the Increases in Capital.*
- (f) *As regards each of the Implementations, to set the specific duration of the Common Election Period and the terms and conditions under which each of the shareholders may state their preferences regarding the receipt of their remuneration (in cash or in New Shares).*
- (g) *After the Common Election Period for each Implementation, to determine the aggregate gross amount in euros corresponding to the Dividend Payment in question and to make payment thereof through the participants in "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR).*
- (h) *To declare the Increases in Capital to be closed and implemented, for such purpose setting the number of New Shares actually allocated in each of them, and therefore the amount by which the Company's share capital must be increased in accordance with the rules established by the shareholders at this General Shareholders' Meeting, as well as declare, if applicable, the existence of an incomplete allocation of each of the Increases in Capital.*
- (i) *To rescind the resolution on distribution of the corresponding Dividend with respect to the amounts that were not distributed to those shareholders who elected (expressly or implicitly) to receive New Shares.*

- (j) *In the case of the First Implementation, to determine the aggregate total amount to be distributed as a dividend with a charge to the results for the financial year ended 31 December 2017 pursuant to the provisions of item number six on the agenda and, in view of said amount, specify the amount of the basis for the total distribution established in said item on the agenda to be allocated to remainder.*
- (k) *To amend the article 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 relevant Increase in Capital.*
- (l) *To waive any free-of-charge allocation rights to subscribe for New Shares in each of the Increases in Capital, for the sole purpose of facilitating that the number of New Shares be a whole number and not a fraction.*
- (m) *If the Purchase Commitment must be honoured within the framework of the Second Implementation due to the requirements of section 277 of the Companies Act for the distribution of the Interim Dividend not having been met, to determine the acquisition by the Company of the corresponding free-of-charge allocation rights, set the period of time during which the Purchase Commitment will be in effect (within the limits established in these resolutions), honour the Purchase Commitment by paying the corresponding amounts to the shareholders who have accepted said commitment, waive the free-of-charge allocation rights owned by the Company at the end of the trading period of the Second Implementation as a result of the Purchase Commitment, and thus the New Shares corresponding to such rights, and take any other measures or actions needed to fully honour the Purchase Commitment.*
- (n) *To take all steps required for the New Shares to be included in the book-entry records of "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR) and admitted to trading on the Bilbao, Madrid, Barcelona and Valencia Stock Exchanges through the Automated Quotation System (Continuous Market) after each of the Increases in Capital.*
- (o) *To take any actions that are necessary or appropriate to implement and formalise each of the Increases in Capital before any Spanish or foreign public or private entities or agencies, including acts for purposes of representation or supplementation or to cure defects or omissions that might prevent or hinder the full effectiveness of the foregoing resolutions.*

7. Sample Calculation relating to the First Implementation

Set out below, solely for purposes of facilitating an understanding of the application hereof, is a sample calculation, in the case of the First Implementation, of the maximum number of new shares to be issued in the increase in capital submitted for the approval of the shareholders at the General Shareholders' Meeting under item number seven on the agenda, of the maximum nominal value of such increase, of the number of free-of-charge allocation rights required for the allocation of one new share and of the Cash Remuneration (which is equal to the Supplementary Dividend).

The results of these calculations are representative of those that might be obtained, which, in the case of the First Implementation, will depend on the different variables used in the formulas (basically, the listing price of Iberdrola shares at that time (ListPri) and the Amount of the Option, as determined by the Board of Directors (with express power of substitution) in exercise of the power delegated by the shareholders at the General Shareholders' Meeting).

Solely for the purposes of this example:

- *The Amount of the Option is 1,179 million euros.*
- *The TNShrs. is 6,240,000,000¹.*
- *A ListPri of 6.046 euros is assumed (solely for the purposes of this example, the listing price of the Iberdrola shares at the closing of the trading session of 15 February 2018 has been used as a reference).*

Therefore:

<i>Provisional number of shares = Amount of the Option / ListPri</i>	<i>1,179,000,000 / 6.046 = 195,004,961.958320 = 195,004,961 shares (rounded downwards)</i>
<i>Num. rights = TNShrs. / Provisional number of shares</i>	<i>6,240,000,000 / 195,004,961 = 31.999185907890809 = 32 rights</i>

¹ For purposes of this example, it is assumed that this would be the total number of shares of the Company outstanding after the implementation of the reduction in capital provided for in the resolution corresponding to item number 8 on the agenda if it is implemented in the total maximum amount thereof (i.e. 198,374,000 shares).

	<i>(rounded upwards)</i>
$NNS = TNShrs. / Num. rights$	$6,240,000,000 / 32 = 195.000.000$
$Cash Remuneration = ListPri / (Num. rights + 1)$	$6.046 / (32 + 1) = 0.183 \text{ euros}$ <i>(rounded to the closest thousandth of one euro)</i>

Therefore:

- (i) *The maximum number of shares to be issued in the First Implementation would be 195,000,000.*
- (ii) *The maximum nominal amount of the increase in capital submitted for approval of the shareholders at the General Shareholders' Meeting under item number seven on the agenda would be 146,250,000.00 euros (195,000,000 x 0.75).*
- (iii) *32 free-of-charge allocation rights (or old shares) would be necessary for the allocation of one new share.²*
- (iv) *In this example, the Supplementary Dividend would be equal to 0.183 euros (gross) per share (amount equal to the Cash Remuneration)."*

* * *

Bilbao, 20 February 2018.

² In this example, the Company (or an entity of its group that holds shares of the Company) would not be required to waive any free-of-charge allocation rights corresponding to own shares in order for the number of shares to be issued to be an integer.