



**IBERDROLA**

**REPORT SUBMITTED BY THE BOARD OF DIRECTORS OF IBERDROLA, S.A. REGARDING THE PROPOSALS TO MAKE TWO CAPITAL INCREASES BY MEANS OF A SCRIP ISSUE, IN CONNECTION WITH ITEM SIX ON THE AGENDA FOR THE GENERAL SHAREHOLDERS' MEETING CALLED TO BE HELD ON 28 AND 29 MARCH 2014, ON FIRST AND SECOND CALL, RESPECTIVELY**

**1. Purpose of the Report**

This report is prepared by the Board of Directors of IBERDROLA, S.A. (the “**Company**”) pursuant to the provisions of sections 286 and 296 of the Companies Act (*Ley de Sociedades de Capital*), in order to provide the rationale for the two proposals to increase share capital by means of a scrip issue, 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 item six, sections A and B on the agenda.

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 article 5 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 an identical manner, this reports 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 to increase share capital submitted for approval at the General Shareholders’ Meeting are included.

**2. Purpose of and Rationale for the Proposals**

**2.1 Purpose of the Proposals**

The Company has traditionally compensated its shareholders by paying cash dividends, and it plans to maintain a policy whereby shareholders may, if they so wish, continue to receive their entire compensation in cash. Notwithstanding the foregoing, in order to improve its dividend payment policy, in 2010 the Company first offered its shareholders an option (known as the “Iberdrola Flexible Dividend”) that allowed them to receive, in the alternative, bonus shares of the Company, giving them the benefit of favourable tax treatment, but without limiting their ability to receive in cash an amount equivalent to the payment of a dividend. Such formula was repeated in 2011, 2012 and 2013. Given its good reception, the Company has decided to offer the same possibility again this year.

Accordingly, the purpose of the proposals to increase share capital by means of a scrip issue made to the shareholders at the General Shareholders' Meeting and covered by this report is to offer all of the Company's shareholders newly-issued bonus shares or, ultimately, and through the transfer to the Company of the free-of-charge allocation rights that they receive for the shares they hold (as set forth in section 2.2 below), the possibility of obtaining, at a minimum, equivalent value to that of the traditional dividend payments in cash, without the shareholder compensation policy being altered as a result. Furthermore, the shareholders of the Company would have under this system the option to monetise their free-of-charge allocation rights through the transfer thereof on the market, without having in this case the right to receive a guaranteed fixed price.

## **2.2 Structure of the Proposals**

The proposals submitted to the shareholders for approval at the General Shareholders' Meeting under item six –sections A and B– on the agenda, which consist of offering the Company's shareholders the option to receive, at their choice, bonus shares or a cash amount that is, at a minimum, equivalent, in both instances, to the payment of the dividend, if any, that they would have been entitled to receive (the “**Option**”), 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 capital increase shall be referred to as a “**Capital Increase**” and, collectively, as the “**Capital Increases**”). The foregoing should be understood to be without prejudice to the distribution of a cash dividend, upon the terms proposed for approval by the shareholders at the Company's General Shareholders' Meeting under item five on the agenda.

Notwithstanding the fact that the Capital Increases have the purpose described above, each of them is independent of the other, such that each Capital Increase would be implemented on different dates and the Company might even decide not to implement one or both of them, in which case the respective Capital Increase would be deprived of effect, as provided in section 3.7 below.

As explained below, the total number of shares to be issued in each Capital Increase will be such that the sum of the reference market value of such shares at the time of the implementation thereof (calculated in accordance with the procedure described in this report) will come to the maximum amount of 782 million euros in the first Capital Increase and of 897 million euros in the second Capital Increase.

It is expected that the first Capital Increase will be implemented on dates around the month of July 2014, while the second Capital Increase is planned for dates around the month of January 2015.

On each of the two dates that the Board of Directors (with express power of substitution) decides to implement a Capital Increase:

(a) The Company's shareholders will receive one free-of-charge allocation right for each Iberdrola share they hold at that time. These rights will be tradable and, therefore, transferable on the same terms as the shares from which they derive on the

Bilbao, Madrid, Barcelona, and Valencia Stock Exchanges, through the Automated Quotation System, for a term of at least fifteen calendar days, at the expiration of which term such rights will automatically become newly-issued shares, which will be allocated to those who are then holders of said free-of-charge allocation rights.

As on previous occasions, and in order to offer a more attractive alternative to those shareholders that decide to receive new shares of the Company or to sell their free-of-charge allocation rights on the market, it is proposed to the shareholders at the General Shareholders' Meeting to apply a discount on the listing price taken as a reference to calculate the number of free-of-charge allocation rights needed to obtain one new share, all in line with the practice adopted by other European listed companies.

Additionally, in order that the shareholders that decide to transfer their free-of-charge allocation rights to the Company pursuant to the purchase commitment assumed by it do not suffer any loss as a consequence of the application of this discount, the Company will guarantee that the Purchase Price (as defined below) is at no time lower than that they would have received if no discount had been applied.

In this way, the specific number of shares to be issued in each Capital Increase and, consequently, the number of rights required for the allocation of one new share will depend on: (i) the listing price of the Company's shares at the time the implementation of the Capital Increase is approved, in accordance with the procedure described in this report and (ii) the discount rate that the Board of Directors, in exercise of the power delegated thereto by the shareholders at the General Shareholders' Meeting, with express power of substitution, and taking into account market conditions and the corporate interest, resolves to apply in order to calculate the aforementioned figures and the Purchase Price (as defined below) (the "**Discount**"). The Discount may not be less than 0% or greater than 10%. Such listing price of the Company's shares once the Discount has been applied thereto shall hereinafter be referred to as the "**Listing Price**" or "**ListPri**".

In any event, as explained below, the total number of shares to be issued in each Capital Increase will be such that the reference market value of such shares (calculated at the Listing Price) will in no event be greater than the Amount of the Option (as defined in section 2.4 below) established for each Capital Increase (which, in the case of the first Capital Increase, may not exceed 782 million euros, and in the case of the second Capital Increase, may not exceed 897 million euros).

(b) In each Capital Increase, the Company will assume, upon the terms and conditions set forth below, an irrevocable commitment to purchase such free-of-charge allocation rights at a fixed price (the "**Purchase Commitment**"). Such fixed price will be calculated prior to the commencement of the period for trading the free-of-charge allocation rights of the respective Capital Increase in accordance with the provisions of section 3.3 below. In this way, the Company assures all of the shareholders of the ability to monetise their rights if they do not wish to receive new shares.

The subject matter of the Purchase Commitment assumed by the Company will be such as is determined by the Board of Directors of Iberdrola, in exercise of the powers

delegated thereto by the shareholders at the General Shareholders' Meeting (with express power of substitution) and taking into account market conditions and the corporate interest, based on the following two alternatives:

(i) 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) at 23:59, Madrid time, on the day of publication of the announcement of implementation of each Capital Increase in the Official Bulletin of the Commercial Registry, excluding such rights as have been transferred on the market; or

(ii) all of the free-of-charge allocation rights, regardless of whether the holders thereof have received them from the Company without charge because of their status as shareholders at the time of allocation thereof or have acquired them on the market.

Therefore, within the context of each Capital Increase, all Iberdrola shareholders will have the option, at their own discretion:<sup>1</sup>

(a) Not to transfer their free-of-charge allocation rights. In this case, at the end of each trading period, shareholders will receive such number of new shares as they are proportionately entitled to receive, entirely as bonus shares.

(b) To transfer all or part of their free-of-charge allocation rights to the Company pursuant to the Purchase Commitment, at a guaranteed fixed price for such Capital Increase. In this way, shareholders would choose to monetise their rights and receive an amount that is, at a minimum, equivalent to the dividend, if any, that the Company would have paid.

(c) To transfer all or part of their free-of-charge allocation rights on the market. In this case, shareholders would also choose to monetise their rights, but they would not receive a guaranteed fixed price; rather, the consideration for such rights would depend on market conditions in general and on the listing price of such rights in particular.

In each Capital Increase, the Company's shareholders may combine any of the alternatives mentioned in items (a) through (c) above. In this regard, it should be noted, however, that: (i) the tax treatment of such alternatives is different and (ii) the analysis of the advisability of choosing each of the aforementioned options may be affected by the Discount that the Board of Directors, in exercise of the power delegated thereto by the shareholders at the General Shareholders' Meeting (with express power of substitution), may apply in order to calculate the number of rights needed for the allocation of one new share and the Purchase Price (as this term is defined below) in each Capital Increase.

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<sup>1</sup> The options available to the holders of ADRs (in the United States of America) and of CDIs (in the United Kingdom) may have peculiarities of their own as compared to the options described in this report, based on the terms and conditions applicable to the programmes in which such holders participate.

### **2.3 Coordination with the Distribution of Cash Dividends**

As stated above, within the period of one year from the date on which the shareholders acting at the General Shareholders' Meeting approve the resolution proposed herein, and provided that the legal and financial conditions prevailing at any time so advise, the Company could again put into practice the shareholder compensation system known as the "Iberdrola Flexible Dividend", replacing the traditional payment of dividends in cash with one or two increases in share capital by means of a scrip issue, maintaining in all events the possibility for the shareholders to receive, at their choice, a cash amount that is, at a minimum, equivalent to their entire customary cash compensation (through the Option, as such term is defined in section 2.2 above). In this way, the Company seeks to ensure that shareholders that so wish will receive a cash amount that is, at a minimum, equivalent to what could have been the traditional dividend amounts paid.

However, the foregoing should be understood to be without prejudice to the distribution of a cash dividend, if approved by the shareholders at the Company's General Shareholders' Meeting under item five on the agenda.

### **2.4 Amount of the Option in each Capital Increase**

The structure of the proposals consists of offering bonus shares to the shareholders, on one or two occasions, during the period of one year from the date of approval of the proposed resolutions by the shareholders acting at the General Shareholders' Meeting and provided that the legal and financial conditions prevailing at each time so advise.

The aggregate market value of the bonus shares to be issued in the Capital Increases, calculated on the basis of the Listing Price applicable at the time of implementation of each Capital Increase, will be fixed by the Board of Directors (or the body acting by delegation therefrom) and will come to a maximum amount of 782 million euros in the first Capital Increase and of 897 million euros in the second Capital Increase (the "**Amount of the Option**" of each Capital Increase, respectively).

The Amount of the Option of each Capital Increase will be set and announced as provided in section 3.1 below.

## **3. Main Terms and Conditions of the Capital Increases**

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

### **3.1 Nominal amount of the Capital Increases, Number of Shares to Be Issued, Number of Free-of-charge Allocation Rights Required for the Allocation of One New Share, and Discount**

The nominal amount of each Capital Increase will be the result of multiplying the number of new shares to be issued in each of such Increases by the nominal value of the shares of the Company (seventy-five euro cents per share). The Capital Increases will

thus be carried out at par, without a share premium.

In turn, the number of shares to be issued in each Capital Increase will be the result of dividing the respective Amount of the Option by the Listing Price applicable in each increase.

As mentioned above, the “Listing Price” or “ListPri” of each Capital Increase will be the result of applying the Discount (which will not be less than 0% or greater than 10%) to 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, as well as the “Purchase Price” (as such term is defined below), rounded to the closest one-thousandth part of one euro.

The specific Discount applied in each Capital Increase will be determined by the Board of Directors of the Company, in exercise of the power delegated thereto by the shareholders at the General Shareholders’ Meeting (with express power of substitution), taking into account market conditions and the corporate interest.

The number thus calculated will 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 will waive the corresponding free-of-charge allocation rights as provided in section 3.2 below.

Specifically, at the time of the decision to implement each Capital Increase, the Board of Directors (with express power of substitution) will determine the number of new shares to be issued and, as a consequence, the nominal amount of the Capital Increase in question, as well as the number of free-of-charge allocation rights required for the allocation of one new share, by using the following formula (the result to be rounded to the next lower integer):

$$\text{NNS} = \text{TNShrs.} / \text{Num. rights}^2$$

Attached hereto as an Exhibit is a sample calculation of the maximum number of new shares to be issued in the first Capital Increase, 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 Purchase Price (as such term is defined below).

<sup>2</sup> **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 Capital Increase; and  
**Num. rights** = Number of free-of-charge allocation rights required for the allocation of one new share in the Capital Increase 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:  
$$\text{Provisional number of shares} = \text{Amount of the Option} / \text{ListPri}$$

The Exhibit contemplates two alternative scenarios: one in which a Discount of 0% is applied and (ii) one in which a Discount of 10% is applied.

The Amount of the Option of each Capital Increase will 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 Capital Increase, each outstanding share 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 Capital Increase will be automatically determined according to the ratio existing between the number of Iberdrola shares then outstanding on the date of implementation of the Capital Increase 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 will be entitled to receive one new share in exchange for the number of free-of-charge allocation rights held by them, which will 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 then outstanding shares of the Company on the date of the Capital Increase in question, the Company (or such entity within its group, if any, as holds shares of the Company) will 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, there will be an incomplete allocation of the Capital Increase in question, and share capital will be increased solely by the amount corresponding to the free-of-charge allocation rights that have not been waived (for which purposes, the provisions of section 3.3 below will also have to be taken into account), pursuant to the provisions of section 311 of the Companies Act.

The free-of-charge allocation rights will 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) at 23:59, Madrid time, on the day of publication of the announcement of implementation of each Capital Increase in the Official Bulletin of the Commercial Registry. 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 will not be less than fifteen calendar days, beginning on the day following the day of publication of the announcement of implementation of each Capital Increase in the Official Bulletin of the Commercial Registry. 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.<sup>3</sup>

### **3.3 Irrevocable Commitment to Purchase the Free-of-charge Allocation Rights**

As explained above, within the context of the implementation of each Capital Increase, the Company will assume the irrevocable commitment to purchase the free-of-charge allocation rights (as defined earlier, the “**Purchase Commitment**”) on the terms and conditions set forth in section 2.2 (b) above. In this way, the Company’s shareholders will be assured of the possibility of selling their rights to the Company and of receiving, at their choice, all or part of the Option in cash. The Purchase Commitment will be in effect and may be accepted during such term, within each period for trading the free-of-charge allocation rights, as is established for each Capital Increase by the Board of Directors (with express power of substitution).

For such purposes, the Company is granted authority to acquire the aforementioned free-of-charge allocation rights up to the maximum limit of the total number of rights issued in each Capital Increase, and must in any event observe such legal restrictions as may apply at any time. The purchase price under the Purchase Commitment will be a fixed price that will be different for each Capital Increase and will be calculated prior to the commencement of the corresponding period for trading the free-of-charge allocation rights in accordance with the following formula (in which the definitions set forth in section 3.1 above apply), rounded to the closest one-thousandth part of one euro and, in the case of one-half of one-thousandth of one euro, to the next higher one-thousandth part of one euro (the “**Purchase Price**”):

$$\text{Purchase Price} = \text{ListPri} / (\text{Num. rights} + 1)$$

In each Capital Increase, the Company will guarantee to the holders of free-of-charge allocation rights that decide to transfer their rights to it under the Purchase Commitment that the Purchase Price that they will obtain will at no time be lower than that that would result if no Discount were applied.

Therefore, in the event that the Discount applied is other than zero, the term “**Purchase Price**” will mean the greater of the following amounts: (a) the Purchase Price calculated in accordance with the formula set forth above and (b) the price resulting from the application of the mathematical formulas described in this section and in section 3.1 above, assuming a Discount of 0% solely for the purpose of calculating the Purchase Price.

<sup>3</sup> Shareholders that do not have free-of-charge allocation rights in a number sufficient to receive one new share in each Capital Increase 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 to the Company under the Purchase Commitment at a guaranteed fixed price; or (c) transfer all or part of their free-of-charge allocation rights on the market (in which case they will not be entitled to receive a guaranteed fixed price; rather, the consideration for their rights will depend on market conditions in general and on the listing price of the free-of-charge allocation rights in particular).

The final Purchase Price thus calculated will be announced at the time of approval of the implementation of each Capital Increase.

The acquisition by the Company of the free-of-charge allocation rights as a consequence of the Purchase Commitment will be effected in each Capital Increase with a charge to the reserves contemplated in section 303.1 of the Companies Act.

It is contemplated that, in each Capital Increase, the Company will waive the new shares corresponding to the free-of-charge allocation rights that the Company has acquired under the Purchase Commitment. In such an event, there will be an incomplete allocation of the Capital Increase in question, and share capital will 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.

### **3.4 Rights Attaching to the New Shares**

The new shares issued in each Capital Increase will 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 member entities.

As from the date that each Capital Increase is declared to be subscribed and paid up, the new shares will grant the holders thereof the same financial, voting, and like rights as the ordinary shares of the Company currently outstanding. In particular, the holders of the new shares will be entitled to receive the interim dividend and supplemental dividend amounts, if any, that are paid after such date.

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

Without prejudice to the foregoing, the Company’s shareholders should bear in mind that the entities members of “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, pursuant to applicable law, 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, such member entities may, pursuant to applicable law, 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.

### **3.5 Balance Sheet and Reserves with a Charge to which the Capital Increases Are Carried Out**

The balance sheet used as a basis for the Capital Increases is the one for the

financial year ended on 31 December 2013, which has been audited by Ernst & Young, S.L., and which is submitted to the shareholders for approval at the General Shareholders' Meeting under item one on the agenda.

The Capital Increases will be entirely carried out with a charge to the reserves contemplated in section 303.1 of the Companies Act. On the occasion of the implementation of each of them, the Board of Directors (with express power of substitution) will 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.

### **3.6 Tax Regime**

Within the framework of the implementation of the "Iberdrola Flexible Dividend" system, 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, which was submitted to such agency on 23 November 2009. The consultation was answered by the DGT on 27 April 2010 and, in turn, the answer was clarified by the DGT, at the Company's request, on 1 October 2010.

The answer indicates that such treatment is the following (which has not changed since the date of issuance of such answer for shareholders residing in common regions (*territorio común*) and for non-residents; however, it should be taken into account that the Historical Territories of The Basque Country have amended their territorial regulations (*normas forales*) on Personal Income Tax ("IRPF") to cover this type of transaction):

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 Capital Increases will not be subject to tax 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 non-residents 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 Capital Increase 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 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:

- For purposes of the IRPF and the IRNR on non-residents without a

permanent establishment in Spain, the amount obtained for the transfer of the free-of-charge allocation rights on the market is subject to the same treatment that tax regulations provide for pre-emptive rights. Accordingly, the amount obtained for the transfer of the free-of-charge allocation rights reduces the acquisition value for tax purposes of the shares from which such rights derive.

Thus, if the amount obtained for the aforementioned transfer is larger than the acquisition value of the securities from which they derive, the difference will be deemed to be a financial profit earned by the transferor in the tax period in which the transfer is effected, all without prejudice to the potential application to persons subject to the IRNR without a permanent establishment of the agreements for the avoidance of double taxation and for the prevention of tax evasion in the area of Income Tax entered into by Spain and to which they might be entitled.

In the case of shareholders who are individuals and residents of the Historical Territories of the Basque Country, the amount obtained for the transfer of the free-of-charge allocation rights is regarded as a financial profit.

- 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 for shareholders subject to the above-mentioned taxes.

In the event that the holders of free-of-charge allocation rights in relation to whom the Company has assumed the Purchase Commitment decide to use such Purchase Commitment, the tax treatment applicable to the amount received for the transfer to the Company of their free-of-charge allocation rights will be equal to the treatment applicable to dividends directly distributed in cash and, consequently, such amount will be subject to the corresponding withholding and taxes.

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. 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 (in particular, in the Historical Territories of the Basque Country) both to the law applicable as of the date of this report and to the rules for interpretation thereof, 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 before making a decision in connection with the Capital Increases.

### **3.7 Delegation of Powers and Implementation of the Capital Increases**

It is proposed to delegate to the Board of Directors, with the express power of substitution, the power to set the date on which each Capital Increase is to be

implemented, as well as to establish the terms and conditions applicable to such increases as to all matters not provided for by the shareholders at the General Shareholders' Meeting (including, in particular, Amount of the Option and the Discount), 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 implement either of the Capital Increases, it may, within the aforementioned period, refrain from implementing the Capital Increases (one or both), with the duty to inform the shareholders thereof at the next General Shareholders' Meeting held. Specifically, the Board of Directors (with express power of substitution) will 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 implement either of the Capital Increases, it may decide not to implement it. In addition, the Capital Increase in question will be deprived of any and all effect in the event that the Board of Directors does not exercise the powers delegated thereto within the period of one year established by the shareholders at the General Shareholders' Meeting for implementation thereof.

On the dates that the Board of Directors, or the body acting by delegation therefrom, decides to implement a Capital Increase, 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 will make public such terms and conditions. In particular, prior to the commencement of each free-of-charge allocation period, the Company will make available to the public a document containing information on the number and nature of the shares and the reasons for the Capital Increase, all as provided by section 26.1.e) of Royal Decree 1310/2005 of 4 November, which further develops a part of the provisions of Law 24/1988 of 28 July on the Securities Market.

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

(a) The new shares will 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 by its member entities, are the holders of free-of-charge allocation rights in the required proportion.

(b) The period for trading the free-of-charge allocation rights will be declared to have ended and the appropriation of the account(s) with a charge to which the Capital Increase will be implemented will be formalised on the books in the respective amount, with which appropriation the Capital Increase will be paid up.

Finally, in each Capital Increase, the Board of Directors (with express power of substitution) will 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 Capital Increase in question, and to make application for listing the new shares as described in the next section.

### **3.8 Admission of the New Shares to Listing**

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

### **4. Proposed Resolutions to be 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 SIX ON THE AGENDA***

***Increases in share capital by means of scrip issues in order to implement the "Iberdrola Flexible Dividend" system.***

#### ***RESOLUTION***

***A - Approval of an increase in share capital by means of a scrip issue at a maximum reference market value of 782 million euros for the free-of-charge allocation of new shares to the shareholders of the Company. Offer to the shareholders of the acquisition of their free-of-charge allocation rights at a guaranteed fixed price. Express provision for the possibility of an incomplete allocation. Application for admission of the shares issued to listing on the Bilbao, Madrid, Barcelona, and Valencia Stock Exchanges, through the Automated Quotation System (Sistema de Interconexión Bursátil). Delegation of powers to the Board of Directors, with express power of substitution, including, among others, the power to amend article 5 of the By-Laws.***

#### ***1. Capital Increase with a Charge to Reserves***

*To increase the share capital by the amount resulting from multiplying (a) the nominal value of each share of IBERDROLA, S.A. (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 2 below, on the date of implementation of the increase in share capital (all of the new shares of the Company issued by way of implementation of this resolution shall be collectively referred to as the "New Shares", and each one, individually, as a "New Share"), which amount may not in any event exceed the sum of the reference market value of the New Shares equal to a maximum limit of 782 million euros (the "Capital Increase").*

*The Capital Increase will be carried out by means of the issuance and flotation, if applicable, on the date of implementation of the Capital Increase, of the New Shares, which will 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 Capital Increase will be entirely carried out with a charge to the reserves contemplated in section 303.1 of the Companies Act (Ley de Sociedades de Capital). When implementing the Capital Increase, the Board of Directors, with express power of substitution, will 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 will be issued at par, i.e. at their nominal value of seventy-five euro cents, without a share premium, and will be allocated to the shareholders of the Company without charge.*

*Within the year following the date of approval of this resolution, the Capital Increase may be implemented by the Board of Directors, with express power of substitution, at its sole discretion and, therefore, without having to resort again to the shareholders at a General Shareholders' Meeting, and by taking into consideration the legal and financial conditions prevailing at the time of implementing the Capital Increase, in order to offer the Company's shareholders a flexible and efficient compensation formula. The date on which the Capital Increase is expected to be implemented will be around the month of July 2014. The number of New Shares to be issued will be such as results from the formula set forth in section 2 below, provided, however, that the Amount of the Option (as such term is defined in section 2 below) may in no event exceed the maximum amount of 782 million euros.*

*Pursuant to the provisions of section 311 of the Companies Act, the possibility of an incomplete allocation of the Capital Increase is contemplated in the event that the Company, a company within its group, or a third party waives all or part of the free-of-charge allocation rights to which they are entitled at the time the Capital Increase is implemented, for which reason, in the event of such waiver, the share capital will be increased by the corresponding amount.*

## **2. New Shares to Be Issued**

*The number of New Shares to be issued will be the number resulting from the application of the following formula, the result being rounded downwards to the next lower integer:*

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

*where:*

*NNS = Number of New Shares to be issued;*

*TNShrs. = Number of outstanding shares of the Company on the date on which the Board of Directors, or the body acting by delegation therefrom, resolves to put into effect the Capital Increase; and*

*Num. rights = Number of free-of-charge allocation rights required for the allocation of one New Share, which number will result from the application of the following formula, with the result being rounded to the next immediately 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 Capital Increase to be set by the Board of Directors, or the body acting by delegation therefrom, which will not be greater than 782 million euros, in accordance with the maximum limit established in section 1 above.*

*For its part, “ListPri” will be the result of applying a discount between 0% and 10% (the “Discount”) to 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, as well as the Purchase Price (as such term is defined below), rounded to the closest one-thousandth part of one euro.*

*For purposes of the calculation of the ListPri (and, therefore, of the number of free-of-charge allocation rights needed for the allocation of one New Share), as well as of the Purchase Price (as defined below), the Board of Directors will be specifically authorised, with express power of substitution, to establish the specific Discount rate, taking into account market conditions and the corporate interest.*

### **3. Free-of-charge Allocation Rights**

*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 will be automatically determined according to the ratio existing between the number of outstanding shares of the Company on the date of implementation of the Capital Increase (TNShrs.) and the provisional number of New Shares, calculated by using the formula contained in section 2 above. Specifically, the holders of the free-of-charge allocation rights will be entitled to receive one New Share for as many free-of-charge allocation rights, determined as provided in section 2 above (Num. rights), as are held by them.*

*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 Capital Increase (TNShrs.), the Company (or such entity within its Group, if any, as holds shares of the Company) will 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 will 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) at 23:59, Madrid time, on the day of publication of the announcement of implementation of the Capital Increase in the Official Bulletin of the Commercial Registry.*

*The free-of-charge allocation rights will 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, which term will not be less than fifteen calendar days, beginning on the day following the day of publication of the announcement of implementation of the Capital Increase in the Official Bulletin of the Commercial Registry. 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.*

#### **4. Irrevocable Commitment to Purchase the Free-of-charge Allocation Rights**

*At the time of implementation of the Capital Increase, the Company will assume, on the terms and conditions set forth below, the irrevocable commitment to purchase the free-of-charge allocation rights at the price set forth below (the “**Purchase Commitment**”). The Purchase Commitment will be in effect and may be accepted during such term, within the period for trading the rights, as is established by the Board of Directors, with express power of substitution. For this purpose, it is hereby resolved to authorise the Company to acquire the aforementioned free-of-charge allocation rights up to the maximum limit of the total number of rights issued, in all cases with due observance of any applicable legal restrictions.*

*The subject matter of the Purchase Commitment assumed by the Company will be such as is determined by the Board of Directors, in exercise of the powers delegated thereto by the shareholders at the General Shareholders’ Meeting, with express power of substitution, and taking into account market conditions and the corporate interest, based on the following two alternatives:*

- (i) the free-of-charge allocation rights received without charge 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) at 23:59, Madrid time, on the day of publication of the announcement of the implementation of the Capital Increase in the Official Bulletin of the Commercial Registry, excluding such rights as have been transferred on the market; or*
- (ii) all of the free-of-charge allocation rights, regardless of whether the holders thereof have received them from the Company without charge because of their status as shareholders at the time of allocation thereof or have acquired them on the market.*

The “**Purchase Price**” will be the fixed price at which the Company will acquire each free-of-charge allocation right under the Purchase Commitment, and will be calculated in accordance with the following formula, the result being rounded to the closest one-thousandth part of one euro and, in the case of one-half of one-thousandth of one euro, to the next higher one-thousandth part of one euro:

$$\text{Purchase Price} = \text{ListPri} / (\text{Num. rights} + 1)$$

In addition, the Company will guarantee to the holders of the free-of-charge allocation rights that decide to transfer their rights under the Purchase Commitment that the Purchase Price that they will obtain will at no time be lower than that that would result if no Discount were applied.

Therefore, in the event that the Discount applied is other than zero, the term “**Purchase Price**” will mean the greater of the following amounts: (a) the Purchase Price calculated in accordance with the formula set forth above, and (b) the price resulting from the application of the mathematical formulas described in this section and in section 2 above, assuming a Discount of 0% solely for the purpose of calculating the Purchase Price.

The acquisition by the Company of the free-of-charge allocation rights as a consequence of the Purchase Commitment will be effected with a charge to the reserves contemplated in section 303.1 of the Companies Act.

#### **5. Balance Sheet for the Transaction and Reserve with a Charge to which the Capital Increase is Carried Out**

The balance sheet used as a basis for the transaction is the one for the financial year ended 31 December 2013, duly audited and submitted to the shareholders for approval at this General Shareholders’ Meeting under item one on the agenda.

The Capital Increase will be entirely carried out with a charge to the reserves contemplated in section 303.1 of the Companies Act. When implementing the Capital Increase, the Board of Directors, with express power of substitution, will 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.

#### **6. Representation of the New Shares**

The New Shares will 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 member entities.

#### **7. Rights Attaching to the New Shares**

The New Shares will grant the holders thereof the same financial, voting, and like rights as the ordinary shares of the Company currently outstanding, as from the date on which the Capital Increase is declared to be subscribed and paid up. In particular, the

holders of the New Shares will be entitled to receive the interim dividend and supplemental dividend amounts, if any, that are paid as from the date on which the Capital Increase is declared to be subscribed and paid up.

#### **8. Shares on Deposit**

Once the period for trading the free-of-charge allocation rights has ended, the New Shares that could not be allocated for reasons not attributable to the Company will 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 the aforementioned period for trading the free-of-charge allocation rights, the New Shares 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 will be deposited with Banco de España or with Caja General de Depósitos at the disposal of the interested parties.

#### **9. Application for Admission to Listing**

To make application for listing the New Shares to be issued pursuant to this capital increase resolution on the Bilbao, Madrid, Barcelona, and Valencia Stock Exchanges, through the Automated Quotation System (Sistema de Interconexión Bursátil) (Electronic Market), and to carry out such acts and formalities as are required and submit the documents needed to the appropriate bodies for admission to listing of the New Shares issued as a consequence of the approved Capital Increase, 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 listing on, and delisting from official markets.

It is expressly stated for the record that, in the event of a subsequent request for delisting of the shares of the Company, such delisting will be carried out with such formalities as apply thereto and, in such event, the interests of the shareholders opposing or not voting on the resolution to delist will be safeguarded, in compliance with the requirements set out in the Companies Act and related provisions, all in accordance with Law 24/1988 of 28 July on the Securities Market and the provisions issued by way of implementation thereof in effect at any time.

#### **10. Implementation of the Capital Increase**

Within a period of one year from the date of this resolution, the Board of Directors, with express power of substitution, may set the date on which the Capital Increase resolution is to 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 and the Discount). Notwithstanding the foregoing, if the Board of Directors, with express power of substitution, does not deem it advisable to implement, in whole or in part, the Capital Increase, it may, within the aforementioned period, refrain from implementing the Capital Increase, with the duty to inform the shareholders thereof at the next General Shareholders' Meeting held. Specifically, the Board of Directors will

*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 implement the Capital Increase, it may decide not to implement it. In addition, the Capital Increase will be deprived of any and all effect in the event that the Board of Directors does not exercise the powers delegated thereto within the period of one year established by the shareholders at the General Shareholders' Meeting for implementation thereof.*

*Once the period for trading the free-of-charge allocation has ended, the following will apply:*

*(a) The New Shares will be allocated to those who, according to the records maintained by the "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR) and its member entities, are the holders of free-of-charge allocation rights in the proportion resulting from section 3 above.*

*(b) The period for trading the free-of-charge allocation rights will be declared to have ended and the appropriation of the account(s) with a charge to which the Capital Increase will be implemented will be formalised on the books in the corresponding amount, with which appropriation such Capital Increase will be paid up.*

*Likewise, once the period for trading the free-of-charge allocation rights has ended, the Board of Directors, with express power of substitution, will 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 Capital Increase, and to make application for listing the New Shares on the Bilbao, Madrid, Barcelona, and Valencia Stock Exchanges, through the Automated Quotation System (Sistema de Interconexión Bursátil) (Electronic Market).*

## **11. Delegation of Powers to Implement the Capital Increase**

*Pursuant to the provisions of section 297.1.a) of the Companies Act, to delegate to the Board of Directors, with express power of substitution, the power to set the date on which the Capital Increase is to be carried out, if at all, and to set the terms and conditions of the Capital Increase as to all matters not provided for in this resolution. In particular, and by way of example only, the following powers are delegated to the Board of Directors, with express power of substitution:*

*(a) Set the date on which the Capital Increase must be implemented, which shall in any case be within a period of one year from approval thereof.*

*(b) Determine the Discount within the margins established in this resolution for purposes of the calculation of the number of rights needed for the allocation of one New Share.*

*(c) Set the exact amount of the Capital Increase, the Amount of the Option, the number of New Shares, and the number of free-of-charge allocation rights*

*necessary for the allocation of one New Share, applying the rules established by the shareholders at this General Shareholders' Meeting for such purpose.*

*(d) Determine the reserves, among those contemplated in this resolution, with a charge to which the Capital Increase and the acquisition by the Company of the free-of-charge allocation rights as a consequence of the Purchase Commitment will be implemented.*

*(e) Designate the company or companies that will assume the duties of agent and/or financial adviser in connection with the Capital Increase, and sign all required contracts and documents for such purpose.*

*(f) Set the duration of each period for trading the free-of-charge allocation rights.*

*(g) Set the period during which the Purchase Commitment will be in effect and determine the subject matter of the Purchase Commitment within the limits established in this resolution.*

*(h) Fulfil the Purchase Commitment, paying the corresponding amounts to those who have accepted such commitment*

*(i) Declare the Capital Increase to be closed and implemented, setting, for such purpose, the number of New Shares actually allocated 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 the Capital Increase.*

*(j) Amend article 5 of the By-Laws of the Company regarding share capital, in order for it to conform to the result of the Capital Increase.*

*(k) Waive the free-of-charge allocation rights held by the Company at the end of the period for trading such rights as a result of the Purchase Commitment and, therefore, the New Shares corresponding to such rights.*

*(l) Waive any free-of-charge allocation rights to subscribe for New Shares, for the sole purpose of facilitating the number of New Shares being a whole number and not a fraction.*

*(m) 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 listing on the Bilbao, Madrid, Barcelona, and Valencia Stock Exchanges through the Automated Quotation System (Sistema de Interconexión Bursátil) (Electronic Market).*

*(n) Take any actions that are necessary or appropriate to implement and formalise the Capital Increase before any public or private entities or agencies, whether domestic or foreign, 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.

Pursuant to the provisions of section 249.2 of the Companies Act, the Board of Directors is expressly authorised to in turn delegate the powers referred to in this resolution.

**B - Approval of an increase in share capital by means of a scrip issue at a maximum reference market value of 897 million euros for the free-of-charge allocation of new shares to the shareholders of the Company. Offer to the shareholders of the acquisition of their free-of-charge allocation rights at a guaranteed fixed price. Express provision for the possibility of an incomplete allocation. Application for admission of the shares issued to listing on the Bilbao, Madrid, Barcelona, and Valencia Stock Exchanges, through the Automated Quotation System (Sistema de Interconexión Bursátil). Delegation of powers to the Board of Directors, with express power of substitution, including, among others, the power to amend article 5 of the By-Laws.**

#### **1. Capital Increase with a Charge to Reserves**

To increase the share capital by the amount resulting from multiplying (a) the nominal value of each share of IBERDROLA, S.A. (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 2 below, on the date of implementation of the increase in share capital (all of the new shares of the Company issued by way of implementation of this resolution shall be collectively referred to as the “**New Shares**”, and each one, individually, as a “**New Share**”), which amount may not in any event exceed the sum of the reference market value of the New Shares equal to a maximum limit of 897 million euros (the “**Capital Increase**”).

The Capital Increase will be carried out by means of the issuance and flotation, if applicable, on the date of implementation of the Capital Increase, of the New Shares, which will 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 Capital Increase will be entirely carried out with a charge to the reserves contemplated in section 303.1 of the Companies Act (Ley de Sociedades de Capital). When implementing the Capital Increase, the Board of Directors, with express power of substitution, will 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 will be issued at par, i.e. at their nominal value of seventy-five euro cents, without a share premium, and will be allocated to the shareholders of the Company without charge.

Within the year following the date of approval of this resolution, the Capital Increase may be implemented by the Board of Directors, with express power of substitution, at its sole discretion and, therefore, without having to resort again to the

shareholders at a General Shareholders' Meeting, and by taking into consideration the legal and financial conditions prevailing at the time of implementing the Capital Increase, in order to offer the Company's shareholders a flexible and efficient compensation formula. The date on which the Capital Increase is expected to be implemented will be around the month of January 2015. The number of New Shares to be issued will be such as results from the formula set forth in section 2 below, provided, however, that the Amount of the Option (as such term is defined in section 2 below) may under no circumstances exceed the maximum amount of 897 million euros.

Pursuant to the provisions of section 311 of the Companies Act, the possibility of an incomplete allocation of the Capital Increase is contemplated in the event that the Company, a company within its group, 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 the Capital Increase, for which reason, in the event of such waiver, the share capital will be increased by the corresponding amount.

## **2. New Shares to Be Issued**

The number of New Shares to be issued will be the number resulting from the application of the following formula, the result being rounded downwards to the next lower integer:

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

where:

$$NNS = \text{Number of New Shares to be issued};$$

$TNShrs.$  = Number of outstanding shares of the Company on the date on which the Board of Directors, or the body acting by delegation therefrom, resolves to put into effect the Capital Increase; and

$Num. rights$  = Number of free-of-charge allocation rights required for the allocation of one New Share, which number will result from the application of the following formula, with the result being rounded to the next immediately 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 Capital Increase to be set by the Board of Directors, or the body acting by delegation therefrom, which will not be greater than 897 million euros, in accordance with the maximum limit set in section 1 above.

For its part, "**ListPri**" will be the result of applying a discount between 0% and 10% (the "**Discount**") to 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, as well as the Purchase Price (as such term is defined below), rounded to the closest one-thousandth part of one euro.*

*For purposes of the calculation of the ListPri (and, therefore, of the number of free-of-charge allocation rights needed for the allocation of one New Share), as well as of the Purchase Price (as defined below), the Board of Directors will be specifically authorised, with express power of substitution, to establish the specific Discount rate, taking into account market conditions and the corporate interest.*

### **3. Free-of-charge Allocation Rights**

*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 will be automatically determined according to the number of outstanding shares of the Company on the date of implementation of the Capital Increase (TNShrs.) and the provisional number of New Shares, calculated by using the formula contained in section 2 above. Specifically, the holders of free-of-charge allocation rights will be entitled to receive one New Share for as many free-of-charge allocation rights, determined as provided in section 2 above (Num. rights), as are held by them.*

*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 Capital Increase (TNShrs.), the Company (or such entity within its group, if any, as holds shares of the Company) will 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 will 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) at 23:59, Madrid time, on the day of publication of the announcement of implementation of the Capital Increase in the Official Bulletin of the Commercial Registry.*

*The free-of-charge allocation rights will 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, which term will not be less than fifteen calendar days, beginning on the day following the day of publication of the announcement of implementation of the Capital Increase in the Official Bulletin of the Commercial Registry. 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.*

#### **4. Irrevocable Commitment to Purchase the Free-of-charge Allocation Rights**

At the time of implementation of the Capital Increase, the Company will assume, on the terms and conditions set forth below, the irrevocable commitment to purchase the free-of-charge allocation rights at the price set forth below (the “**Purchase Commitment**”). The Purchase Commitment will be in effect and may be accepted during such term, within the period for trading the rights, as is established by the Board of Directors, with express power of substitution. For this purpose, it is hereby resolved to authorise the Company to acquire the aforementioned free-of-charge allocation rights up to the maximum limit of the total number of rights issued, in all cases with due observance of any applicable legal restrictions.

The subject matter of the Purchase Commitment assumed by the Company will be such as is determined by the Board of Directors, in exercise of the powers delegated thereto by the shareholders at the General Shareholders’ Meeting, with express power of substitution, and taking into account market conditions and the corporate interest, based on the following two alternatives:

- (i) 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) at 23:59, Madrid time, on the day of publication of the announcement of the implementation of the Capital Increase in the Official Bulletin of the Commercial Registry, excluding such rights as have been transferred on the market; or
- (ii) all of the free-of-charge allocation rights, regardless of whether the holders thereof have received them from the Company without charge because of their status as shareholders at the time of allocation thereof or have acquired them on the market.

The “**Purchase Price**” will be the fixed price at which the Company will acquire each free-of-charge allocation right under the Purchase Commitment, and will be calculated in accordance with the following formula, the result being rounded to the closest one-thousandth part of one euro and, in the case of one-half of one-thousandth of one euro, to the next higher one-thousandth part of one euro:

$$\text{Purchase Price} = \text{ListPri} / (\text{Num. rights} + 1)$$

In addition, the Company will guarantee to the holders of free-of-charge allocation rights that decide to transfer their rights under the Purchase Commitment that the Purchase Price that they will obtain will at no time be lower than that that would result if no Discount were applied.

Therefore, in the event that the Discount applied is other than zero, the term “**Purchase Price**” will mean the greater of the following amounts: (a) the Purchase Price calculated in accordance with the formula set forth above, and (b) the price resulting from the application of the mathematical formulas described in this section

and in section 2 above, assuming a Discount of 0% solely for the purpose of calculating the Purchase Price.

The acquisition by the Company of the free-of-charge allocation rights as a consequence of the Purchase Commitment will be effected with a charge to the reserves contemplated in section 303.1 of the Companies Act.

**5. Balance Sheet for the Transaction and Reserve with a Charge to which the Capital Increase Is Carried Out**

The balance sheet used as a basis for the transaction is the one for the financial year ended 31 December 2013, duly audited and submitted to the shareholders for approval at this General Shareholders' Meeting under item one on the agenda.

The Capital Increase will be entirely carried out with a charge to the reserves contemplated in section 303.1 of the Companies Act. When implementing the Capital Increase, the Board of Directors, with express power of substitution, will 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.

**6. Representation of the New Shares**

The New Shares will 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 member entities.

**7. Rights Attaching to the New Shares**

The New Shares will grant the holders thereof the same financial, voting, and like rights as the ordinary shares of the Company currently outstanding, as from the date on which the Capital Increase is declared to be subscribed and paid up. In particular, the holders of the New Shares will be entitled to receive the interim dividend and supplemental dividend amounts, if any, that are paid as from the date on which the Capital Increase is declared to be subscribed and paid up.

**8. Shares on Deposit**

Once the period for trading the free-of-charge allocation rights has ended, the New Shares that could not be allocated for reasons not attributable to the Company will 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 the aforementioned period for trading the free-of-charge allocation rights, the New Shares 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 will be deposited with Banco de España or with Caja General de Depósitos at the disposal of the interested parties.

**9. Application for Admission to Listing**

*To make application for listing the New Shares to be issued pursuant to this capital increase resolution on the Bilbao, Madrid, Barcelona, and Valencia Stock Exchanges, through the Automated Quotation System (Sistema de Interconexión Bursátil) (Electronic Market), and to carry out such acts and formalities as are required and submit the documents needed to the appropriate bodies for admission to listing of the New Shares issued as a consequence of the approved Capital Increase, 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 listing on, and delisting from official markets.*

*It is expressly stated for the record that, in the event of a subsequent request for delisting of the shares of the Company, such delisting will be carried out with such formalities as apply thereto and, in such event, the interests of the shareholders opposing or not voting on the resolution to delist will be safeguarded, in compliance with the requirements set out in the Companies Act and related provisions, all in accordance with Law 24/1988 of 28 July on the Securities Market and the provisions issued by way of implementation thereof in effect at any time.*

#### **10. Implementation of the Capital Increase**

*Within a period of one year from the date of this resolution, the Board of Directors, with express power of substitution, may set the date on which the Capital Increase resolution is to 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 and the Discount). Notwithstanding the foregoing, if the Board of Directors, with express power of substitution, does not deem it advisable to implement, in whole or in part, the Capital Increase, it may, within the aforementioned period, refrain from implementing the Capital Increase, with the duty to inform the shareholders thereof at the next General Shareholders' Meeting held. Specifically, the Board of Directors will 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 implement the Capital Increase, it may decide not to implement it. In addition, the Capital Increase will be deprived of any and all effect in the event that the Board of Directors does not exercise the powers delegated thereto within the period of one year established by the shareholders at the General Shareholders' Meeting for implementation thereof.*

*Once the period for trading the free-of-charge allocation rights in respect of each Instalment has ended the following will apply:*

*(a) The New Shares will be allocated to those who, according to the records maintained by the "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR) and its member entities, are the holders of free-of-charge allocation rights in the proportion resulting from section 3 above.*

*(b) The period for trading the free-of-charge allocation rights will be declared to have ended and the appropriation of the account(s) with a charge to which*

*the Capital Increase will be implemented will be formalised on the books in the corresponding amount, with which appropriation such Capital Increase will be paid up.*

*Likewise, once the period for trading the free-of-charge allocation rights has ended, the Board of Directors, with express power of substitution, will 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 Capital Increase, and to make application for listing the New Shares on the Bilbao, Madrid, Barcelona, and Valencia Stock Exchanges, through the Automated Quotation System (Sistema de Interconexión Bursátil) (Electronic Market).*

## **11. Delegation of Powers to Implement the Capital Increase**

*Pursuant to the provisions of section 297.1.a) of the Companies Act, to delegate to the Board of Directors, with express power of substitution, the power to set the date on which the Capital Increase is to be carried out, if at all, and to set the terms and conditions thereof as to all matters not provided for in this resolution. In particular, and by way of example only, the following powers are delegated to the Board of Directors, with express power of substitution:*

*(a) Set the date on which the Capital Increase must be implemented, which shall in any case be within a period of one year from approval thereof.*

*(b) Determine the Discount within the margins established in this resolution for purposes of the calculation of the number of rights needed for the allocation of one New Share.*

*(c) Set the exact amount of the Capital Increase, the Amount of the Option, the number of New Shares, and the number of free-of-charge allocation rights necessary for the allocation of one New Share, applying the rules established by the shareholders at this General Shareholders' Meeting for such purpose.*

*(d) Determine the reserves, among those contemplated in this resolution, with a charge to which the Capital Increase and the acquisition by the Company of the free-of-charge allocation rights as a consequence of the Purchase Commitment will be implemented.*

*(e) Designate the company or companies that will assume the duties of agent and/or financial adviser in connection with the Capital Increase, and sign all required contracts and documents for such purpose.*

*(f) Set the duration of each period for trading the free-of-charge allocation rights.*

*(g) Set the period during which the Purchase Commitment will be in effect and determine the subject matter of the Purchase Commitment within the limits established in this resolution.*

*(h) Fulfil the Purchase Commitment, paying the corresponding amounts to*

*those who have accepted such commitment*

*(i) Declare the Capital Increase to be closed and implemented, setting, for such purpose, the number of New Shares actually allocated 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 the Capital Increase.*

*(j) Amend article 5 of the By-Laws of the Company regarding share capital, in order for it to conform to the result of the Capital Increase.*

*(k) Waive the free-of-charge allocation rights held by the Company at the end of the period for trading such rights as a result of the Purchase Commitment and, therefore, the New Shares corresponding to such rights.*

*(l) Waive any free-of-charge allocation rights to subscribe for New Shares, for the sole purpose of facilitating the number of New Shares being a whole number and not a fraction.*

*(m) 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 listing on the Bilbao, Madrid, Barcelona, and Valencia Stock Exchanges.*

*(n) Take any actions that are necessary or appropriate to implement and formalise the Capital Increase before any public or private entities or agencies, whether domestic or foreign, 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.*

*Pursuant to the provisions of section 249.2 of the Companies Act, the Board of Directors is expressly authorised to in turn delegate the powers referred to in this resolution".*

\* \* \*

Bilbao, 18 February 2014

## EXHIBIT

### Sample calculations of the maximum number of new shares to be issued in the first Capital Increase, of the maximum nominal value of the increase, of the number of free-of-charge allocation rights required for the allocation of one new share, and of the Purchase Price based on the Discount applied:

Set forth below, for the sole purpose of making the application thereof easier to understand, are two examples of the calculation, in the event of the first Capital Increase, of the maximum number of new shares to be issued, the maximum nominal value of the increase, the number of free-of-charge allocation rights required for the allocation of one new share, and the Purchase Price, based on two scenarios in which the application of a different Discount is contemplated.<sup>4</sup>

The results of these calculations are not representative of the actual results that may be obtained, which, in the case of the first Capital Increase, will depend on the different variables used in the formulas (basically, the Listing Price of Iberdrola shares at that time, the Amount of the Option that may be approved for distribution at that time, and the Discount that the Board of Directors (with express power of substitution) determines, 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 782 million euros.
- The TNShrs. is 6,373,467,000.

Additionally, two different scenarios are contemplated, in accordance with the Discount applied:

#### Scenario A:

- A Discount of 0% is assumed.
- A ListPri of 4.568 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 12 February 2014 has been used as a reference). As the Discount is 0%, no additional adjustment is needed in order to calculate the ListPri.

#### Scenario B:

- A Discount of 10% is assumed.
- The ListPri, resulting from the application of the Discount to the listing price of

<sup>4</sup> Additionally, in the second Capital Increase, the results of the calculations would also vary according to the number of shares then outstanding, which number will be determined, among other factors, by the shares issued in the first Capital Increase.

Iberdrola shares at the closing of the trading session of 12 February 2014, as provided in Scenario A, is 4.111 euros (rounded downwards).

Therefore:

	<b>Scenario A (Discount of 0%)</b>	<b>Scenario B (Discount of 10%)</b>
Provisional number of shares = Amount of the Option / ListPri	$782,000,000 / 4.568 = 171,190,893.2$ = 171,190,893 shares (rounded downwards)	$782,000,000 / 4.111 = 190,221,357.3$ = 190,221,357 shares (rounded downwards)
Num. rights = TNShrs. / Provisional number of shares	$6,373,467,000 / 171,190,893 = 37.2301756 = 38$ <b>rights</b> (rounded upwards)	$6,373,467,000 / 190,221,357 = 33.5055280 = 34$ <b>rights</b> (rounded upwards)
NNS = TNShrs. / Num. rights	$6,373,467,000 / 38 = 167,722,815.8$ = 167,722,815 shares (rounded downwards)	$6,373,467,000 / 34 = 187,454,911.8$ shares = 187,454,911 shares (rounded downwards)
Purchase Price = ListPri / (Num. rights + 1)	$4.568 / (38 + 1) = 0.117$ <b>euros</b>	$4.111 / (34 + 1) = 0.117$ <b>euros</b>

Thus, in Scenario A: (i) the maximum number of new shares to be issued in the first Capital Increase would be 167,722,815, (ii) the maximum nominal value of the first Capital Increase would come to 125,792,111.25 euros (167,722,815 x 0.75) and (iii) 38 free-of-charge allocation rights (or existing shares) would be required for the allocation of one new share.<sup>5</sup>

In Scenario B: (i) the maximum number of new shares to be issued in the first Capital Increase would be 187,454,911, (ii) the maximum nominal value of the First Capital Increase would come to 140,591,183.25 euros (187,454,911 x 0.75), and (iii) 34 free-of-charge allocation rights (or existing shares) would be required for the allocation of one new share.<sup>6</sup>

\* \* \*

<sup>5</sup> In this example, in Scenario A, the Company (or an entity of its group that holds shares of the Company) would be required to waive 30 free-of-charge allocation rights corresponding to 30 shares of its own stock in order for the number of shares to be issued to be an integer.

<sup>6</sup> In this example, in Scenario B, the Company (or an entity of its group that holds shares of the Company) would be required to waive 26 free-of-charge allocation rights corresponding to 26 shares of its own stock in order for the number of shares to be issued to be an integer.