General Shareholders’ Meeting / 2016

REPORT OF THE BOARD OF DIRECTORS REGARDING THE PROPOSED CAPITAL INCREASE AUTHORISATION

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IBERDROLA
REPORT OF THE BOARD OF DIRECTORS REGARDING THE PROPOSED AUTHORIZATION FOR AN INCREASE IN CAPITAL

REPORT SUBMITTED BY THE BOARD OF DIRECTORS OF IBERDROLA, S.A. REGARDING THE PROPOSED CAPITAL INCREASE AUTHORIZATION INCLUDED IN ITEM SEVEN ON THE AGENDA FOR THE GENERAL SHAREHOLDERS’ MEETING CALLED TO BE HELD ON 8 AND 9 APRIL 2016, ON FIRST AND SECOND CALL, RESPECTIVELY

1. Purpose of the Report

This report has been prepared by the Board of Directors of Iberdrola, S.A. (hereinafter, “Iberdrola” or the “Company”) pursuant to the provisions of sections 286, 297.1.b), and 506 of the Companies Act in order to provide a rationale for the proposal regarding authorisation to the Board of Directors of the Company to increase the share capital, within a term of five years, by up to one-half of the share capital existing at the time of the authorisation, on one or more occasions and at the time and in the amount it deems appropriate, with the power to exclude pre-emptive rights as provided in section 506 of the Companies Act.

2. Purpose of and Rationale for the Proposals

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

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

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

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

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

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

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

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

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

On the other hand, pursuant to the provisions of article 10 of the Company’s General Corporate Governance Policy and in view of the best internationally recognised corporate governance practices, the authorisation to totally or partially exclude pre-emptive rights shall be limited to increases in capital carried out pursuant to this authorisation and to the authorisation contemplated in item 8 on the agenda up to a maximum amount equal, in the aggregate, to 20% of the current share capital of the Company.

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

Finally, it is proposed to expressly authorise the Board of Directors to further delegate the powers contemplated in this proposed resolution.

3. Proposed Resolution Submitted to the Shareholders at the General Shareholders’ Meeting

The proposed resolution submitted to the shareholders for approval at the General Shareholders’ Meeting reads as follows:

*Authorisation to the Board of Directors, with express power of substitution, to increase the share capital upon the terms and within the limits set out in section 297.1.b) of the Companies Act, with the power to exclude pre-emptive rights, limited to a maximum nominal amount of 20% of the share capital, including such amount as may arise from the approval and implementation of the proposed resolution set forth in item 8 of the agenda.*
RESOLUTION

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

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

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

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

In connection with the increases in share capital that may be carried out under this authorisation, the Board of Directors is authorised to totally or partially exclude pre-emptive rights as permitted by section 506 of the Companies Act, provided, however, that such power shall be limited to increases in share capital carried out pursuant to this authorisation and to the authorisation contemplated in item 8 on the agenda up to a maximum amount equal, in the aggregate, to 20% of the current share capital of the Company.

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

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

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Bilbao, 23 February 2016