



June 2018

Dear ADS holder:

Iberdrola, S.A. ("**Iberdrola**") will provide again the holders of American depository shares representing Iberdrola shares ("**ADSs**") the opportunity to receive their dividend payment in cash or in newly issued Iberdrola ADSs. One free allocation right will be issued for every share held¹ resulting in four allocation rights being issued for each ADS outstanding.

Iberdrola has introduced certain changes in the traditional remuneration system to make the program more attractive to its shareholders. Under the "Iberdrola Retribución Flexible" optional dividend system, the Company's shareholders will have the option to receive their remuneration in cash by means of the payment of a supplementary dividend corresponding to the fiscal year 2017 or through the transfer of their free allocation rights on the market, as an alternative to the delivery of paid-up shares of the Company. Accordingly, the shareholders will not be offered the ability to transfer all or part of their free allocation rights to Iberdrola at a guaranteed fixed price (unlike what occurred under the traditional remuneration system called "Iberdrola Dividendo Flexible").

In this regard, on April 24, 2018, the Board of Directors of Iberdrola approved the implementation of the first capital increase and the payment of a supplementary dividend corresponding to the fiscal year 2017, both approved at the 2018 Annual General Shareholders Meeting of Iberdrola.

As a result, ADS holders will be given the opportunity to choose one of the following payment options to be offered to holders as of July 10, 2018 (record date), provided that the Iberdrola shares represented by their ADSs have been acquired on or before July 6, 2018 (last trading date), and payable to ADS holders on or around August 8, 2018 as follows:

- Default Option:** Receive cash through the payment of the supplementary dividend (the "**Default Option**");
- Option 1:** Receive cash by instructing J.P. Morgan, as Depositary, to sell the rights in the market; or
- Option 2:** Receive newly issued Iberdrola ADSs.

No action is required to receive the Default Option. If you wish to choose one of the other two options, the election form enclosed herein must be completed by you and received by J.P. Morgan, no later than 12:00 noon U.S. central time on July 16, 2018. Registered ADS holders not returning an election form will receive the Default Option for this and future optional dividends.

Any election made by a registered ADS holder, including an election made by default, will apply to any future optional dividend unless J.P. Morgan is notified of an instruction to change an election. Please note that your election form may take approximately 3-4 business days to arrive.

Your election will have important tax consequences. See "Taxation". In addition to the information outlined in this letter, please visit our website, www.iberdrola.com, for additional detail on the optional dividend, including answers to frequently asked questions.

Sincerely

Iberdrola, S.A.

¹ Each ADS represents four shares resulting in four free allocation rights being issued for each ADS outstanding.



I. Overview

Iberdrola's General Shareholders' Meeting held on April 13, 2018 approved the offer of a new optional dividend system ("Iberdrola Retribución Flexible") to be implemented through two share capital increases. The Board of Directors of Iberdrola has approved on April 24, 2018 to carry out the implementation of the first capital increase, which is expected to be closed in July 2018. Under this dividend payment structure, holders of our shares will receive one free allocation right for every share held².

Iberdrola has introduced certain changes in the traditional remuneration system to make the program more attractive to its shareholders. Under the "Iberdrola Retribución Flexible" optional dividend system, the Company's shareholders will have the option to receive their remuneration in cash by means of the payment of a supplementary dividend corresponding to the fiscal year 2017 or through the transfer of their free allocation rights on the market, as an alternative to the delivery of paid-up shares of the Company. Accordingly, the shareholders will not be offered the ability to transfer all or part of their free allocation rights to Iberdrola at a guaranteed fixed price (unlike what occurred under the traditional remuneration system called "Iberdrola Dividendo Flexible").

In this regard, the Board of Directors of Iberdrola has also approved on April 24, 2018 the implementation of the payment of a supplementary dividend corresponding to the fiscal year 2017, which was also approved by Iberdrola's 2018 Annual General Shareholders Meeting.

As a result, in this edition of the optional dividend system, ADS holders will be able to instruct J.P. Morgan, as ADS depository, to act with respect to the rights issued on shares underlying their ADSs according to three options:

- 1) **Receive cash through the payment of the supplementary dividend.** ADS holders may elect to receive their remuneration in cash by means of the payment of a supplementary dividend corresponding to the fiscal year 2017, which we refer to herein as the Supplementary Dividend. Iberdrola expects that the payment of the Supplementary Dividend will be at least €0.183 gross per share³. This is the default option. *Shareholders who elect this option will have regarding this payment the tax treatment applicable to cash dividends and, therefore, this income will be subject to the relevant withholding and taxation.* See "Taxation".
- 2) **Sell rights in the market.** ADS holders may request J.P. Morgan to sell such rights in the market in Spain. The proceeds you receive from such sale will depend upon market prices and the euro/dollar exchange rate. J.P. Morgan will begin selling such rights on or around July 23, 2018 and may continue such sales through no later than July 23, 2018. Regardless of when such rights are sold, all ADS holders electing open market sales of their rights will receive the same amount of consideration per right, which will equal the average net price per right sold (including fractional rights sold as described in the paragraph below) minus a fee of \$0.02 per right sold. *This option has no Spanish tax withheld for non-residents in Spain; however, this option could have certain Spanish tax implications for non-residents in Spain*⁴. See "Taxation".
We cannot guarantee the price that you will receive for the sale of such rights in the

² Each ADS represents 4 shares resulting in 4 free allocation rights being issued for each ADS outstanding.

³ Each ADS represents 4 shares.

⁴ From a Spanish tax standpoint, the full amount obtained by non-Spanish tax resident shareholders (who do not act through a permanent establishment in Spain in this respect) from the sale of rights received under Option 2 on market will be treated as a taxable capital gain for the transferor and, hence, subject to a 19% Spanish non-resident income tax ("NRIT"). This capital gain's taxation may be reduced or exempt from NRIT pursuant to Spanish domestic legislation or under the income tax treaties ratified by Spain. Shareholders are urged to consult their tax advisors with respect to the application of Spanish tax law to their particular situations, as well as in regard to any tax consequences arising under the laws of any foreign or other tax jurisdiction or under any applicable tax treaty, of this Option 2 (and, in general, under any of the options applicable in this optional dividend program).



market in Spain and you will not be able to approve the price at which such rights are sold.

- 3) **Receive new ADSs.** ADS holders may elect to receive newly issued ADSs. The number of new ADSs you receive will depend upon the number of ADSs held at the time of the July 2018 optional dividend record date and the conversion ratio (*i.e.* the number of rights which are needed to receive one new ADS). Cash will be paid in lieu of fractional ADSs (through a sale in the market of rights exercisable into fractional ADSs (“fractional rights”) on equivalent terms to that set forth in the bullet point above). *This option has no Spanish tax withheld for non-residents in Spain.* ADS holders will be charged a fee of \$0.02 per ADS held as of the record date. For a description of the manner in which the Conversion Ratio will be calculated please see “Calculation of Conversion Ratio and the Supplementary Dividend” below.

For the avoidance of doubt, the value of the remuneration received by the shareholders from Iberdrola under Option 1 and Option 3 above will be equivalent (in terms of market value and without prejudice of the different tax treatment applicable to each of them) and the choice of one of the three options excludes the right to choose any of the remaining options in respect of the same ADSs.

Unless J.P. Morgan is informed of a change in your election, that instruction, including any election by default, will govern the form of payment you receive under any future optional dividends.

Iberdrola will not be liable as a result of the decisions made by ADS holders (nor as a result of the failure to make an express decision, in the absence of an express election by the aforementioned holders).

The options set forth above have important tax consequences in addition to the Spanish tax consequences summarized above. Please see “Taxation” below.

II. Timeline

To make a valid election, (i) you, or your securities intermediary on your behalf, must be a holder of record on July 10, 2018, provided that the Iberdrola shares represented by their ADSs have been acquired on or before July 6, 2018 (last trading date) and (ii) if you are the registered holder of your ADSs, you must provide an executed election form to J.P. Morgan no later than 12:00 noon U.S. central time on July 16, 2018 or (iii) if you are the beneficial owner of ADSs held through a broker or other securities intermediary, your intermediary must make an election on your behalf. If you are a beneficial holder of ADSs, you must contact your broker or other securities intermediary in order to make your election. Please contact your securities intermediary as soon as possible to determine the deadline for submitting your election to it. Your instructions should be forwarded to your intermediary in ample time to permit it to submit an election on your behalf before the deadline.

Below, please find some important estimated dates with respect to the July 2018 optional dividend:

July 5, 2018	The Conversion Ratio and the supplementary dividend per share will be announced on Iberdrola’s website at www.iberdrola.com and on www.adr.com
July 6, 2018	ADS last trading date
July 10, 2018	ADS record date
July 16, 2018 (12:00 noon U.S. central time)	Registered holder deadline to provide election forms
July 19, 2018	Deadline to elect to receive the Supplementary Dividend
July 23, 2018	J.P. Morgan will begin selling fractions as well as the rights of each ADS holder electing for sale in Spain
July 23, 2018	End of rights trading period in Spain



August 1, 2018	New Iberdrola shares expected to begin trading in Spain
On or around August 8, 2018	ADS registered holders who elected stock receive additional ADSs Cash mailed to ADS holders who elected (or defaulted) to have rights sold on open market or to receive cash through the payment of the Supplementary Dividend

III. Calculation of Conversion Ratio and the Supplementary Dividend

The gross amount of the Supplementary Dividend per share will be published following approval on Iberdrola's website at www.iberdrola.com and on www.adr.com on July 5, 2018. Details on how the Conversion Ratio and the Supplementary Dividend will be calculated can be found at www.iberdrola.com.

IV. Example

The following example has been provided solely for the purposes of facilitating understanding of the July 2018 optional dividend. The example is qualified in all respects by the formulas described in the resolution approved by Iberdrola's General Shareholders' Meeting on April 13, 2018 and is not intended to predict the remuneration that holders of ADSs can expect. The following example is based on the following assumptions:

Record Date ADS Position: 250 ADSs representing 1,000 shares
 Supplementary Dividend: €0.183 gross per share (€0.732 per ADS as each ADS = 4 shares)
 Conversion Ratio: 33 rights to receive 1 new share

Options:

- A. Receive the Supplementary Dividend:** Based on a position of 250 ADSs and assuming a foreign exchange rate of \$1.18 = €1.00, an investor would receive a gross payment of \$215.940 (250 ADS x €0.732 per ADS x 1.18) and a net payment of \$169.911 after deduction of Spanish general dividend withholding tax of 19%⁵ and a \$0.02 fee per ADS.
- B. Sell rights in the market:** The investor will still have 250 ADSs and will receive an amount in cash that depends upon the market price of the rights at the times of sale and the currency exchange rate. This option has no Spanish tax withheld for non-residents in Spain (although it could have certain Spanish tax implications for non-residents in Spain —see "Taxation" —) but is subject to an ADS fee of \$0.02 per ADS on which cash is distributed.
- C. Receive new ADSs:** The investor will have 257 ADSs: the 250 original ADSs, plus 7 new ADSs received (250 ADSs held equivalent to 1,000 shares, or rights received / Conversion Ratio of 33, equals 30.303 shares or 7.576 ADSs, rounded down to the nearest whole number) plus the cash equivalent of 0.576 ADSs at the price at which it is sold in the market. This option has no Spanish tax withheld for non-residents in Spain, although the sale of fractional rights in exchange of cash will have the same Spanish tax implications applicable to the sale of rights in the market (see "Taxation"). A fee of \$0.02 per ADS held as of the record date is applicable. The proceeds for the fractional right of 0.576 ADSs will depend upon market prices and the currency exchange rate.

If you do not express any choice you will receive your dividend payout in cash by receiving the Supplementary Dividend. This cash default option applies to all ADS holders.

The above examples do not take into account any non-Spanish taxes. Please consult your own tax advisor for Spanish and non-Spanish tax advice. Holders should also refer to important information contained in "Taxation" below.

⁵ This withholding tax (or taxation) may be reduced or exempt from NRIT pursuant to Spanish domestic legislation or under the income tax treaties ratified by Spain.



V. Taxation

A. Spanish Tax

This section summarizes certain Spanish tax consequences of the optional dividend program for ADS holders that are not residents for income tax purposes in Spain and that do not act through a permanent establishment in Spain to which the ADSs are allocated to. It is based on current Spanish law and on what is understood to be current Spanish tax authorities practice. Please note that this summary does not constitute legal advice and it is not a substitute thereof. Special rules may apply to certain shareholders, inter alia such as those who have acquired (or are deemed for tax purposes to have acquired) their ADSs by reason of an office or employment or are tax transparent entities.

Shareholders who are in any doubt as to their tax position or who are resident or domiciled in, or subject to tax in, a jurisdiction other than the United States of America, should consult their own professional advisers immediately. Remember that your position depends on your own particular circumstances and may be subject to change in the future.

The tax regime applicable in Spain to a holder of ADSs that is not a resident of Spain for Spanish income tax purposes in respect of the July 2018 dividend, and does not act through a permanent establishment located in Spain, is as follows:

The delivery of the shares issued in the July 2018 dividend will be considered a delivery of fully paid-up shares free of charge and, hence, will not be considered income for purposes of the Spanish Non Resident Income Tax, which we refer to as the NRIT. The acquisition value, both of the new shares received in the July 2018 dividend and of the shares, from which they arise, will be the result of dividing the total original cost of the portfolio of the shareholder by the number of shares, both old and new. The acquisition date of the new shares will be that of the shares from which they arise.

If ADS holders receiving rights in the July 2018 optional dividend sell such rights on the market (including the sale of fractional rights in the option to receive new ADSs), for purposes of the NRIT, the amount obtained in the sale of rights will be treated as a capital gain for the seller on the fiscal year when the transfer takes place. Such capital gain would generally be subject to Spanish NRIT at a current rate of 19%. However, beneficial holders of ADSs who are eligible for the benefits of the current and comprehensive income tax treaty between the United States and Spain (the "Treaty") are generally exempt from such capital gains tax under the NRIT; such beneficial holders of ADSs are required to file a tax return with the Spanish tax authorities in order to claim, if applicable, that exemption under the Treaty, subject to the satisfaction of the conditions specified by the Treaty or the Spanish Non Resident Income Tax Law, as the case may be, including providing evidence of the relevant tax residence of the beneficial holder of ADSs by means of a certificate of tax residence duly issued by the US tax authorities (within the meaning of the Treaty, if applicable). For further details as to the Spanish tax implications of this option, you should consult your tax advisors.

In the event that the holders of the rights elect to receive its retribution by means of the Supplementary Dividend, Spanish withholding tax will be deducted from the cash payment at the corresponding rate (generally 19%) applicable to dividend payments. Depending on your circumstances, you may be able to claim a full or partial refund of the Spanish withholding tax from the Spanish tax authorities, either under the Treaty (under which the general applicable rate of withholding is 15%) or under the Spanish Non Resident Income Tax Law. For further details as to this refund, you should consult your tax advisors.

Please note that in order to be eligible for a reduced tax rate or exemption, the shareholder must evidence his or her right to a reduced tax rate by delivering to Iberdrola a certificate duly issued by the Tax Authority of the holder's country of residence as evidence that such holder is entitled to the benefits of the



treaty between the holder's country of residence and Spain. This document generally is valid for one year after issuance.

B. U.S. Tax

This disclosure is limited to the U.S. federal tax issues addressed herein. Additional issues may exist that are not addressed in this disclosure and that could affect the U.S. federal tax treatment of the July 2018 dividend structure. This tax disclosure was written in connection with the January 2018 dividend structure by Iberdrola and it cannot be used by any holder for the purpose of avoiding penalties that may be asserted against the holder under the Internal Revenue Code of 1986, as amended (the "Code"). Holders should seek their own advice based on their particular circumstances from an independent tax adviser.

The following is a general summary of certain U.S. federal income tax consequences of receiving the July 2018 dividend for a person or entity subject to U.S. federal income taxation on a net income basis who is a beneficial owner of Iberdrola's ADSs who is eligible for benefits under the Treaty and who holds ADSs as a capital asset for U.S. federal income tax purposes (a "U.S. Holder"). However, the consequences to any particular ADS holder will depend on the personal circumstances of such holder. ADS holders should consult their tax advisors regarding the U.S. federal income tax consequences of the distribution of the July 2018 optional dividend.

A U.S. Holder who does not elect to receive the July 2018 optional dividend in cash should recognize ordinary dividend income, in an amount equal to the U.S. dollar value of the right (including fractional rights) as of the date of distribution.

Subject to applicable limitations, the July 2018 dividend paid to certain non-corporate U.S. Holders may be taxable at a maximum rate of 15%. U.S. Holders should consult their tax advisers regarding the availability of the reduced tax rate on dividends in their particular circumstances.

Subject to applicable limitations that may vary depending upon a U.S. Holder's circumstances, a U.S. Holder will be entitled to a credit against its U.S. federal income tax liability, or a deduction in computing its U.S. federal taxable income, for any Spanish taxes withheld in respect of a cash dividend in an amount not in excess of the applicable rate under the Treaty. The limitation on foreign taxes eligible for credit is calculated separately with respect to two different classes of income. The rules governing foreign tax credits are complex and, therefore, U.S. Holders should consult their tax advisors regarding the availability of foreign tax credits in their particular circumstances.

U.S. Holders who elect to have J.P. Morgan sell their rights on the market and U.S. Holders who receive cash in lieu of fractional rights should realize gain or loss on such sale that will be subject to U.S. federal income tax as short-term capital gain or loss in an amount equal to the difference between the U.S. Holder's tax basis in the rights or fractional rights and the amount realized on the disposition (each as determined in U.S. dollars). The U.S. Holder's tax basis in the rights or fractional rights will be equal to the U.S. dollar value of the rights as of the date of distribution.

This summary is not exhaustive, and does not describe all of the tax considerations that may be relevant to a U.S. Holder's decision. Each U.S. Holder is advised to consult his/her own tax advisor regarding the overall tax consequences, including the consequences under U.S. federal, state, local or foreign tax laws, of receiving the July 2018 optional dividend.

IMPORTANT INFORMATION REGARDING BACK-UP WITHHOLDING



An election to receive the new ADSs will be accepted only for accounts of ADS holders who have certified their taxpayer status. Any Election Forms received from ADS holders who have not certified their taxpayer status will be disregarded and a cash dividend payment will be made.

If you are a U.S. resident, you must have provided a Social Security or Tax Identification number on a Form W-9 to certify that you are not subject to backup withholding in order for an election to receive ADSs through the optional dividend to be valid. Non-resident aliens (stockholders whose citizenship is in a country other than the United States) must have certified their foreign status by completing a Form W8-BEN in order for an election to receive ADSs through the optional dividend to be valid. Failure to certify will result in your receiving the default cash payment and subject you to the applicable federal income tax withholding from any cash payment made to you.

Form W-9 and Form W8-BEN can be downloaded from www.adr.com/shareholder.