

**December 2018**

## **QUESTIONS & ANSWERS**

### **ADS HOLDERS**

#### **“IBERDROLA RETRIBUCIÓN FLEXIBLE”**

##### **1. What is the “Iberdrola Retribución Flexible” optional dividend system?**

The “*Iberdrola Retribución Flexible*” optional dividend system, which was approved by the General Shareholders’ Meeting of Iberdrola, S.A. (“**Iberdrola**” or the “**Company**”) held on April 13, 2018 (the “**GSM**”), offers the shareholders and the holders of American depository shares representing Iberdrola shares (“**ADSs**”) the opportunity to decide whether they prefer to receive all or a portion of their remuneration in paid-up newly issued Iberdrola shares or in cash.

The GSM approved that the “Iberdrola Retribución Flexible” optional dividend system would be carried out in two editions during the 2018 fiscal year. In particular, in this second edition, the shareholders of the Company and the holders of Iberdrola ADSs are offered the possibility of receiving the remuneration in cash either by means of the distribution of an interim dividend or through the transfer of their free allocation rights on the market.

To achieve the above, the “*Iberdrola Retribución Flexible*” optional dividend system will be carried out in this second edition through the combination of two legal instruments (a) the implementation of a paid-up capital increase (the “**Capital Increase**”) and (b) the distribution of an interim dividend corresponding to the fiscal year 2018, subject, in any event, to the fulfilment of the requirements set out in article 277 of the Spanish Companies Act –*Ley de Sociedades de Capital*– (the “**Interim Dividend**”). However, these are not separate transactions, but, on the contrary, they are deemed integrated transactions approved in order to implement the shareholders’ alternatives to receive their remuneration from the Company, for a given value, under the “*Iberdrola Retribución Flexible*” system. Notwithstanding, the payment of the Interim Dividend is conditioned to the Company attesting compliance of the requirements set out in article 277 of the *Spanish Companies Act*<sup>1</sup>.

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<sup>1</sup> In this regard, please note that Iberdrola expects to confirm the fulfilment of such requirements during December 2018. This circumstance will be published by means of a notice of significant event (*hecho relevante*) to be filed by Iberdrola with the Spanish Securities and Exchange Commission (*Comisión Nacional del Mercado de Valores*), which will also be available at its website ([www.iberdrola.com](http://www.iberdrola.com)).



Therefore, ADS holders will have the following options under the “*Iberdrola Retribución Flexible*” optional dividend system:

- Option 1: receive their remuneration in cash through the distribution of the Interim Dividend (this is the default option).
- Option 2: receive cash by instructing J.P. Morgan, as depositary, to sell their free allocation rights in the market.
- Option 3: receive newly issued Iberdrola ADSs.

Under this scheme, ADS holders will receive –free of charge– one free allocation right for every Iberdrola share held as of January 10, 2019 at 11:59 pm Madrid time (record date for the free allocation rights), provided that the Iberdrola shares represented by their ADSs have been acquired on or before January 8, 2019 (last trading date). Therefore, four free allocation rights will be issued for each ADS outstanding.

ADS holders will be able to choose any of the above mentioned alternatives with respect to all of their ADSs. Therefore, this initiative provides flexibility by enabling ADS holders to choose their preferred payment option according to their personal situation. For the sake of clarity, ADS holders must allocate all their ADSs to one of the three choices; there is no “mix-and-match” opportunity for ADS holders.

Free allocation rights will not be issued on ADSs, but ADS holders will be able to instruct the ADS Depositary, J.P. Morgan (the “**Depositary**” or “**J.P. Morgan**”), on how to dispose of the free allocation rights issued in respect of the shares underlying their ADSs<sup>2</sup> or to choose to receive the Interim Dividend in cash.

The default option is Option 1. Consequently, no action will be required to choose this option. If you wish to choose one of the other two options, you must complete the election form you should have received (see answer to questions 6, 12, 13 and 14 below) and send it with enough time for it to be received by J.P. Morgan, no later than 12:00 noon U.S. central time on January 16, 2019 –please note that your election form may take approximately 3-4 business days to arrive. Registered ADS holders not returning an election form will receive the Default Option for this and future editions of the “*Iberdrola Retribución Flexible*” system.

Any election made by a registered ADS holder (those holding ADSs in their own name and appearing on the ADS register maintained by the Depositary), including an election made by default, will apply to any future editions of the “*Iberdrola Retribución Flexible*” system unless J.P. Morgan is notified of an instruction to change an election

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

and provided that the options specified in the answer to question 3 below remain the same.

Your election will have important tax consequences. Please, take into account the taxation remarks included below –particularly, in the answer to question 27.

**2. What is the rationale of the “Iberdrola Retribución Flexible” optional dividend system?**

Through this system, Iberdrola intends to provides flexibility by:

- (i) offering its shareholders the ability to decide whether they prefer to receive all or a portion of their remuneration under the system in cash (through the payment of the Interim Dividend or through the transfer of the corresponding free allocation rights on the market) or in new paid-up shares of the Company; and
- (ii) allowing those shareholders who so desire to benefit from the favorable tax treatment applicable to paid-up shares, without in any way limiting their ability to receive the amount of the remuneration to which they are entitled in cash.

**3. What are my options as an ADS holder?**

As an ADS holder, you will have three options:

- **Option 1: Receive the remuneration in cash through the distribution of the Interim Dividend (this is the default option).**

Subject to the fulfilment of the requirements set out in the Spanish Companies Act (*Ley de Sociedades de Capital*), ADS holders may request, directly or through their bank, broker or securities intermediary, as the case may be, to receive their remuneration by means of the payment of an interim dividend corresponding to the fiscal year 2018, which we refer to herein as the Interim Dividend. Iberdrola expects that the payment of the Interim Dividend will be at least €0.150 gross per share<sup>3</sup>. 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.

For full description of the tax consequences derived from this option please see answer to question 27 below. In any case, you should consult your own tax

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<sup>3</sup> Each ADS represents 4 shares.



adviser regarding the United States of America (“**U.S.**”) federal income tax consequences of the receipt of the dividend.

For U.S. federal income tax purposes, regardless of the option a shareholder chooses, the receipt of the right will be taxable in the same manner as a cash dividend, with the amount of taxable income equal to the value of the right as of the date of distribution.

Please refer to J.P. Morgan, your bank, broker or other securities intermediary for any applicable brokerage fee.

Option 1 is the default option, therefore, ADS holders not returning an election form in due time will receive cash according to this option.

- **Option 2: Receive cash by instructing J.P. Morgan, as depositary, to sell their free allocation rights in the market**

ADS holders may request, directly or through their bank, broker or securities intermediary, as the case may be, that the Depositary sells the rights issued on the shares underlying their ADSs in the market in Spain.

The proceeds ADS holders receive as a result of such a sale will be in U.S. dollars and the amount will depend on the market price at which the Depositary is able to sell the rights as well as the exchange rate obtained by the Depositary in exchanging euros received from the sale to U.S. dollars. Accordingly, there can be no guarantee that the price received will be the same as, more than or less than the amount that would be received pursuant to Option 1 –*i.e.*, the default option. J.P. Morgan will begin selling such rights on or around January 18, 2019 and may continue such sales through no later than January 23, 2019. 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. Spanish withholding tax is not applicable to the proceeds generated from the sales made by non-residents in Spain under this option; however, this option could have certain Spanish tax implications for non-residents in Spain<sup>4</sup>. For full description

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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 any applicable Tax Treaty for the Avoidance of Double Taxation (“**DTA**”) 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 program).



of the tax consequences derived from this option please see answer to question 27 below.

**Note that Iberdrola cannot guarantee the price that you will receive for the sale of free allocation rights in the market in Spain and you will neither be consulted nor be able to approve the price at which such rights are sold.**

- **Option 3: Receive newly issued Iberdrola ADSs**

ADS holders may request, directly or through their bank, broker or securities intermediary, as the case may be, that the Depositary keep the rights issued on the shares underlying their ADSs and then issue new ADSs representing the new Iberdrola shares issued upon conversion of the free allocation rights. There is no subscription payment required for rights to be converted into new shares (although the Depositary or their bank, broker or securities intermediary may assess a dividend fee per the terms of the Deposit Agreement governing the ADS program or any other document governing the relation between the ADS holder and such intermediary). The number of new ADSs holders receive in this option will depend upon the number of ADSs held at the time of the January 2019 optional dividend record date and the conversion ratio –*i.e.*, the number of rights which are needed to receive one new ADS– (referred to in the section on “*Calculating your optional dividend*” below) which will at the time depend on the market price of Iberdrola shares in Spain. 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 and taxation applicable to that set forth as for Option 2 above). The delivery of ADS in 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 full description of the tax consequences derived from this option please see answer to question 27 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. For the sake of clarity, ADS holders must allocate all their ADSs to one of the three choices; there is no “mix-and-match” opportunity for ADS holders.

For U.S. federal income tax purposes, regardless of the option a shareholder chooses, the receipt of the rights will be taxable in the same manner as a cash dividend, with



the amount of taxable income equal to the value of the right as of the date of distribution.

Please refer to J.P. Morgan, your bank, broker or other securities intermediary for any applicable brokerage fee.

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).

**4. Will I receive new ADSs for every future dividend if I choose to receive ADSs in connection with this optional dividend system?**

To the extent you are a registered ADS holder, any election that you make, including any election made by default, will be kept on record and, unless changed, will be applied to any future editions of the “*Iberdrola Retribución Flexible*” optional dividend system, unless J.P. Morgan is notified of an instruction to change an election.

If you own Iberdrola ADSs through a bank, broker or other securities intermediary, please contact the intermediary directly to check the answer to this question.

**5. Who is eligible for the “*Iberdrola Retribución Flexible*” optional dividend system?**

ADS holders as of the record date –*i.e.*, January 10, 2019– are entitled to the optional dividend system and will be entitled to instruct the Depositary as to which of the above mentioned options they prefer.

If you are not a registered holder of ADSs, you will have to instruct the bank, broker or other securities intermediary through which you hold the ADSs to instruct the Depositary on your behalf.

**6. Where can I get more information?**

If you are a registered holder of Iberdrola ADSs, you will receive an election form and instructions directly from the Depositary. To make an election, you will need to complete the election form and return it to the Depositary. Instructions and details on where to direct questions with regard to completing the form to make an election will be included in the materials you will receive from the Depositary. If you own Iberdrola



ADSs through a bank, broker or other securities intermediary, please contact the intermediary directly to make your election.

**7. Will new ADSs issued to me in respect of the dividend have the same rights as my existing ADSs?**

Yes.

**8. What are the benefits of the “*Iberdrola Retribución Flexible*” optional dividend system?**

The “*Iberdrola Retribución Flexible*” system allows ADS holders to choose a payment option that best fits their personal circumstances.

A benefit for those who receive ADSs and are not resident in Spain will be that they will not be subject to the general Spanish withholding tax (currently set at 19%) which applies to cash dividends (or at a lower rate under the corresponding applicable DTA ratified by Spain, if applicable, or pursuant to Spanish tax legislation). However, these sellers must consider the tax consequences derived from this option, as indicated in question 27 below.

ADS holders who opt to receive cash through the payment of the Interim Dividend – *i.e.*, Option 1– will incur a withholding tax deduction on account of Spanish withholding tax, but will be certain of a fixed payment amount.

For U.S. federal income tax purposes, regardless of the option a shareholder chooses, the receipt of the right will be taxable in the same manner as a cash dividend, with the amount of taxable income equal to the value of the right as of the date of distribution. You should consult your own tax adviser regarding the U.S. federal income tax consequences of the receipt of the dividend.

For full description of the tax consequences derived from this scheme please see answer to question 27 below.

**9. I want to continue to receive a fixed amount of cash — what do I do?**

According to the options available to ADS holders specified in the answer provided to question number 3 above, an ADS holder willing to receive a fixed amount in cash will need to choose Option 1.



ADS holders not making an election will also receive the Option 1 (the default option). Please see answers to questions 10 and 11 below for further details.

If you have any doubts as to which option to choose, please seek your own independent financial advice from your stockbroker, bank manager, accountant or other appropriate authorized financial adviser.

**10. When will I receive the cash amount corresponding to my ADSs if I elect Option 1 or this option applies to me as default option?**

It is expected that J.P. Morgan will pay the proceeds for ADS holders who choose Option 1, either expressly or by default, on or near February 14, 2019. Funds will be remitted to ADS holders, directly or through their bank, broker or other securities intermediary.

**11. Can I choose to receive part of my entitlement in cash and part in new ADSs?**

No. You must allocate your entire ADS record date balance to one of the three choices. There is not a “mix-and-match” opportunity. However, cash will be paid *in lieu* of rights of ADS holders representing a fractional share entitlement through a sale in the market of such rights (for further details please see answers to questions 15 and 16 below).

**12. How do I make my choice?**

Registered ADS holders will receive an election form which must be submitted to J.P. Morgan by the stated deadline. Registered ADS holders not submitting an election form will receive the Default Option –i.e., Option 1–, which will be to receive their remuneration in cash through the distribution of the Interim Dividend.

If you are a registered ADS holder and you have not received an election form, please immediately contact the Depository to obtain an election form.

If you own Iberdrola ADSs through a bank, broker or other securities intermediary, please contact the intermediary directly to obtain information on how you make your election.

Election forms that are not completed correctly will not be valid and ADS holders submitting such an invalid form will also receive the Default Option.



**13. What is the deadline to make my election?**

If you are a registered ADS holder, election forms must be received by J.P. Morgan, the depository, no later than 12:00 noon U.S. central time on January 16, 2019.

If you hold your ADSs through a bank, broker or other securities intermediary, you should submit your instructions according to the deadline established by that intermediary.

**14. Are there any circumstances in which you will disregard my choice?**

Election forms received from registered ADS holders by J.P. Morgan that are not correctly completed will be disregarded and such holders will receive the Default Option –i.e., Option 1–, which will be to receive their remuneration in cash through the distribution of the Interim Dividend.

If you own Iberdrola ADSs through a bank, broker or other securities intermediary, please contact the intermediary directly to check in which circumstances your choice will be disregarded.

**15. How do you work out my entitlement to ADSs in the optional dividend system?**

The number of rights required to receive one new Iberdrola ADS (the “**Conversion Ratio**”) will be announced on January 4, 2019 and will depend on the market share price of Iberdrola shares on the Spanish Stock Exchanges (see section on “*Calculating your optional dividend*” below for further details).

Rights pertaining to an ADS holder’s position that represent a fractional share entitlement will be aggregated with the rights corresponding to the fractional entitlements of other ADS holders and sold by J.P. Morgan. Each ADS holder will receive a portion of the proceeds resulting from that sale *pro rata* to its share of the total fractional entitlements.

**16. When will I receive the cash amount in lieu of my fractional entitlement?**

Rights representing fractional ADS entitlements will be aggregated and sold by the Depository. The Depository will send you, directly or through your bank, broker or other securities intermediary your portion of the proceeds of that sale at the same time as

or as soon as is practicable after new ADSs are delivered, which is expected to be on or around February 5, 2019.

Please refer to question 27 regarding the tax consequences that apply to the sale of your fractional entitlement.

**17. If I choose to receive new ADSs, when will I be sent confirmation of my new shareholding?**

J.P. Morgan will issue new ADSs for those choosing that option in book-entry form. Statements reflecting the new entitlement will be mailed to registered ADS holders the week following receipt of the underlying shares by the Depositary in Spain which is expected on or around February 5, 2019.

If you own Iberdrola ADSs through a bank, broker or other securities intermediary, please contact the intermediary directly to check when you will be sent confirmation of your new shareholding.

**18. What happens if I choose to do nothing?**

In that case, the Default Option will be deemed applicable and you will receive your remuneration in cash through the distribution of the Interim Dividend as described in the answer to question 3.

Please refer to questions 3 and 27 for a full description of the consequences resulting from your lack of specific instructions.

**19. If the rights issued on the shares underlying my ADSs are not sufficient to result in the receipt of a new ADS, what will I receive?**

ADS Holders wishing to receive new ADSs will have to own a sufficient number of ADSs so that rights issued on the underlying shares entitle the Depositary to receive a whole share and subsequently issue a whole ADS. ADS holders who do not own a sufficient enough position to elect to receive additional ADSs will receive cash *in lieu* of their fractional ADS entitlement or can instruct the Depositary from among the two cash options (*i.e.*, Options 1 and 2).

**20. What happens if I don't have enough rights to acquire a new ADS?**

See questions 15, 16 and 19.



**21. Can I buy additional rights to those I am assigned for my ADS holding in order to be able to receive new ADSs?**

No.

**22. What happens if I have recently sold or purchased Iberdrola ADSs?**

New holders of ADSs as of the record date will be entitled to provide an election with respect to the “*Iberdrola Retribución Flexible*” optional dividend system. If you no longer hold Iberdrola ADSs, you will not be entitled to participate in the “*Iberdrola Retribución Flexible*” optional dividend system.

**23. Can I participate even if I am resident outside the U.S.?**

Holders of ADSs outside the U.S. can participate, if no local prohibition exists. ADS Holders outside the U.S. should consult with their respective advisors or counsel as to whether any local law, regulation or statute is applicable in this particular circumstance.

**24. Why are rights issued in Spain to facilitate this optional dividend system?**

As Iberdrola is a Spanish company, it must comply with local regulation and market practice in making this optional dividend system available. Spanish regulation requires that free allocation rights be issued in relation to a paid-up capital increase prior to the issuance of new shares.

**25. Do I need to complete a new optional dividend election form every time Iberdrola offers an optional dividend system?**

To the extent you are a registered holder, your election –or the Default Option if no affirmative election is made– in respect of this edition of the “*Iberdrola Retribución Flexible*” optional dividend system will be considered as a standing instruction by the Depositary for any future edition of this program, provided that the options specified in the answer to question 3 remain the same.

If you own Iberdrola ADSs through a bank, broker or other securities intermediary, please contact the intermediary directly to check answer to this question.

**26. Will my new ADSs be included in any subsequent optional dividend?**

Yes, your new ADSs will be added to your existing holding for the purposes of calculating your entitlement and will be included in any subsequent optional dividend system.

**27. What are the tax implications derived from the optional dividend system?**

**A. Spanish Tax**

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 January 2019 optional dividend system, and does not act through a permanent establishment located in Spain, is summarized below. Please note that this summary does not constitute legal advice and it is not a substitute thereof. Therefore, it does not cover all potential tax implications under Spanish tax law and it is based on current Spanish law and on what is understood to be the current practice of the Spanish tax authorities (to the date of issuance of this document)<sup>5</sup>.

The delivery of the shares issued in the Capital Increase will be considered a delivery of fully paid-up shares free of charge and, hence, shall not be considered income for purposes of the Spanish Non Resident Income Tax (“**NRIT**”). The acquisition value, both of the new shares received in the January 2019 edition of the optional dividend system and of the shares from which the new ones arise, will be the result of dividing the total original acquisition value of the shares from which the new shares arise by the number of shares, both old and the corresponding newly issued shares. The acquisition date of the new shares will be that of the shares from which they arise.

If ADS holders receiving rights in the January 2019 edition of the optional dividend system 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 in which the transfer takes place. Such capital gain would be subject to Spanish NRIT at a current rate of 19%, although this taxation may be reduced or exempt from NRIT pursuant to Spanish domestic legislation or under the DTA ratified by Spain.

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<sup>5</sup> However, note that the Spanish government has recently announced specific tax measures that may modify the taxation of this optional dividend program for Spanish resident and non-resident taxpayers. In particular, the Spanish government has recently announced specific tax measures that may, *inter alia*, introduce a common financial transaction tax (“**FTT**”) in Spain which may subject specific transactions involving Iberdrola shares (or ADSs) to FTT in Spain. Further details on these measures have not yet been published. Moreover, these measures have not yet been passed and it is not clear if (or how) they might ultimately be approved. Shareholders and prospective shareholders are urged to consult their tax advisors in this vein should, who can provide them with personalized advice based on their particular circumstances, in particular if these measures are finally implemented.



In particular, beneficial holders of ADSs who are eligible for the benefits of the comprehensive DTA between the United States and Spain (the “**Treaty**”), without any limitation, 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, subject to the satisfaction of the conditions specified by the Treaty or the NRIT legislation, 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 Interim Dividend, Spanish withholding tax will be deducted from the cash payment at the corresponding rate applicable to dividend payments (generally 19%, although this withholding taxation may be reduced or exempt from NRIT pursuant to Spanish domestic legislation or under any applicable DTA ratified by Spain).

Under the Treaty, the general applicable rate of withholding is 15%, provided the ADS holder is not a corporation holding at least a 25% participation in the share capital (and hence voting rights) of Iberdrola. U.S. beneficial holders of ADSs should consult their tax advisors regarding their eligibility for benefits under the Treaty and, if so, the procedure for obtaining the reduced rate of withholding and a refund of any amounts withheld for Spanish taxes in excess of the Treaty rate.

Please note that in order to be eligible for a reduced tax rate or exemption, the shareholder must be the beneficial owner of that income and must evidence its right to a reduced tax rate by delivering to Iberdrola a certificate duly issued by the Tax Authorities of its country of residency evidencing that the shareholder is entitled to the benefits of the corresponding DTA entered into by and between its country of residency and Spain. This document is generally valid for one year after its 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 January 2019 edition of the optional dividend system. This tax disclosure was written in connection with the promotion or marketing of the “*Iberdrola Retribución Flexible*” optional dividend system 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 January 2019 edition of the optional dividend system for a person or entity subject to U.S. federal income taxation on a net income basis who is a beneficial owner of ADSs and 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. If a partnership, including for this purpose any arrangement or entity that is treated as a partnership for U.S. federal income tax purposes, holds ADS, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. ADS holders (including partnerships and the partners in such partnership) 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 receiving the January 2019 optional dividend.

Under current U.S. federal income tax law, dividends paid in cash (the Default Option) should be included in a U.S. Holder’s income on the date of the receipt of the dividend. The amount of the dividend income paid in euros should be the U.S. dollar amount calculated by reference to the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars. If the cash dividend is converted into U.S. dollars on the date of receipt, a U.S. Holder should not be required to recognize foreign currency gain or loss in respect of the dividend income. A U.S. Holder may recognize foreign currency gain or loss if the cash dividend is converted into U.S. dollars after the date of receipt. Any foreign currency gain or loss will be treated as U.S. source ordinary income or loss.

A U.S. Holder who does not elect to receive the 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 dividends paid to certain non-corporate U.S. Holders may be taxable at a maximum rate of 20%. 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 specific 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 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 right 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 January 2019 optional dividend system.

## Calculating your optional dividend

### 1. How will the Conversion Ratio for ADSs and the gross Interim Dividend per share be calculated?

For illustrative purposes this example assumes

- Market value of reference of the Capital Increase: €988,000,000
- Iberdrola Stock Price: €6.176
- Share Count: 6,397,629,000

The Conversion Ratio for ADSs and the Interim Dividend will be calculated as follows:

- The number of Provisional Shares = Market value of reference of the capital Increase / Stock Price =  $988,000,000 / 6.176 = 159,974,093.2642490 \approx 159,974,093$  (rounded down)

Conversion Ratio = Share Count / Number of Provisional Shares =  $6,397,629,000 / 159,974,093 = 39.9916566 \approx 40$  (rounded up) rights to receive one share

- ADS Interim Dividend =  $(\text{Stock Price} / (\text{Conversion Ratio} + 1))^6 \times 4^7 = (6.176 / (40+1)) \times 4 = 0.151^8 \times 4 = €0.604$

According to the above:

#### ADS Conversion Rate:

Since each ADS represents 4 shares, 160 rights corresponding to 160 old shares (40 x 4) would be necessary to receive one ADS. However, please bear in mind that each ADS entitles the right to receive 4 free allocation rights. Therefore, the ADS Conversion Rate is the same as the Share Conversion Rate: 40 old ADSs are necessary to receive one new ADS.

#### ADS gross Interim Dividend per share:

According to the above, the ADS gross Interim Dividend per share would be €0.604.

However, the amount to be received by ADS holders will be in U.S. dollars and it will depend on euro/dollar exchange rate.

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<sup>6</sup> Rounded to the closest one-thousandth part of one euro and, in case of a half of a thousandth part of one euro, to the next higher one-thousandth part of one euro.

<sup>7</sup> Each ADS represents 4 shares resulting in 4 free allocation rights being issued for each ADS outstanding.

<sup>8</sup> Rounded to the thousandth.





Further information on how the Conversion Ratio for Shares and the gross amount of the Interim Dividend are calculated can be found in the report of the Board of Directors of Iberdrola dated February 23, 2018 that was submitted to the shareholders in connection with the “*Iberdrola Retribution Flexible*” optional dividend system proposal in anticipation of Iberdrola’s GSM of April 13, 2018.

**2. What will the Conversion Ratio and Interim Dividend be?**

This is calculated as described in question 1 above. It will be announced by Iberdrola on January 4, 2019.

**3. Where will I be able to find the Conversion Ratio and the Interim Dividend per share?**

From January 4, 2019 the Conversion Ratio and the gross Interim Dividend per share will be available on Iberdrola’s website at [www.iberdrola.com](http://www.iberdrola.com) and on [www.adr.com](http://www.adr.com).

**Election Materials**

**1. What are the optional dividend system Election Materials?**

If you are a registered holder of Iberdrola ADSs, you will receive an election form and instructions directly from J.P. Morgan, as Depositary.

If you are a registered ADS holder and you have not received an election form, please contact immediately J.P. Morgan to obtain an election form. If you own Iberdrola ADSs through a bank, broker or other securities intermediary, please contact the intermediary directly to make your election.

**2. Can I complete an optional dividend mandate form for part of my holding?**

No. You must elect your entire record date position in respect of one of the three options. For the sake of clarity, ADS holders must allocate all their ADSs to one of the three choices; there is no “mix-and-match” opportunity for ADS holders.

**3. How many joint holders are required to sign the optional dividend election form in respect of a joint holding?**

All registered ADS holders must sign the form if the ADSs are held jointly.

**4. Can I cancel my optional dividend choice?**

Yes, although any election made by a registered ADS holder, including an election made by default, will apply to any future editions of the “*Iberdrola Retribución Flexible*”, provided that the options specified in the answer to question 3 remain the same, you will always be able to change that election by notifying J.P. Morgan in due time and manner.



## Tax

**YOU SHOULD CONSULT YOUR OWN TAX ADVISER REGARDING THE U.S., SPANISH OR OTHER TAX CONSEQUENCES OF THE RECEIPT OF THE DIVIDEND.**