

June 2021

## QUESTIONS & ANSWERS

### ADS HOLDERS

#### **“IBERDROLA RETRIBUCIÓN FLEXIBLE” OPTIONAL DIVIDEND SYSTEM**

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

On May 11, 2021, the Board of Directors of Iberdrola, S.A. (“**Iberdrola**” or the “**Company**”) convened the 2021 General Shareholders’ Meeting of Iberdrola, to be held on, first call, on June 17, 2021 and, on second call, on June 18, 2021 (the “**General Shareholders’ Meeting**”). The Board of Directors submitted to the General Shareholders’ Meeting of the Company the approval of the optional dividend system “Iberdrola Retribución Flexible” corresponding to the fiscal year 2021. Please refer to question 29 for more information.

The “*Iberdrola Retribución Flexible*” optional dividend system offers the shareholders of the Company 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.

Subject to obtaining the approval by the General Shareholders’ Meeting, in this edition of the “*Iberdrola Retribución Flexible*” optional dividend system, the shareholders of the Company and the holders of ADSs will be offered the possibility of receiving the remuneration in cash either by means of the distribution of a supplementary 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 first 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 a supplementary dividend corresponding to the fiscal year 2020 (the “**Supplementary 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*” optional dividend system.



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 Supplementary Dividend (this is the “**Default Option**”).
- Option 2: receive cash by instructing The Bank of New York Mellon, as depositary bank (“**The Bank of New York Mellon**”), to sell their free allocation rights in the market.
- Option 3: receive newly issued Iberdrola ADSs.

Under this scheme, ADS holders will be entitled to receive free of charge one free allocation right for every Iberdrola share represented by ADSs held as of July 9, 2021 at 11:59 pm Madrid Time (ADS record date for the free allocation rights), provided that the Iberdrola shares represented by their ADSs<sup>1</sup> have been acquired on or before July 7, 2021 (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 options 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 Bank of New York Mellon, as depositary bank, on how to dispose of the free allocation rights issued in respect of the shares underlying their ADSs or to choose to receive the Supplementary Dividend in cash.

Consequently, no action will be required to choose the Default Option (Option 1). If you wish to choose one of the other two options, you must complete the election form that you should have received (see answers to questions 6, 13, 14 and 15 below) and send it with enough time for it to be received by The Bank of New York Mellon, no later than 5:00 p.m. Eastern Time on July 15, 2021. Please note that, if mailed in the United States of America (“**U.S.**”), your election form may take approximately 3-4 business days to be received by The Bank of New York Mellon. Registered ADS holders (those holding ADSs in their own name and appearing on the ADS register maintained by The Bank of New York Mellon)

<sup>1</sup> Each ADS represents 4 shares resulting in 4 free allocation rights being issued for each ADS outstanding.



not returning an election form or those ADS holders whose election form is received after 5:00 p.m. Eastern Time on July 15, 2021, will receive the Default Option for this and future editions of the “*Iberdrola Retribución Flexible*” optional dividend system.

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*” optional dividend system unless The Bank of New York Mellon receives a valid instruction to change an election and provided that the options specified in the answer to question 3 below remain the same.

Similarly, if you are a registered ADS holder who previously provided complete instructions in connection with a previous edition of the “*Iberdrola Retribución Flexible*” optional dividend system, and have been an ADS holder since the record date of such edition, The Bank of New York Mellon will apply that same instruction (including any election by default) to this edition of the “*Iberdrola Retribución Flexible*” optional dividend system and to future editions, unless you inform The Bank of New York Mellon of a change in your election.

**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 and valid decision, in the absence of an express election by the ADS holders).**

ADS holders wishing to make or change an election must send an election form, to be received by The Bank of New York Mellon during the election period, which is July 8 through July 15, 2021. Any election form received by The Bank of New York Mellon after 5:00 p.m., Eastern Time, on July 15, 2021 will not be valid and will not be accepted by The Bank of New York Mellon. If you hold ADSs through a broker or other securities intermediary, you must contact your intermediary to make an election. Intermediaries will set their own cut-off dates and times to give instructions, which may be earlier than the cut-off date and time stated in this document.

Should you wish to make a change in your existing election, please contact your broker, or other securities intermediary, or The Bank of New York Mellon at the following:

By Telephone: 9 a.m. to 7 p.m. Eastern Time, Monday through Friday, except for holidays:

Within USA, U.S. territories & Canada: 1 866 726 8237 (Toll Free)

Outside the USA, U.S. territories & Canada: 1 201 680 6825 (Collect)



By Regular Mail:

The Bank of New York Mellon  
Shareholder Correspondence  
P.O. Box 505038  
Louisville, KY 40233-505038

By Overnight Courier or Registered Insured Mail:

The Bank of New York Mellon  
Shareholder Correspondence  
462 South 4th Street, Suite 1600  
Louisville, KY 40202

By Internet: [www.mybnymdr.com](http://www.mybnymdr.com)

A Change of Election Form will be available on the above website. You must complete and return the election form to The Bank of New York Mellon to be received by 5:00 p.m. Eastern Time on July 15, 2021, or instruct your broker or other securities intermediary to act on your behalf, as applicable, in order to make your election change effective.

Your election will have important tax consequences. Please, take into account the taxation remarks included below –particularly, in the answer to question 28.

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

Through this system, Iberdrola intends to provide flexibility by:

- (i) offering its ADS holders the ability to decide whether they prefer to receive their remuneration under the system in cash (through the payment of the Supplementary Dividend or through the transfer of the corresponding free allocation rights on the market) or in new fully paid-up shares of the Company; and
- (ii) allowing those ADS holders who so desire to benefit from the favorable tax treatment applicable to paid-up shares (when they are non-Spanish resident holders who do not act through a permanent establishment in Spain), 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 may choose from one of three options:

- **Option 1: Receive your remuneration in cash through the distribution of the Supplementary Dividend (this is the Default Option).**

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 a supplementary dividend corresponding to the fiscal year 2020, which we refer to herein as the Supplementary Dividend. Iberdrola expects that the payment of the Supplementary Dividend will be at least €0.252 gross per share<sup>2</sup> (equivalent to €1.008 per ADS). The Bank of New York Mellon will deduct a dividend fee of \$0.040 per ADS from the Supplementary Dividend payment. ADS holders who elect this option will be subject to the tax treatment applicable to cash dividends, including, relevant withholding and taxation rates.

For a full description of the tax consequences derived from this option please see answer to question 28 below. In any case, you should consult your own tax adviser regarding the U.S. federal income tax consequences of the receipt of the dividend. Please note that The Bank of New York Mellon and Iberdrola do not provide tax advice.

For U.S. federal income tax purposes, regardless of the option an ADS holder 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 your bank, broker or other securities intermediary for any applicable brokerage fee.

ADS holders not returning a valid election form in due time will receive cash according to the Default Option.

- **Option 2: Receive your remuneration in cash by instructing The Bank of New York Mellon to sell your 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 Bank of New York Mellon sell the rights issued on the shares underlying their ADSs in the market in Spain.

<sup>2</sup> Each ADS represents 4 shares.



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 Bank of New York Mellon is able to sell the rights as well as the exchange rate obtained by The Bank of New York Mellon in exchanging euros received from the sale to U.S. dollars. Please note that the exchange rate will be implemented in accordance with The Bank of New York Mellon ADR foreign exchange methodology posted at [https://www.adrbnymellon.com/fees-and-disclosures/drs\\_foreign\\_exchange\\_pricing\\_disclosure.pdf](https://www.adrbnymellon.com/fees-and-disclosures/drs_foreign_exchange_pricing_disclosure.pdf). 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 the Default Option (*i.e.*, Option 1). The Bank of New York Mellon will begin selling such rights on or around July 19, 2021 and may continue such sales through no later than July 21, 2021. 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 below) minus a dividend fee of \$0.040 per ADS held as of the record date. Spanish withholding tax is not applicable to the proceeds generated from the sales made by non-residents in Spain under this option when they do not act through a permanent establishment in Spain; however, this option could have certain Spanish tax implications for non-residents in Spain<sup>3</sup>. For a full description of the tax consequences derived from this option please see answer to question 28 below.

**Note that Iberdrola cannot guarantee the price that you will receive for the sale of free allocation rights in the market in Spain. The amount that you receive per right may be more, less or the same as the amount corresponding to Option 1 above and you will neither be consulted nor be able to approve the price at which such rights are sold.**

<sup>3</sup> From a Spanish tax standpoint, the full amount obtained by non-Spanish tax resident ADS holders (who do not act through a permanent establishment in Spain in this respect) from the sale of rights received under Option 2 in the market will be treated as a taxable capital gain for the transferor and, hence, subject to a 19% Spanish non-resident income tax (“NRIT”). However, the taxation of this capital gain 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. ADS holders are urged to consult their tax advisors with respect to the application of Spanish tax law to their personal circumstances, as well as with 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 remuneration system).



- **Option 3: Receive your remuneration in newly issued ADSs**

ADS holders may request, directly or through their bank, broker or securities intermediary, as the case may be, that The Bank of New York Mellon keeps the rights issued on the shares underlying their ADSs and then deliver 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 your bank, broker or securities intermediary may assess a fee per the terms of the agreement governing the relationship between the ADS holder and such intermediary). The number of new ADSs such ADS holders receive in this option will depend upon the number of ADSs held at the time of the July 2021 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 requirements applicable to those set forth for Option 2 above). ADS holders will be charged by The Bank of New York Mellon a dividend fee of \$0.040 per new ADS issued (and The Bank of New York Mellon may sell a portion of the distributable ADSs to pay that fee). No Spanish withholding tax will apply to this sale of the rights for non-residents in Spain (when they do not act through a permanent establishment in Spain in this respect). For a full description of the tax consequences derived from this option please see answer to question 28 below.

For the avoidance of doubt, the value of the remuneration received by ADS holders from Iberdrola under Option 1 and Option 3 above will be equivalent (in terms of market value but without taking into account the 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 an ADS holder 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 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 and valid decision, in the absence of an express election by the ADS holders).**

ADS holders wishing to make or change an election must send an election form, to be received by The Bank of New York Mellon during the election period set out in this document, which is July 8 through July 15, 2021

**Any election form received by The Bank of New York Mellon after 5:00 p.m. Eastern Time, on July 15, 2021 will not be valid and will not be accepted by The Bank of New York Mellon.** If you hold ADSs through a broker or other securities intermediary, you must contact your intermediary to make an election. Intermediaries will set their own cut-off dates and times to give instructions, which may be earlier than the cut-off date and time stated in this document.

**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 The Bank of New York Mellon receives a timely instruction to change an election.

Similarly, if you are an ADS holder who previously provided complete instructions in connection with a previous edition of the “*Iberdrola Retribución Flexible*” optional dividend system, and have been an ADS holder since the record date of such edition, The Bank of New York Mellon will apply that same instruction (including any election by default) to this edition of the “*Iberdrola Retribución Flexible*” optional dividend system and to future editions, unless you inform The Bank of New York Mellon of a change in your election.

If you own 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 to participate in the “*Iberdrola Retribución Flexible*” optional dividend system?**

ADS holders as of the record date –*i.e.*, July 9, 2021– are entitled to the optional dividend system and will be entitled to instruct The Bank of New York Mellon as to which of the above mentioned options they prefer, provided that the Iberdrola shares represented by their ADSs have been acquired on or before July 7, 2021 (last trading date).

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 Bank of New York Mellon on your behalf.

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

If you are a registered holder of ADSs, you will receive an election form and instructions directly from The Bank of New York Mellon. To make an election, you will need to complete the election form and return it to The Bank of New York Mellon no later than 5:00 p.m. Eastern Time on July 15, 2021. Instructions and details on where to direct questions with regard to completing the form to make an election are provided above. Please see the answer to question 1. If you own 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*” optional dividend 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 for Spanish income tax purposes and do not act through a permanent establishment in Spain, will be that they will not be subject to Spanish withholding tax (currently set at 19%) which applies to cash dividends (or at a lower rate under the corresponding DTA ratified by Spain, if applicable,



or pursuant to Spanish domestic tax legislation). However, these sellers must consider the tax consequences derived from this option, as indicated in question 28 below.

Spanish withholding tax will be deducted from the cash payment of the Supplementary Dividend (currently at a 19% tax rate unless an exemption or reduced tax rate apply under Spanish domestic rules or under the applicable DTA ratified by Spain, in the event that you are fully entitled to the benefits of this tax treaty) for ADS holders who opt to receive cash through the payment of the Supplementary Dividend –i.e., Option 1– (although a refund may apply in specific circumstances).

For U.S. federal income tax purposes, regardless of the option an ADS holder chooses, the receipt of the rights will be taxable in the same manner as for 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 and other applicable tax consequences of the receipt of the dividend.

For a full description of the tax consequences derived from this scheme please see answer to question 28 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 not need to take any action and will receive Option 1 (the Default Option).

ADS holders not making a valid election will also receive Option 1 (the Default Option). Please see answers to questions 11 and 12 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 know the gross amount of the Supplementary Dividend per share corresponding to my ADSs in Option 1 and that will be paid in cash?**

The gross amount of the Supplementary Dividend per share will be published following approval on Iberdrola's website at [www.iberdrola.com](http://www.iberdrola.com) and on [www.adrbnymellon.com](http://www.adrbnymellon.com) on



July 6, 2021. Details on how the Supplementary Dividend will be calculated can be found at [www.iberdrola.com](http://www.iberdrola.com).

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

It is expected that The Bank of New York Mellon will pay the proceeds for ADS holders who choose Option 1, either expressly or by default, on or around August 9, 2021. Funds will be remitted to ADS holders, directly or through their bank, broker or other securities intermediary.

**12. 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 16 and 17 below) although you have chosen to receive new ADSs.

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

Registered ADS holders will receive an election form which must be submitted to The Bank of New York Mellon by 5:00 p.m. Eastern Time on July 15, 2021. 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 Supplementary Dividend.

If you are a registered ADS holder and you have not received an election form, please immediately contact The Bank of New York Mellon to obtain an election form.

Please note that if you are an ADS holder who previously provided complete instructions in connection with a previous edition of the “*Iberdrola Retribución Flexible*” optional dividend system, and have been an ADS holder since the record date of such edition, The Bank of New York Mellon will apply that same instruction (including any election by default) to this edition of the “*Iberdrola Retribución Flexible*” optional dividend system and to future editions, unless you inform The Bank of New York Mellon of a change in your election.



If you own ADSs through a bank, broker or other securities intermediary, please contact the intermediary directly to obtain information on how you make your election. Intermediaries will set their own cut-off dates and times to give instructions to The Bank of New York Mellon, which will be earlier than the cut-off date and time stated in this document.

Election forms that are not completed correctly, or that are not received by 5:00 p.m. Eastern Time on July 15, 2021, will not be valid and ADS holders submitting such an invalid form will also receive the Default Option.

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

If you are a registered ADS holder, election forms must be received by The Bank of New York Mellon, no later than 5:00 p.m. Eastern Time on July 15, 2021.

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, which will be earlier than the date and time stated above.

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

Election forms received from registered ADS holders by The Bank of New York Mellon that are not correctly completed or that are received after the deadline 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 Supplementary Dividend. Iberdrola will not be liable as a result thereof.

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

**16. 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 July 6 , 2021 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). The Conversion Ratio will be announced on Iberdrola’s website at [www.iberdrola.com](http://www.iberdrola.com) and on [www.adrbnymellon.com](http://www.adrbnymellon.com). Details on how the Conversion Ratio will be calculated can be found at [www.iberdrola.com](http://www.iberdrola.com).

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 The Bank of New York Mellon. Each ADS holder will receive a portion of the proceeds resulting from that sale *pro rata* to its share of the total fractional entitlements.

**17. 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 Bank of New York Mellon. The Bank of New York Mellon will send to 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 August 9, 2021.

Please refer to question 28 regarding the tax consequences that apply to the sale of your fractional entitlement.

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

The Bank of New York Mellon will deliver new ADSs for those choosing that option in registered, uncertificated form. Statements reflecting the new entitlement will be mailed to registered ADS holders as soon as practicable following receipt of the underlying shares by The Bank of New York Mellon in Spain, which is expected on or around July 29, 2021.

If you own 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 ADS holding.



**19. 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 Supplementary Dividend as described in the answer to question 3 (unless you have other standing election on file made in connection with a previous edition of the “*Iberdrola Retribución Flexible*” optional dividend system).

Please refer to questions 3 and 26 for a full description of the consequences resulting from your lack of specific instructions. Furthermore, please be advised that Iberdrola will not be liable as a result of the failure to provide specific instructions through an express and valid decision.

**20. 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 Bank of New York Mellon to receive four (4) whole shares and subsequently issue a whole ADS. ADS holders who do not own a sufficient position to elect to receive additional ADSs will receive cash *in lieu* of their fractional ADS entitlement (see questions 16 and 17) or can instruct The Bank of New York Mellon from among the two cash options (*i.e.*, Options 1 and 2).

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

See questions 16, 17 and 20.

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

No.

**23. What happens if I have recently sold or purchased 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 ADSs, you will not be entitled to participate in the “*Iberdrola Retribución Flexible*” optional dividend system.

**24. Can I participate even if I am a 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.

**25. 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 free allocation rights be issued in relation to a paid-up capital increase prior to the issuance of new shares.

**26. 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 Bank of New York Mellon for any future edition of this program, provided that the options specified in the answer to question 3 remain the same.

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

**27. 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.

**28. 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 who is not a resident of Spain for Spanish income tax purposes in respect of the July 2021 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).

Please note that the Spanish government could announce specific tax measures (other than those to which this document refers) that may affect *inter alia* Spanish NRIT laws and regulations. Iberdrola does not assume any obligation to inform you of any such measures after the date of this document.

In particular, on October 7, 2020, the Law to implement a Spanish tax on financial transactions (*Ley del Impuesto sobre las Transacciones Financieras*) (the “**FTT Law**” and the “**Spanish FTT**”, respectively) was approved and, on October 16, 2020, the Law was published in the Spanish Official Gazette (*Boletín Oficial del Estado*). The Spanish FTT came into force on January 16, 2021 (three months after the publication of the FTT Law in the Spanish Official Gazette).

According to the FTT Law, the Spanish FTT charges at a fixed rate of 0.2% on the acquisition of listed shares issued by Spanish companies admitted to trading on a Spanish or other EU-regulated market, or on an equivalent market of a non-EU country, with a market capitalisation exceeding EUR 1,000 million on December 1 of the year prior to the acquisition. Additionally, the Spanish FTT will also apply, *inter alia*, to the acquisition of shares represented by depositary receipts (e.g., ADSs).

The list of the Spanish companies with a market capitalization exceeding EUR 1,000 million on December 1 of each year will be published on the Spanish tax authorities’ website before December 31 each year (this list is published only for illustrative purposes and it does not exempt the taxpayer/taxable person from its obligations if a Spanish company meets the Spanish FTT requirements in order for the onerous acquisitions of its shares to be subject to Spanish FTT). Given that the Company was included in the list published in 2020 (as it had a market capitalization exceeding EUR 1,000 million on





December 1, 2020), in principle it falls within the scope of the Spanish FTT for transactions carried out and settled in 2021.

In any event, the Spanish tax authorities have published some Guidelines regarding the Spanish FTT according to which the acquisition of paid-up shares in the context of optional dividend schemes (commonly known as “scrip dividend”) falls outside the scope of the Spanish FTT.

However, the Spanish FTT would apply (at a fixed rate of 0.2%) to other financial transactions involving the Company’s shares (or ADSs), regardless of the jurisdiction of residence of the parties involved in the transaction.

In any event, the shareholders and the holders of free allocation rights are advised to consult with their tax advisors in relation to the impact of these tax measures (in particular, the application of Spanish FTT) taking into consideration the particular circumstances of each shareholder or holder of free allocation rights.

### **Option 1**

In the event that the holders of the free allocation rights (who do not act through a permanent establishment located in Spain) elect to receive their remuneration by means of the Supplementary Dividend, Spanish withholding tax on account of NRIT will be deducted from the cash payment at the corresponding rate (currently 19%, although this withholding taxation may be reduced or exempt from NRIT pursuant to Spanish domestic legislation or under the income tax treaties ratified by Spain) 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 current and comprehensive income tax treaty between the U.S. and Spain (the “**Treaty**”) (under which the general applicable rate of withholding on dividends is 15%<sup>4</sup>) or under the Spanish NRIT 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 (under the meaning of the Treaty or the Spanish NRIT Law), the ADS holder must evidence his/her/its right to a reduced tax rate or exemption by means of a certificate of tax

<sup>4</sup> Under the Treaty, specific reduced withholding tax rates (lower than 15%) may apply for some taxpayers. As such, ADS holders are urged to consult their tax advisors in this vein.



residence duly issued by the US tax authorities (within the meaning of the Treaty, if applicable) as evidence that such holder is fully entitled to the benefits of the Treaty, to be delivered to Iberdrola. The tax residence certificate generally is valid for one year after issuance.

### **Option 2**

The proceeds of sales of rights on behalf of ADS holders electing Option 2 will not be subject to withholding in respect of tax in Spain when they do not act through a permanent establishment in Spain. In principle, 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) that would generally be subject to Spanish NRIT at a current rate of 19%. However, this taxation may be reduced or exempt from NRIT pursuant to Spanish domestic legislation or under the income tax treaties ratified by Spain. In particular, for beneficial holders of ADS who are eligible for the benefits of the Treaty, such capital gains are generally exempt from NRIT taxation.

Please note that in order to be eligible for a reduced tax rate or exemption (under the meaning of the Treaty or the Spanish NRIT Law), the ADS holder must (i) evidence his right to a reduced tax rate or exemption by delivering to Iberdrola a certificate of tax residence duly issued by the US Tax Authority (within the meaning of the Treaty) as evidence that such holder is fully entitled to the benefits of the Treaty; and (ii) file a tax return with the Spanish tax authorities in order to self-assess and claim, if applicable, the exemption or the reduced tax rate under the Treaty, subject to the satisfaction of the conditions specified by the Treaty or the Spanish NRIT Law. The tax residence certificate generally is valid for one year after issuance.

### **Option 3**

The delivery of the shares issued in the optional dividend system 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 NRIT when the ADS holders do not act through a permanent establishment located in Spain. The acquisition value, both of the new shares received in the July 2021 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.

## **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 2021 edition of the optional dividend system. This tax disclosure was written in connection with the promotion or marketing of the July 2021 “*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 personal circumstances from an independent tax adviser.**

The following is a general summary of certain U.S. federal income tax consequences of receiving the July 2021 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 ADS holder will depend on the personal circumstances of such holder. 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 ADSs, 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) should consult their tax advisors regarding the U.S. federal income tax consequences of receiving the July 2021 optional dividend system.

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 July 2021 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 2021 dividend 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 personal 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 income 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 personal circumstances.

U.S. Holders who elect to have The Bank of New York Mellon 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 2021 optional dividend system.**

**29. What happens if the General Shareholders' Meeting does not approve the "Iberdrola Retribución Flexible" system?**

Your right to opt for any of the options described in this document as part of the optional dividend system "Iberdrola Retribución Flexible" of Iberdrola is contingent on the approval of such system by the General Shareholders' Meeting, under items number seventeen, eighteen and nineteen of the agenda and under the section titled «*Common terms and conditions of the dividend distribution and increase in capital resolutions proposed under items number seventeen, eighteen and nineteen on the agenda, by virtue of which the "Iberdrola Flexible Remuneration" optional dividend system is implemented*».

In the event that the "Iberdrola Retribución Flexible" system is not implemented because the General Shareholder's Meeting does not approve these items, you would not be entitled to any of such options and this document, together with any communication and/or notification served in connection with this document or the system "Iberdrola Retribución Flexible" will be left without effect. The approval of the optional dividend system "Iberdrola Retribución Flexible" by the General Shareholders' Meeting of the Company will be published by means of a notice of other significant information (*comunicación de otra información relevante*) to be filed by Iberdrola with the Spanish Securities and Exchange Commission (*Comisión Nacional del Mercado de Valores*) on or around June 18, 2021.

## Calculating your optional dividend

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

For illustrative purposes this example assumes:

- Market value of reference of the Capital Increase: €1,612,000,000.00
- Iberdrola Stock Price: €11.365
- Share Count: 6,240,000,000.

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

- The number of Provisional Shares = Market value of reference of the capital Increase / Stock Price =  $1,612,000,000.00 / 11.365 = 141,838,979.32248 \approx 141,838,979$  (rounded down)

Conversion Ratio = Share Count / Number of Provisional Shares =  $6,240,000,000 / 141,838,979 = 43.9935485 \approx 44$  (rounded up) rights to receive one share

- ADS Supplementary Dividend =  $(\text{Stock Price} / (\text{Conversion Ratio} + 1)^5) \times 4^6 = (11.365 / (44+1)) \times 4 = 0.253^7 \times 4 = €1.012$  gross per ADS

According to the above:

#### ADS Conversion Rate:

Since each ADS represents 4 shares, 176 rights corresponding to 176 old shares (44 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: 44 old ADSs are necessary to receive one new ADS.

<sup>5</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>6</sup> Each ADS represents four shares resulting in four free allocation rights being issued for each ADS outstanding.

<sup>7</sup> Rounded to the thousandth.



ADS gross Supplementary Dividend per share:

According to the above, the ADS gross Supplementary Dividend per share would be €1.012.

However, the amount to be received by ADS holders will be in U.S. dollars and it will depend on euro/dollar exchange rate. Please note that the exchange rate will be implemented in accordance with The Bank of New York Mellon ADR foreign exchange methodology posted at [https://www.adrbnymellon.com/fees-and-disclosures/drs\\_foreign\\_exchange\\_pricing\\_disclosure.pdf](https://www.adrbnymellon.com/fees-and-disclosures/drs_foreign_exchange_pricing_disclosure.pdf).

Further information on how the Conversion Ratio for Shares and the gross amount of the Supplementary Dividend are calculated can be found in the report of the Board of Directors of Iberdrola dated May 11, 2021 that was submitted to the shareholders in connection with the “*Iberdrola Retribution Flexible*” optional dividend system proposal in anticipation of Iberdrola’s General Shareholders’ Meeting to be held on first call, on June 17, 2021 and, on second call, on June 18, 2021.

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

The Conversion Ratio and the Supplementary Dividend are calculated as described in question 1 above. They will be announced by Iberdrola on July 6, 2021. Details on how the Conversion Rate and the Supplementary Dividend will be calculated can be found at [www.iberdrola.com](http://www.iberdrola.com).

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

From July 6, 2021 the Conversion Ratio and the gross Supplementary Dividend per share will be available on Iberdrola’s website at [www.iberdrola.com](http://www.iberdrola.com) and on [www.adrbnymellon.com](http://www.adrbnymellon.com).



## **Election Materials**

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

If you are a registered holder of ADSs, you will receive an election form and instructions directly from The Bank of New York Mellon.

If you are a registered ADS holder and you have not received an election form, please contact immediately The Bank of New York Mellon to obtain an election form. If you own 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 valid election made by a registered ADS holder, including an election made by default, will apply to any future editions of the “*Iberdrola Retribución Flexible*” optional dividend system, 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 The Bank of New York Mellon 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.**