



Julián Martínez-Simancas  
Secretary to the Board of Directors

Bilbao, 24 April 2018

To the National Securities Market Commission

**Subject: Terms and conditions of the first edition of the “Iberdrola Retribución Flexible” optional dividend system corresponding to the fiscal year 2018**

Dear Sirs,

Pursuant to article 17 of *Regulation (EU) No. 596/2014 on market abuse* and article 228 of the *restated text of the Securities Market Law* approved by the *Royal Legislative Decree 4/2015, of 23 October (texto refundido de la Ley del Mercado de Valores aprobado por el Real Decreto Legislativo 4/2015, de 23 de octubre)* and related provisions, we hereby inform you that the Board of Directors of Iberdrola, S.A. (“**Iberdrola**” or the “**Company**”), has resolved today to carry out the first edition of the “*Iberdrola Retribución Flexible*” optional dividend system corresponding to the fiscal year 2018. For such purposes, the Board of Directors of the Company has resolved to carry out the paid-up capital increase approved by the shareholders acting at the General Shareholders’ Meeting of Iberdrola held on 13 April 2018 under item number seven of its agenda (the “**Capital Increase**”) and the supplementary payment to the dividend corresponding to the fiscal year 2017, which was approved by the referred General Shareholders’ Meeting under item number six of its agenda (the “**Supplementary Dividend**”).

As a new feature, in the context of this new “*Iberdrola Retribución Flexible*” optional dividend system, 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*”). This is because, in this edition, the Company’s shareholders will have the option to receive their remuneration in cash by means of the payment of the Supplementary Dividend 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.

As a consequence of the above, in this edition of the “*Iberdrola Retribución Flexible*” system, the Company’s shareholders will be entitled to choose between the following options:

- (i) receive their remuneration through the delivery of fully paid-up new shares;
- (ii) transfer all or a part of their free allocation rights in the market; or
- (iii) receive their remuneration in cash by means of the Supplementary Dividend.

The value of the remuneration that the shareholders will receive under options (i) and (iii) above is equivalent (in terms of market value and notwithstanding the different tax treatment applicable to each of them).

Further to our notice of significant event (*hecho relevante*) filed on 23 February 2018 (with official registry number 261,909), Iberdrola estimates that the gross amount of the Supplementary Dividend per share will be, at least, 0.183 euros.

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For the purposes of article 26.1.e) of *Royal Decree 1310/2005, of 4 November, which partially elaborates upon the provisions of Law 24/1988 of 28 July, on the Securities Market, in connection with the admission of securities to trading on official secondary markets, public offers for the sale or subscription of securities and the prospectus required for such purposes (Real Decreto 1310/2005, de 4 de noviembre, por el que se desarrolla parcialmente la Ley 24/1988, de 28 de julio, del Mercado de Valores, en materia de admisión a negociación de valores en mercados secundarios oficiales, de ofertas públicas de venta o suscripción y del folleto exigible a tales efectos)*, we provide you, enclosed hereto as an annex, with the information memorandum (*documento informativo*) regarding the implementation of this edition of the new “*Iberdrola Retribución Flexible*” system approved today by the Board of Directors of Iberdrola.

This information is provided to you for the appropriate purposes.

Yours faithfully,

Secretary to the Board of Directors

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## IMPORTANT INFORMATION

This communication does not constitute an offer to purchase, sell or exchange or the solicitation of an offer to purchase, sell or exchange any securities. The shares of Iberdrola, S.A. may not be offered or sold in the United States of America except pursuant to an effective registration statement under the *Securities Act* or pursuant to a valid exemption from registration.

This communication contains forward-looking information and statements about Iberdrola, S.A., including financial projections and estimates and their underlying assumptions, statements regarding plans, objectives and expectations with respect to future operations, capital expenditures, synergies, products and services, and statements regarding future performance. Forward-looking statements are statements that are not historical facts and are generally identified by the words “expects”, “anticipates”, “believes”, “intends”, “estimates” and similar expressions.

Although Iberdrola, S.A. believes that the expectations reflected in such forward-looking statements are reasonable, investors and holders of Iberdrola, S.A. shares are cautioned that forward-looking information and statements are subject to various risks and uncertainties, many of which are difficult to predict and generally beyond the control of Iberdrola, S.A., that could cause actual results and developments to differ materially from those expressed in, or implied or projected by, the forward-looking information and statements. These risks and uncertainties include those discussed or identified in the documents sent by Iberdrola, S.A. to the *Comisión Nacional del Mercado de Valores*.

Forward-looking statements are not guarantees of future performance. They have not been reviewed by the auditors of Iberdrola, S.A. You are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date they were made. All oral or written forward-looking statements hereby made or otherwise attributable to Iberdrola, S.A. or any of its members, directors, officers, employees or any persons acting on its behalf are expressly qualified on its entirety by the cautionary statement above. All the forward-looking statements included herein are based on information available to Iberdrola, S.A. on the date hereof. Except as required by applicable law, Iberdrola, S.A. does not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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**Annex**  
**Information memorandum regarding the terms and conditions of the first edition of the “Iberdrola  
Retribución Flexible” optional dividend system corresponding to the fiscal year 2018**

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**INFORMATION MEMORANDUM REGARDING THE TERMS AND CONDITIONS OF THE FIRST EDITION OF THE “IBERDROLA RETRIBUCIÓN FLEXIBLE” OPTIONAL DIVIDEND SYSTEM CORRESPONDING TO THE FISCAL YEAR 2018**

**1. PURPOSE**

**1.1. Background**

At the General Shareholders’ Meeting of Iberdrola, S.A. (hereinafter, “**Iberdrola**” or the “**Company**”) held on 13 April 2018 (the “**General Shareholders’ Meeting**”), the shareholders approved, under item number seven on the agenda and under the section titled «*Common terms and conditions to the dividend distribution and increase in capital resolutions proposed under items number six, seven and eight on the agenda, by virtue of which the new “Iberdrola Flexible Remuneration” system is implemented*» (the “**Common Terms**” and the “**Capital Increase Resolution**”, respectively), a wholly paid-up share capital increase with a charge to the reserves contemplated in article 303.1 of the *Spanish Companies Act (Ley de Sociedades de Capital)*, by means of the issuance of ordinary shares for the free allocation thereof to the shareholders of the Company (the “**Capital Increase**”).

Under the Capital Increase Resolution, the maximum market value of reference of the Capital Increase would be 1,310 million euros and it could be implemented within one year following approval thereof.

Likewise, by means of the Capital Increase Resolution, the following powers were delegated in favour of the Board of Directors, with express substitution powers and in accordance with article 297.1.a) of the *Spanish Companies Act (Ley de Sociedades de Capital)*: (i) to determine the date, within one year following the approval of the Capital Increase Resolution, on which the Capital Increase should take place and agree on the timetable for the implementation of the Capital Increase; (ii) to determine the reserves, among those included in the Capital Increase Resolution, with a charge to which the implementation of the Capital Increase will be carried out; and (iii) to establish the conditions of the Capital Increase in all matters not provided for in the Capital Increase Resolution.

Furthermore, the General Shareholder’s Meeting approved, under item number six of its agenda and under the Common Terms (the “**Supplementary Dividend Resolution**”), a supplementary payment to the dividend corresponding to the fiscal year 2017 (the “**Supplementary Dividend**”), delegating in favour of the Board of Directors, with express substitution powers and subject to the terms and conditions set forth in the Supplementary Dividend Resolution, the determination of the gross amount to be distributed as Supplementary Dividend for each share with a right to receive it.

The Capital Increase and the Supplementary Dividend have been approved in order to implement the first edition of the new shareholders’ remuneration system known as “*Iberdrola Retribución Flexible*” corresponding to the fiscal year 2018. Under this system, Iberdrola’s shareholders may decide whether they prefer to receive their remuneration: (a) in cash (through the payment of the Supplementary Dividend), (b) in paid-up new shares issued by the Company (by means of the Capital Increase), or (c) through a combination of both options, without prejudice of the possibility to transfer their free allocation rights in the market.

As a new feature, in the context of this new “*Iberdrola Retribución Flexible*” system, 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*”). This is because, in this edition, the Company’s shareholders will have the option to receive their remuneration in cash by means of the payment of the Supplementary Dividend 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.

As a result, in the context of this edition of the “*Iberdrola Retribución Flexible*” system, the Company’s shareholders will be able to choose between the following options (jointly, the “**Flexible Remuneration Options**”):

- (i) receive their remuneration through the delivery of fully paid-up new shares;
- (ii) transfer all or a part of their free allocation rights in the market; or

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(iii) receive their remuneration in cash by means of the payment of the Supplementary Dividend.

The value of the remuneration that the shareholders will receive from the Company under the options referred to in sections (i) and (iii) above is equivalent (in terms of market value and notwithstanding the different tax treatment applicable to each of them).

To achieve the above, this edition of the “*Iberdrola Retribución Flexible*” system will be carried out through two legal instruments (the implementation of the Capital Increase Resolution and of the Supplementary Dividend Resolution). This does not imply, however, that these are separate transactions. On the contrary, they are deemed integrated transactions under this edition of the remuneration system. The implementation of both resolutions has been approved today by the Board of Directors in order to implement the shareholders’ alternatives to receive their remuneration from the Company, for a given value, under the “*Iberdrola Retribución Flexible*” system.

In light of the above, the election of one of these alternatives excludes the right to choose any of the remaining options (for the avoidance of doubt, if a shareholder chooses one of the Flexible Remuneration Options for some but not all of its shares, the shareholder will be entitled to choose any of the Flexible Remuneration Options for its remaining shares).

As a consequence of the foregoing, the Board of Directors of the Company has resolved today to implement the Capital Increase and set the market value of reference for the Capital Increase in an amount within the minimum of 1,139 million euros and the maximum of 1,253 million euros, which is –in any case– within the limits established in the Capital Increase Resolution. The specific amount corresponding to the market value of reference of the Capital Increase, which shall in all cases guarantee a gross amount of the Supplementary Dividend of, at least, 0.183 euros per share, will be communicated by means of a supplement to this information memorandum that is expected to be published on 5 July 2018.

## **1.2. Purpose**

Pursuant to article 26.1.e) of *Royal Decree 1310/2005, of 4 November, which partially elaborates upon the provisions of Law 24/1988 of 28 July, on the Securities Market, in connection with the admission of securities to trading on official secondary markets, public offers for the sale or subscription of securities and the prospectus required for such purposes (Real Decreto 1310/2005, de 4 de noviembre, por el que se desarrolla parcialmente la Ley 24/1988, de 28 de julio, del Mercado de Valores, en materia de admisión a negociación de valores en mercados secundarios oficiales, de ofertas públicas de venta o suscripción y del folleto exigible a tales efectos)*, the admission to trading of the new shares of Iberdrola issued on the Capital Increase shall not require the preparation and publication of a prospectus relating thereto “*provided that the said shares are of the same class as the shares already admitted to trading on the same regulated market and there is a document available containing information regarding the number and types of shares and the rationale for and details of the offer.*”

In view of the foregoing, Iberdrola issues this information memorandum, the purpose of which is to provide all of the information referred to in the preceding paragraph that is available on the date hereof with respect to the first edition of the “*Iberdrola Retribución Flexible*” system of the fiscal year 2018 and to the Flexible Remuneration Options.

In addition, upon determination of the market value of reference of the Capital Increase, the number of free allocation rights needed to allocate one new share of Iberdrola and the gross amount of the Supplementary Dividend per share, this information will be made available to the public by means of a supplement to this memorandum through a notice of a significant event (*hecho relevante*) that is expected to be published on 5 July 2018.

Finally, as soon as the implementation of the Capital Increase has been completed and all of the remaining information (including the final gross amount of the Supplementary Dividend) is available, it will be published by means of a notice of significant event (*hecho relevante*).

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## **2. REASONS AND PROCEDURE OF THE “IBERDROLA RETRIBUCIÓN FLEXIBLE” OPTIONAL DIVIDEND SYSTEM**

### **2.1. Reasons for the “Iberdrola Retribución Flexible” system**

The Capital Increase and the Supplementary Dividend were approved by the shareholders at Iberdrola’s General Shareholders’ Meeting in order to implement the new system for remunerating shareholders called “*Iberdrola Retribución Flexible*”. Through this system, Iberdrola intends to:

- (i) offer 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 Supplementary Dividend or the transfer of the corresponding free allocation rights on the market) or in new paid-up shares of the Company; and
- (ii) allow those shareholders who so desire to benefit from the favourable 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.

### **2.2. Procedure of the first edition of the “Iberdrola Retribución Flexible” optional dividend system corresponding to the fiscal year 2018**

Pursuant to the terms provided for the implementation of the Capital Increase, the Company’s shareholders will receive one free allocation right for each share of Iberdrola that they hold. These rights will be traded on the Bilbao, Madrid, Barcelona and Valencia Stock Exchanges between 9 and 23 July 2018, both inclusive. At the end of this period, the free allocation rights that are not waived pursuant to the terms of this document will automatically be converted into newly-issued shares of the Company.

Under this edition of the “*Iberdrola Retribución Flexible*” system, the shareholders of Iberdrola will be able to freely choose among<sup>1</sup>:

- (a) Not transferring their free allocation rights. In this case, at the end of the trading period, the shareholders will receive the number of new totally paid-up shares to which they are entitled.
- (b) Collect their remuneration in cash through the payment of the Supplementary Dividend. In this case, the shareholder will be expressly waiving its right to receive the free allocation rights corresponding to those shares in respect of which it has chosen to receive the Supplementary Dividend.
- (c) Transfer all or a portion of their free allocation rights on the market. In this case, the shareholders may also choose to monetise their rights, although the consideration for the rights would depend on market conditions, in general, and on the listing prices for such rights, in particular.

For the avoidance of doubt, the election of one of the Flexible Remuneration Options excludes the right to choose any of the remaining ones for the same shares or free allocation rights in respect of which an election has been made.

The shareholders of the Company will be able to combine any of the alternatives mentioned in paragraphs (a) through (c) above based on their needs. Attention should be drawn to the fact that these alternatives are subject to different tax treatment.

Those shareholders who want to choose option (b) above shall do so between 9 and 19 July 2018, both inclusive (the “**Common Election Period**”) in the terms explained below.

Free allocation rights acquired during the trading period will not grant to their holders the right to choose to receive the Supplementary Dividend. Exclusively, those shareholders which are holders of shares on 10 July 2018 (record date) will be entitled to receive the Supplementary Dividend in the context of this edition of the “*Iberdrola Retribución Flexible*” system. As a consequence of the above, those who acquire free allocation rights

<sup>1</sup> The options available to the holders of American Depositary Receipts (“**ADRs**”) or CREST Depository Interests (“**CDIs**”) may have special characteristics with respect to the options described herein given the terms and conditions applicable to the programs in which they participate.

during the trading period will only be able to choose between: (i) receiving their remuneration through paid-up new shares of the Company; or (ii) transferring all or a part of their free allocation rights in the market.

As a new feature, in the context of this new “*Iberdrola Retribución Flexible*” system, 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 from what occurred under the traditional remuneration system called “*Iberdrola Dividendo Flexible*”). This is because, in this edition, the Company’s shareholders will have the option to receive their remuneration in cash by means of the payment of the Supplementary Dividend 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.

It was also resolved that, on 5 July 2018, the Executive Committee or the chairman and chief executive officer of the Company will fix the final gross amount per share of the Supplementary Dividend (which shall be equal to the amount of the Cash Remuneration, as defined below). In this regard, the Company foresees that, after applying the formulas described at the end of this section 2.2, the gross amount of the Supplementary Dividend per share will be, at least, 0.183 euros.

Specifically, the number of free allocation rights needed to receive one new share, as well as the amount of the Cash Remuneration (and, thus, of the gross amount of the Supplementary Dividend per share), will be calculated as follows:

- The number of free allocation rights required to receive one new share of Iberdrola will be the number resulting from the application of the following formula, rounded to the next highest whole number:

$$\text{Num. rights} = \text{TNShrs.} / \text{Provisional num. of shrs.}$$

where,

“**Num. rights**” = Number of free allocation rights needed for the allocation of one new share of Iberdrola.

“**TNShrs**” = Number of outstanding shares of Iberdrola on the date of implementation of the Capital Increase<sup>2</sup>. For these purposes, the “**date of implementation of the Capital Increase**” shall be that date on which the Executive Committee or the chairman and chief executive officer of the Company, pursuant to the delegation of powers made by the Board of Directors today, performs the arithmetical calculations arising from the application of the formulas referred to herein in order to calculate the provisional number of shares to be issued, the number of free allocation rights needed for the allocation of one share, the “**ListPri**,” and the maximum nominal amount of the Capital Increase, which is expected to occur on 5 July 2018.

“**Provisional num. of shrs.**” = Market value of reference of the Capital Increase<sup>3</sup> / ListPri.

For these purposes, “**ListPri**” will be the arithmetic mean of the average weighted listing prices of the Company’s shares on the Bilbao, Madrid, Barcelona and Valencia Stock Exchanges at the five trading sessions corresponding to 28 and 29 June and 2, 3 and 4 July 2018, as such average appears in a certification to be issued by the Governing Company (*Sociedad Rectora*) of the Bilbao Stock Exchange, rounded to the closest one-thousandth part of one euro.

The number of free allocation rights required to receive one new share of Iberdrola based on the application of this formula will be specified in a supplement to this memorandum, which is expected to be filed with the National Securities Market Commission on 5 July 2018 by means of a notice of significant event (*hecho relevante*).

<sup>2</sup> The number of outstanding shares of Iberdrola that will be taken into account for these purposes will be the one resulting from the share capital reduction through the redemption of own shares approved by the General Shareholders’ Meeting under item number nine of its agenda, and the implementation of which is expected to be approved prior to 5 July 2018 (in principle, 6,240,000,000 shares).

<sup>3</sup> The determination of the market value of reference of the Capital Increase will take place on 5 July 2018.

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If necessary, Iberdrola will waive the number of free allocation rights needed for the number of new shares to be a whole number and not a fraction. In such event, there will be an incomplete allocation of the Capital Increase, and the share capital will be increased solely by the amount of free allocation rights that have not been waived, pursuant to the provisions of article 311 of the *Spanish Companies Act (Ley de Sociedades de Capital)*.

- The gross amount of the so-called “**Cash Remuneration**”, which shall be equal to the gross amount of the Supplementary Dividend per share<sup>4</sup>, will be calculated in accordance with the following formula (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):

$$\text{Cash Remuneration} = \text{ListPri} / (\text{Num. rights} + 1)$$

where “**ListPri**” and “**Num. rights**” have the meaning provided above.

The payment of the Supplementary Dividend to those shareholders having chosen this Flexible Remuneration Option during the Common Election Period will be made on 25 July 2018. After making such payment, the resolution regarding the Supplementary Dividend will become ineffective in respect of the amount which has not been distributed to the shareholders as a result of their express or tacit election of any of the remaining Flexible Remuneration Options.

### **3. DETAILS OF THE IMPLEMENTATION OF THE “IBERDROLA RETRIBUCIÓN FLEXIBLE” OPTIONAL DIVIDEND SYSTEM**

#### **3.1. Estimated timetable**

The estimated timetable for the implementation of this first edition of the “*Iberdrola Retribución Flexible*” system will be as follows:

- 5 July 2018
  - Notice of significant event (*hecho relevante*) regarding the number of free allocation rights required to receive one newly-issued share and the gross amount of the Supplementary Dividend per share.
- 6 July 2018
  - Publication of the announcement of the implementation of the Capital Increase in the Official Gazette of the Commercial Registry.
  - Last date on which the shares of Iberdrola are traded with the right to participate in the “*Iberdrola Retribución Flexible*” system, that is, traded with the right to choose any of the Flexible Remuneration Options offered by this system (including the Supplementary Dividend) (last trading date).
- 9 July 2018
  - Ex date from which –inclusive– the shares of Iberdrola will be traded without the right to participate in the “*Iberdrola Retribución Flexible*” system.
  - Commencement of the Common Election Period and of the trading period for the free allocation rights.
- 19 July 2018
  - End of the Common Election Period and, consequently, of the period to request remuneration in cash under the Supplementary Dividend.
- 23 July 2018
  - End of the trading period for the free allocation rights.

<sup>4</sup> The aforesaid is without prejudice of the tax withholdings that Iberdrola may have to apply according to the relevant applicable law.



- 25 July 2018
  - 31 July 2018
  - 1 August 2018
- Payment of the Supplementary Dividend to those shareholders who have elected to receive cash through this Flexible Remuneration Option.
  - Registration of the newly-issued shares to be issued under the Capital Increase in the book-entry records of “*Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal*” (IBERCLEAR).
  - Expected commencement of trading of the newly-issued ordinary shares to be issued under the Capital Increase.

It is stated that the scheduled dates for actual payment of cash and delivery of shares may be different for holders of ADRs (in the United States of America) and CDIs (in the United Kingdom) representing shares of the Company.

### **3.2. Trading of the free allocation rights and procedure to opt to receive cash or new shares of the Company**

Shareholders who wish to receive all or part of their remuneration in cash under the Supplementary Dividend, in the terms mentioned above, shall communicate their decision to the entities in which they have deposited their free allocation rights before the end of the Common Election Period. It will be understood that the shareholders who choose to receive the Supplementary Dividend during the Common Election Period expressly waive all or part (as the case may be) of their free allocation rights.

The free allocation rights will be traded on the Bilbao, Madrid, Barcelona and Valencia Stock Exchanges through the Automated Quotation System (Electronic Market) between 9 and 23 July 2018. During the period for trading the free allocation rights, their holders may likewise choose between (a) receiving newly-issued shares of the Company; or (b) selling all or a part of their free allocation rights in the market; all upon the terms described above. In addition, during this period a sufficient number of free allocation rights may be acquired in the market in the proportion required to receive new shares<sup>5</sup>.

For the avoidance of doubt, the free allocation rights purchased in the market during the said trading period of 15 calendar days will not entitle their owners to receive the Supplementary Dividend. Thus, those who have purchased free allocation rights in the market will only be able to choose among: (i) receiving their remuneration in newly-issued paid-up shares of the Company; or (ii) transferring all or a portion of their free allocation rights in the market. Only the holders of Iberdrola shares on 10 July 2018 (record date) will be entitled to receive the Supplementary Dividend in the context of this edition of the “*Iberdrola Retribución Flexible*” system.

The shareholders may combine the Flexible Remuneration Options based on their needs. As mentioned above, the alternatives available under the “*Iberdrola Retribución Flexible*” system are subject to a different tax treatment.

To choose between the Flexible Remuneration Options that Iberdrola is offering on occasion of this edition of the “*Iberdrola Retribución Flexible*” system, holders of free allocation rights must contact the entities with which their free allocation rights are deposited within the periods set forth in the preceding paragraphs (that is, during the Common Election Period or during the trading period of the free allocation rights, depending on the option they prefer). Failure to make an express election during the periods mentioned in this section will cause the holder of free allocation rights to receive newly-issued completely paid-up shares of the Company<sup>6, 7</sup>.

<sup>5</sup> Those who do not have free allocation rights in a number sufficient to receive one new share may: (a) acquire in the market a sufficient number of free allocation rights which, added to those already held by them, give them the right to receive one new share; (b) transfer all or part of their free allocation rights in the market (in which case the consideration for their rights will depend on market conditions, in general, and on the listing price of the free-of-charge allocation rights, in particular). In any case, the free allocation rights purchased in the market during the trading period of 15 calendar days will not entitle their owners to receive the Supplementary Dividend.

<sup>6</sup> However, as regards the conditions described in this paragraph, the holders of ADRs and CDIs must comply with the particularities of the programs in which they participate.

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Iberdrola will not be liable as a result of the elections made by the holders of the free allocation rights (nor as a result of the failure to make an express election, in the absence of an express notice by the aforementioned holders).

### **3.3. Expenses and fees of the Capital Increase**

The Capital Increase is made free of expenses and fees with respect to the allocation of newly-issued shares. Iberdrola will assume the expenses of issuance, subscription, flotation, admission to trading and other expenses relating to the Capital Increase.

Without prejudice to the foregoing, the shareholders of the Company and the holders of free allocation rights must bear in mind that the member entities of “*Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal*” (*IBERCLEAR*) with which they keep their shares and free allocation rights on deposit may, pursuant to applicable legislation, establish such pass-through management fees and expenses as they may freely determine as a consequence of maintaining the securities in their book-entry registries. Likewise, such member entities may, pursuant to applicable legislation, establish such pass-through fees and expenses as they may freely determine for the processing of orders to purchase and sell free allocation rights.

## **4. NUMBER AND NATURE OF THE SHARES**

### **4.1. Maximum number of shares to be issued in the Capital Increase**

The maximum number of shares to be issued as a result of the Capital Increase will be the result of the formula approved by the shareholders at Iberdrola’s General Shareholders’ Meeting, which is set forth below (the result to be rounded to the next lower integer):

$$\text{NNS} = \text{TNshrs} / \text{Num. rights}$$

where,

“**NNS**” = Maximum number of new shares to be issued; and

“**TNShrs**” and “**Num. shares**” have the meanings set forth above.

In any event, in accordance with the Capital Increase Resolution, as well as the resolution of the Board of Directors of the Company approved today, the maximum number of shares to be issued in the Capital Increase will be such that the reference market value of such shares (calculated at the “**ListPri**”) will in no event be greater than the amount that will be determined on 5 July 2018, which will be within the minimum of 1,139 million euros and the maximum of 1,253 million euros.

It is expected that the maximum number of new shares to be issued will be publicly disclosed on 5 July 2018 by means of a supplement to this information memorandum.

However, the number of shares actually issued will depend on the number of holders of free allocation rights who decide not to transfer their rights. For these purposes, it will be understood that shareholders opting to receive the Supplementary Dividend during the Common Election Period expressly waive all or part (as may be the case) of the free allocation rights to which they are entitled<sup>8</sup>. In any event, the final number of shares to be issued within

<sup>7</sup> It is possible that, at the end of the trading period for the free allocation rights, the number of rights held by a particular holder is a number that, taking into account the calculation formulas referred to in this memorandum, does not give such holder the right to receive a whole number of shares. In such case, the entity with which the holder of the free allocation rights has deposited them may sell the number of rights resulting in a fraction of a new share, such that the holder will receive the proceeds from the sale in cash and will not lose the intrinsic value of such rights. Notwithstanding the foregoing, this possibility is subject to the terms and conditions of the securities deposit and management agreement signed with the relevant depositary entity or the instructions that the holder of the rights has given thereto.

<sup>8</sup> Likewise, those shareholders or holders of free allocation rights who decide to receive their remuneration through any of the remaining applicable Flexible Remuneration Options will not be entitled to choose to receive the Supplementary Dividend.

the context of the Capital Increase will be made available by means of a notice of significant event (*hecho relevante*) regarding the closing of the implementation of the Capital Increase.

Enclosed as an annex to this information memorandum is an example of the calculation of the maximum number of shares that would be issued on the Capital Increase, of the number of free allocation rights required for the allocation of a new share, of the amount of the Cash Remuneration and of the gross amount of the Supplementary Dividend per share.

#### **4.2. Rights attached to the new shares**

The new shares to be issued in the Capital Increase will be ordinary shares having a par value of 0.75 euros each, of the same class and series as those currently outstanding, for which reason the Capital Increase will be made at par and, therefore, without a share premium. The new shares to be issued will be represented by book entries, and the book-entry registration of which will be entrusted to “*Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal*” (IBERCLEAR).

The new shares will grant their holders the same political and economic rights as the ordinary shares of Iberdrola currently outstanding as from the date that the Capital Increase implemented is declared to be subscribed for and paid up. In particular, holders of the new shares will be entitled to receive interim dividends and supplemental dividend amounts, if any, that are paid as from the date that the Capital Increase is declared to be subscribed for and paid up.

#### **4.3. Balance sheet and reserve with a charge to which the Capital Increase is carried out**

The balance sheet used as a basis for the Capital Increase is the one for the fiscal year ended 31 December 2017, which was audited by “KPMG Auditores, S.L.” and approved by the General Shareholders’ Meeting of Iberdrola held on 13 April 2018, under item number one on the agenda.

The Capital Increase will be carried out in full with a charge to the reserve called “RDL Update 7/1996” (“*Actualización RDL 7/1996*”), which, as of 31 December 2017, amounted to 236,868,383.24 euros. Likewise, it is expressly stated that, as of the date hereof, the aforementioned reserve amounts to 146,224,133.24 euros, and that the difference between the two amounts (90,644,250 euros) is solely due to the partial allocation of such balance to pay up the implementation of the second paid-up capital increase approved by the shareholders acting at the General Shareholder’s Meeting of the Company held on 31 March 2017 under item number thirteen of its agenda, which was formalised on 29 January 2018 before the notary of Bilbao and of the Illustrious College of the Basque Country, Mr. Ramón Múgica Alcorta, under number 156 of his protocol, and registered with the Commercial Registry of Biscay.

#### **4.4. Shares on deposit**

At the end of the period for trading the free allocation rights and once the implementation of the Capital Increase has been closed, the new shares, if any, that could not be allocated for reasons not attributable to Iberdrola will be maintained on deposit available to those who show that they are the rightful owners of the corresponding free allocation rights. After the passage of three years from the date of deposit of the new shares that could not have been allocated for reasons not attributable to Iberdrola, the new shares that are still pending allocation may be sold in accordance with the provisions of article 117 of the *Spanish Companies Act (Ley de Sociedades de Capital)*, for the account and risk of the interested parties. The cash amount of such sale will be deposited with *Banco de España* or *Caja General de Depósitos*, and will be available to the interested parties.

#### **4.5. Admission to trading of the new shares**

Iberdrola will make application for the trading of the new shares to be issued as a consequence of the Capital Increase on the Bilbao, Madrid, Barcelona and Valencia Stock Exchanges, through the Automated Quotation System (Electronic Market), and will carry out such acts and formalities as are required for the admission of the new shares to trading.

#### **4.6. Tax treatment**

Within the framework of the implementation of the new “*Iberdrola Retribución Flexible*” system and, in particular, of the option for the Supplementary Dividend, the Company submitted a binding consultation to the Spanish General Tax Authority (*Dirección General de Tributos*) (the “ **DGT** ”) regarding the tax treatment applicable to its shareholders in Spain subject to the Personal Income Tax (*Impuesto sobre la Renta de las Personas Físicas*)

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("IRPF"), which was submitted to such agency on 14 July 2017. This binding consultation was answered by the DGT on 16 January 2018 with reference number V0042-18.

The treatment described below is taken from the answer to such binding consultation, as well as from the answers to the binding consultations obtained by the Company from the DGT on 27 April 2010 and 1 October 2010 in connection with the traditional "*Iberdrola Dividendo Flexible*" remuneration system. Pursuant to Spanish tax regulations, the shareholders that choose to receive new shares as a consequence of the Capital Increase will not pay tax for such reason for purposes of the IRPF, of the Corporate Income Tax (*Impuesto sobre Sociedades*) ("IS"), or of the Non-Resident Income Tax (*Impuesto sobre la Renta de no Residentes*) ("IRNR"), whether they act through a permanent establishment in Spain or not in case of IRNR taxpayers, nor will they be subject to any withholding or payment on account.

The acquisition value for these shareholders of both the new shares received as a consequence of each Capital Increase and the shares from which they derive will result from distributing the total cost of acquisition among the applicable number of securities, including both existing securities and those issued as paid-up shares. In respect of these shareholders, such paid-up shares will be deemed to have been held for as long as the shares from which they derive. Consequently, in the event of a subsequent transfer, the income subject to taxation that is obtained will be calculated by reference to such new value.

In the event that the shareholders sell their free allocation rights on the market, the amount obtained for the transfer of such rights on the market will be subject to the following tax treatment:

- In the IRPF and in the IRNR for non-residents without a permanent establishment in Spain, the amount obtained in transfers of free allocation rights will be deemed to be a financial profit, all without prejudice to the potential application to persons subject to the IRNR without a permanent establishment of international treaties, including the treaties signed by Spain for the avoidance of double taxation and for the prevention of tax evasion in the area of Income Tax and to which they might be entitled, and the exemptions established in the IRNR rules.

In addition, the amount obtained in the transfers of free allocation rights will be subject to the corresponding withholding on account of this tax. The withholding will be applied by the corresponding depository (and in the absence thereof, by the financial intermediary or notary public that has participated in the transfer thereof).

- For purposes of the IS and the IRNR on non-residents with a permanent establishment in Spain, and to the extent that a complete commercial cycle is closed, the tax will be paid pursuant to applicable accounting regulations and, if applicable, pursuant to the special regimes of the aforementioned taxes. All of the foregoing is without prejudice to the rules determining the tax basis that may apply in these taxes.

Finally, if the shareholders choose to receive the Supplementary Dividend, the amount obtained will be covered by the tax regime for results arising from participations in entities' equity (such as dividends), and will therefore be subject to the corresponding withholding and taxation.

It should be considered that this analysis of the tax treatment (which has been performed on the basis of certain assumptions) does not cover all the possible tax consequences of the different alternatives related to the "*Iberdrola Retribución Flexible*" system or to the implementation of the Capital Increase and the distribution of the Supplementary Dividend. In the event that a change in these assumptions alters the description of the taxation subject matter of this memorandum, its new tax treatment will be duly communicated to the market. Specifically, the consequences that may arise for those shareholders who are not resident in Spain for tax purposes in their respective countries of tax residency are not detailed. Therefore, it is recommended that shareholders consult their tax advisors on the specific tax effects resulting from the proposed remuneration system, taking into account the particular circumstances of each shareholder or holder of free allocation rights, and that they pay attention to any amendments that may be made, both to the law applicable as of the date of this memorandum and to the rules for interpretation thereof.

Finally, holders of American Depositary Receipts (ADRs) and CREST Depository Interests (CDIs) representing shares of the Company are advised to consult their tax advisors before making a decision in connection with the Capital Increase.

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**5. SUPPLEMENTS TO THIS INFORMATION MEMORANDUM**

As indicated in the preceding sections, part of the information regarding the implementation of the Capital Increase is not available on the date of issuance of this memorandum. In particular:

- The market value of reference of the Capital Increase, the number of rights required to receive one share and the gross amount of the Supplementary Dividend per share will be published by means of a supplement to this memorandum which will be made available to the public through a notice of significant event (*hecho relevante*) which is expected to occur on 5 July 2018.
- As soon as the implementation of the Capital Increase is closed and all of the remaining information is available, such information will be published by means of the corresponding notice of significant event (*hecho relevante*).

Both this memorandum as well as the supplement hereto will be available on Iberdrola's corporate website ([www.iberdrola.com](http://www.iberdrola.com)) and on the website of the National Securities Market Commission ([www.cnmv.es](http://www.cnmv.es)) as from the day of their publication.

In Bilbao, on 24 April 2018.

Iberdrola, S.A.  
By

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Julián Martínez-Simancas Sánchez  
Secretary to the Board of Directors

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## ANNEX

### SAMPLE CALCULATION OF THE MAXIMUM NUMBER OF NEW SHARES TO BE ISSUED, OF THE MAXIMUM NOMINAL AMOUNT OF THE SHARE CAPITAL INCREASED, OF THE NUMBER OF FREE ALLOCATION RIGHTS FOR THE ALLOCATION OF ONE NEW SHARE AND OF THE GROSS SUPPLEMENTARY DIVIDEND PER SHARE

For the sole purpose of facilitating and understanding the calculation, below is a sample calculation of the maximum number of new shares to be issued, of the maximum nominal amount of the share capital increased as a result of the Capital Increase, of the number of free allocation rights required for the allocation of one new share and of the gross amount of the Supplementary Dividend per share.

The results of these calculations are not representative of the results that may actually be obtained as a consequence of the implementation of the Capital Increase, which will depend on the different variables used in the formulas.

Merely for purposes of this example:

- The TNShr is 6,240,000,000<sup>9</sup> (in principle, number of shares of Iberdrola as of the date of implementation of the Capital Increase).
- It is assumed that the market value of reference of the Capital Increase is 1,183,000,000 euros (such amount is within the maximum and minimum range of values established by the General Shareholders' Meeting and by the Board of Directors of Iberdrola).
- A ListPri of 6.252 euros is assumed (solely for purposes of this example, a listing price per share of Iberdrola as of the close of trading on 19 April 2018 has been used).

Therefore:

Provisional num. shrs. = Market value of reference of the Capital Increase / ListPri = 1,183,000,000 / 6.252 = 189,219,449.7760720 ≈ 189,219,449 (rounded down)

Num. rights = TNShrs / Provisional num. shrs. = 6,240,000,000 / 189,219,449 = 32.9775826 ≈ 33 (rounded up)

NNS = TNShrs / Num. rights = 6,240,000,000 / 33 = 189,090,909.0909090 ≈ 189,090,909 (rounded down).

Therefore, in this example: (i) the maximum number of new shares to be issued in the implementation of the Capital Increase would be 189,090,909, (ii) the maximum nominal amount of increased capital in the implementation of the Capital Increase would come to 141,818,181.75 euros (189,090,909 x 0.75), and (iii) 33 free allocation rights (or existing shares) would be required for the allocation of a new share<sup>10</sup>.

The Cash Remuneration (and, consequently, the gross amount of the Supplementary Dividend per share) would be calculated in accordance with the following formula (rounding the result to the closest one-thousandth of a euro):

Cash Remuneration = ListPri / (Num. rights + 1)

where:

Cash Remuneration = 6.252 / (33 + 1) = 0.1838824 euros ≈ 0.184 euros (rounded to the closest one-thousandth of a euro). This amount is equal to the gross Supplementary Dividend per share.

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<sup>9</sup> Number that, in principle, will result from the share capital reduction through the redemption of own shares approved by the shareholders acting at the General Shareholders' Meeting under item number nine of its agenda, and the implementation of which is expected to be approved prior to the date of implementation of the Capital Increase.

<sup>10</sup> In this sample calculation, Iberdrola should waive 3 free allocation rights corresponding to 3 shares of the Company for the number of new shares to be issued to be a whole number.