



Julián Martínez-Simancas
Secretary to the Board of Directors

Bilbao, 23 October 2018

To the National Securities Market Commission

Subject: Terms and conditions of the second 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 second 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: (a) 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 eight of its 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 “**Capital Increase**”); and (b) the distribution of the interim dividend corresponding to the fiscal year 2018, subject, in any event, to the fulfilment of the requirements set out in article 277 of the *Spanish Companies Act –Ley de Sociedades de Capital–* (the “**Interim Dividend**”). The Company is expected to attest the fulfilment of these requirements during December 2018 and this will be published by means of a notice of significant event (*hecho relevante*).

As in the first edition of the “*Iberdrola Retribución Flexible*” system corresponding to the fiscal year 2018, and subject to the terms specified below, the Company will not assume the traditional purchase commitment over the free allocation rights. Therefore, the shareholders will not be offered the possibility to receive their remuneration in cash by means of the transfer of all or part of their free allocation rights to Iberdrola at a guaranteed fixed price. 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 Interim 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, 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 Interim Dividend.

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Likewise, the shareholders of the Company will be able to combine any of the alternatives mentioned in paragraphs (i) through (iii) above with respect to the different groups of shares owned by each shareholder.

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).

Iberdrola estimates that the gross amount of the Interim Dividend per share will be, at least, 0.150 euros.

If the requirements set out in article 277 of the *Spanish Companies Act* for the distribution of the Interim Dividend are not fulfilled, the conditional approval of such distribution would therefore be ineffective. In such a case and in order to guarantee that, in the context of this second edition of the “*Iberdrola Retribución Flexible*” system corresponding to the fiscal year 2018, the shareholders of the Company will be entitled to receive in cash –in part or in full– their remuneration, the Company would undertake the irrevocable commitment to acquire the free allocation rights resulting from the Capital Increase at a fixed guaranteed price (the “**Purchase Commitment**” and the “**Fixed Purchase Price**”, respectively). Thus, in that event, the shareholders of the Company would be able to monetize their free allocation rights by transferring them to the Company at the Fixed Purchase Price receiving, in such a way, a cash amount equivalent to the one that would have been distributed by the Company as Interim Dividend. In that case, the shareholders of the Company would only be entitled to choose between (i) receiving their remuneration as completely paid-up new shares of the Company; (ii) transferring all or part of their free allocation rights in the market; or (iii) transferring all or part of their free allocation rights to the Company at the Fixed Purchase Price pursuant to the Purchase Commitment assumed by the Company. In this case, the Company’s Board of Directors, during December 2018, would determine the terms and conditions under which the Company would assume the Purchase Commitment. If the Company verifies that the requirements set out in article 277 of the *Spanish Companies Act* for the distribution of the Interim Dividend are not fulfilled, it will to inform the market about that circumstance through a notice of a significant event (*hecho relevante*).

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 “*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 “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 SECOND 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 eight 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)* approved by the *Royal Legislative Decree 1/2010, of July 2 (Real Decreto Legislativo 1/2010, de 2 de julio, por el que se aprueba el texto refundido de la Ley de Sociedades de Capital)* (the “**Spanish Companies Act**”), 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 1,140 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*: (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.

The Capital Increase has been approved in order to implement the second edition of the “*Iberdrola Retribución Flexible*” system corresponding to the fiscal year 2018. Under this system, Iberdrola’s shareholders may decide whether they prefer: (i) to receive their remuneration in paid-up new shares; (ii) to transfer their free allocation rights in the market; or (iii) to receive their remuneration through the distribution of the interim dividend corresponding to the fiscal year 2018 (the “**Interim Dividend**”). Likewise, the shareholders of the Company will be able to combine any of the above mentioned alternatives with respect to the different groups of shares owned by each shareholder.

As in the first edition of the “*Iberdrola Retribución Flexible*” system corresponding to the fiscal year 2018, and subject to the terms specified below, the shareholders will not be offered the possibility to transfer all or part of their free allocation rights to Iberdrola at a guaranteed fixed price (by means of the traditional purchase commitment over the free allocation rights undertaken by the Company). Therefore, the shareholders will not be offered the possibility to receive their remuneration in cash through the transfer of all or part of their free allocation rights to Iberdrola at a guaranteed fixed price. This is due to the fact that, in this second edition of the “*Iberdrola Retribución Flexible*” system, the Company’s shareholders will have the option to receive their remuneration in cash by means of the payment of the Interim 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 Interim 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 second edition of the “*Iberdrola Retribución Flexible*” system corresponding to the fiscal year 2018 will be carried out through two legal instruments (the implementation of the Capital Increase Resolution and the payment of the Interim Dividend). 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 execution 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. Notwithstanding, the payment of the Interim Dividend is conditioned to the Company attesting compliance of the requirements set out in article 277 of the *Spanish Companies Act*.

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 975 million euros and the maximum of 1,033 million euros, which is –in any case– within the limits established in the Capital Increase Resolution –i.e., 1,140 million euros–.

Likewise, the Board of Directors of the Company has resolved today, subject to the condition mentioned below, the payment of a gross amount of up to 0.155 euros per share as Interim Dividend in the context of the “*Iberdrola Retribución Flexible*” system, which represents an aggregate maximum gross amount of 991,632,495 euros. This last figure is the result of multiplying the outstanding shares of Iberdrola on the date of this resolution (without deducting Iberdrola’s treasury stock, that is, 6,397,629,000 shares) by the gross amount per share above mentioned –i.e., 0.155 euros–.

In any case, the resolution to pay the Interim Dividend is conditional upon the fulfilment of the requirements set out in article 277 of the *Spanish Companies Act*, consisting in verifying, through a statement of accounts: (a) the existence of sufficient liquidity to pay an interim dividend corresponding to the fiscal year 2018 of up to 0.155 gross euros per share; and (b) that the maximum amount to be distributed on account of the dividend corresponding to fiscal year 2018 (without deducting Iberdrola’s treasury stock) does not exceed the year-to-date results minus prior fiscal years’ losses, amounts earmarked for legal or statutory reserves, and the estimated tax resulting from said provisional results.

Once the Company has attested the fulfilment of the requirements set out in article 277 of the *Spanish Companies Act*, it will inform the market by means of a notice of significant event (*hecho relevante*).

When the requirements set out in article 277 of the *Spanish Companies Act* are fulfilled, the Company will publish it by means of a notice of significant event (*hecho relevante*).

For the avoidance of doubt, if the requirements set out in article 277 of the *Spanish Companies Act* for the distribution of the Interim Dividend are not fulfilled, the conditional approval of such distribution would therefore be ineffective and all references made to it would be considered as not made. In such a case and in order to guarantee that, in the context of this second edition of the “*Iberdrola Retribución Flexible*” system corresponding to the fiscal year 2018, the shareholders of the Company will be entitled to receive in cash –in part or in full– their remuneration, the Company would undertake the irrevocable commitment to acquire the free allocation rights resulting from the Capital Increase at a fixed guaranteed price (the “**Purchase Commitment**” and the “**Fixed Purchase Price**”, respectively). Thus, in that event, the shareholders of the Company would be able to monetize their free allocation rights by transferring them to the Company at the Fixed Purchase Price receiving, in such a

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way, a cash amount equivalent to the one that would have been distributed by the Company as Interim Dividend. In that case, the shareholders of the Company would only be entitled to choose between (i) receiving their remuneration as completely paid-up new shares of the Company; (ii) transferring all or part of their free allocation rights in the market; or (iii) transferring all or part of their free allocation rights to the Company at the Fixed Purchase Price pursuant to the Purchase Commitment undertaken by the Company. In this case, the Company's Board of Directors, during December 2018, would determine the terms and conditions under which the Company would undertake the Purchase Commitment¹.

If the Company verifies that the requirements set out in article 277 of the *Spanish Companies Act* for the distribution of the Interim Dividend are not fulfilled, it will inform the market about that circumstance through a notice of a significant event (*hecho relevante*).

The specific amounts corresponding to the market value of reference of the Capital Increase (which shall in all cases guarantee a gross amount of the Interim Dividend of, at least, 0.150 euros per share) and to the Interim Dividend will be communicated by means of a supplement to this information memorandum that is expected to be published on 4 January 2019.

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 second edition of the *“Iberdrola Retribución Flexible”* system of the fiscal year 2018 and to the Flexible Remuneration Options. As soon as the Company verifies the fulfilment of the requirements set out in article 277 of the *Spanish Companies Act* regarding the payment of the Interim Dividend, the market will be informed of this circumstance through a notice of a significant event (*hecho relevante*)².

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 Interim 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 4 January 2019.

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 Interim Dividend) is available, it will be published by means of a notice of significant event (*hecho relevante*).

¹ It is expected that the meeting of the Board of Directors will take place on or around 18 December 2018.

² It is expected that this notice of significant event (*hecho relevante*) will be published on or around 18 December 2018.

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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 was approved by the shareholders at Iberdrola's General Shareholders' Meeting in order to implement the second edition of the system for remunerating shareholders called “*Iberdrola Retribución Flexible*” corresponding to the fiscal year 2018. 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 Interim Dividend in this edition or through 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 second 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 January 2019, 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 among³:

- (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 Interim Dividend. In this case, the shareholder will be expressly waiving the right to receive the free allocation rights corresponding to those shares in respect of which the election to receive the Interim Dividend has been made.
- (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 23 January 2018, both inclusive, period that will coincide with the trading period of the free allocation rights. This period will be hereinafter referred to as the “**Common Election Period**”.

Free allocation rights acquired during the trading period will not grant to their holders the right to choose to receive the Interim Dividend. Exclusively, those shareholders who are holders of shares on 10 January 2019 (record date) will be entitled to receive the Interim Dividend in the context of this edition of the “*Iberdrola*”

³ 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.



Retribución Flexible” system. As a consequence of the above, those who acquire free allocation rights 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 in the first edition of the “*Iberdrola Retribución Flexible*” system corresponding to the fiscal year 2018 and subject to the terms specified below, the Company will not undertake the traditional purchase commitment over the free allocation rights. Therefore, shareholders will not be offered the possibility to receive their remuneration in cash through the transfer of all or part of their free allocation rights to Iberdrola at a guaranteed fixed price.

It was also resolved that, on 4 January 2019, the Executive Committee or the chairman and chief executive officer of the Company will determine the final gross amount per share of the Interim 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 Interim Dividend per share will be, at least, 0.150 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 Interim 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 Increase⁴. 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 4 January 2019.

“**Provisional num. of shrs.**” = Market value of reference of the Capital Increase⁵ / 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 27, 28 and 31 December 2018 and 2 and 3 January 2019, 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 4 January 2019 by means of a notice of significant event (*hecho relevante*).

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

⁴ The number of outstanding shares of Iberdrola at the date of this document is 6,397,629,000.

⁵ The determination of the market value of reference of the Capital Increase will take place on 4 January 2019.

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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*.

- The gross amount of the so-called “**Cash Remuneration**”, which shall be equal to the gross amount of the Interim Dividend per share⁶, 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 Interim Dividend to those shareholders electing this Flexible Remuneration Option during the Common Election Period will be made on 5 February 2019. After making such payment, the resolution regarding the Interim 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 second edition of the “*Iberdrola Retribución Flexible*” system corresponding to the fiscal year 2018 will be as follows:

- | | |
|--|--|
| <ul style="list-style-type: none"> • During December 2018 (expected on 18 December) | <ul style="list-style-type: none"> • Notice of significant event (<i>hecho relevante</i>) regarding, if applicable, the fulfilment of the requirements set out in article 277 of the <i>Spanish Companies Act</i> in connection with the payment of the Interim Dividend |
| <ul style="list-style-type: none"> • 4 January 2019 | <ul style="list-style-type: none"> • Notice of significant event (<i>hecho relevante</i>) regarding the number of free allocation rights required to receive one newly-issued share and the gross amount of the Interim Dividend per share. |
| <ul style="list-style-type: none"> • 8 January 2019 | <ul style="list-style-type: none"> • 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 “<i>Iberdrola Retribución Flexible</i>” system, that is, traded with the right to choose any of the Flexible Remuneration Options offered by this system (including the Interim Dividend) (last trading date). |
| <ul style="list-style-type: none"> • 9 January 2019 | <ul style="list-style-type: none"> • Ex date from which –inclusive– the shares of Iberdrola will be traded without the right to participate in the “<i>Iberdrola Retribución Flexible</i>” system. • Commencement of the Common Election Period and of the trading period for the free allocation rights. |
| <ul style="list-style-type: none"> • 23 January 2019 | <ul style="list-style-type: none"> • End of the Common Election Period and of the trading period for the free allocation rights and, consequently, of the period to request remuneration in cash under the Interim Dividend. |

⁶ The aforesaid is without prejudice of the tax withholdings that Iberdrola may have to apply according to the relevant applicable law.

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- 5 February 2019
 - Payment of the Interim 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).
- 6 February 2019
 - 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 communicating the corresponding Flexible Remuneration Option as well as the 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 Interim Dividend 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 Interim 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 January 2019. 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 shares⁷.

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 Interim 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 January 2019 (record date) will be entitled to receive the Interim 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 during the Common Election Period. Failure to make an express election will cause the holder of free allocation rights to receive newly-issued completely paid-up shares of the Company^{8 9}.

⁷ 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 Interim Dividend.

⁸ 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 4 January 2019, which will be within the minimum of 975 million euros and the maximum of 1,033 million euros.

It is expected that the maximum number of new shares to be issued will be publicly disclosed on 4 January 2019 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 or to waive to their free allocation rights¹⁰. For these purposes, it will be understood that shareholders opting to receive the Interim Dividend during the Common Election Period expressly waive all or

⁹ 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.

¹⁰ In addition, in the event that the number of outstanding Iberdrola shares after deducting the shares corresponding to the free allocation rights which have been relinquished –expressly or tacitly– by its holders is a fraction, Iberdrola will also waive that number of its free allocation rights that are required for the number of new shares ultimately issued under the Capital Increase to be a whole number and not a fraction.

part (as may be the case) of the free allocation rights to which they are entitled¹¹. In any event, the final number of shares to be issued within 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 Interim 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 with a charge, on the one hand, 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 and, on the other hand, to the reserve called “share premium reserve” (“*reserva de prima de emisión de acciones*”), which, as of 31 December 2017, amounted to 14.668.037.851,44.

Likewise, it is expressly stated that, as of the date hereof, the reserve called “RDL Update 7/1996” (“*Actualización RDL 7/1996*”) amounts to 28,002,383.24 euros, and that the difference between this amount and the amount as of 31 December 2017 (208,866,000.00 euros) is solely due to the partial allocation of such balance to: (i) 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 for a total amount of 90,644,250 euros 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; and (ii) pay up the implementation of the first paid-up capital increase approved by the shareholders acting at the General Shareholder’s Meeting of the Company held on 13 April 2018 under item number seven of its agenda for a total amount of 118,221,750 euros which was formalised on 25 July 2018 before the notary of the Illustrious College of Madrid, Mr. Miguel Ruiz-Gallardón García de la Rasilla, under number 3,454 of his protocol, and registered with the Commercial Registry of Biscay.

Likewise, it is expressly stated that the amount of the reserve called “share premium reserve” has not changed since 31 December 2017, so, as of the date hereof, it amounts to 14.668.037.851,44 euros.

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

¹¹ 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 Interim Dividend.



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*, 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 Interim 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*) ("**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:

A. Receive fully paid-up new shares

Pursuant to Spanish tax regulations, shareholders electing 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 the 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.

B. Transfer all or a part of their free allocation rights in the market

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, and in respect of the individual shareholders subject to the IRPF applicable in the common territory, 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 participating in the transfer thereof).

- For purposes of the IS and the IRNR on non-residents with a permanent establishment in Spain, and to

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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.

C. Receive their remuneration in cash by means of the Interim Dividend

Finally, if the shareholders choose to receive the Interim 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 Interim 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 about taxation in Spain and in their jurisdiction of residence for tax purposes before making a decision in connection with the Capital Increase.

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 fulfilment of the requirements set out on article 277 of the *Spanish Companies Act* regarding the payment of the Interim Dividend is expected to take place during December 2018. This circumstance will be published by means of the corresponding notice of significant event (*hecho relevante*)¹².
- The market value of reference of the Capital Increase, the number of rights required to receive one share and the gross amount of the Interim 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 4 January 2019.
- 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) and on the website of the National Securities Market Commission (www.cnmv.es) as from the day of their publication.

¹² It is expected that this notice of significant event (*hecho relevante*) will be published on or around 18 December 2018.



In Bilbao, on 23 October 2018.

Iberdrola, S.A.

By

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 INTERIM 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 Interim Dividend per share¹³.

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 6,397,629,000 shares¹⁴ (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 988,000,000 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 6.176 euros is assumed (solely for purposes of this example, a listing price per share of Iberdrola as of the close of trading on 18 October 2018 has been used).

Therefore:

Provisional num. shrs. = Market value of reference of the Capital Increase / ListPri = 988,000,000 / 6.176 = 159,974,093.2642490 ≈ 159,974,093 (rounded down)

Num. rights = TNShrs / Provisional num. shrs. = 6,397,629,000 / 159,974,093 = 39.9916566 ≈ 40 (rounded up)

NNS = TNShrs / Num. rights = 6,397,629,000 / 40 = 159,940,725

Therefore, in this example: (i) the maximum number of new shares to be issued in the implementation of the Capital Increase would be 159,940,725, (ii) the maximum nominal amount of increased capital in the implementation of the Capital Increase would come to 119,955,543.75 euros (159,940,725 x 0.75), and (iii) 40 free allocation rights (or existing shares) would be required for the allocation of a new share.

The Cash Remuneration (and, consequently, the gross amount of the Interim 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 = 6.176 / (40 + 1) = 0.1506341 euros ≈ 0.151 euros (rounded to the closest one-thousandth of a euro). This amount is equal to the gross Interim Dividend per share.

¹³ In this sample calculation, it is assumed that the requirements set out in article 277 of the *Spanish Companies Act* for the payment of the Interim Dividend have been fulfilled.

¹⁴ For the purposes of this example, it is assumed that the NTAcc as of the date of implementation of the Capital Increase is the same as of the date of this document (i.e., 6,397,629,000 shares).

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