



Julián Martínez-Simancas
Secretary of the Board of Directors

Bilbao, February 22, 2019

To the National Securities Market Commission

Subject: Publication of notice of call of the General Shareholders' Meeting 2019 and documentation made available to shareholders

Dear Sirs,

Pursuant to article 227 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, and further to our communication of a relevant fact dated February 19, 2019 (registration no. 274,907), we hereby attach the notice of call of the General Shareholders' Meeting of Iberdrola, S.A. (the "**Company**") to be presumably held on March 29, 2019 on first call, with the agenda notified in the abovementioned relevant fact, which will be published today in the Official Commercial Registry Gazette (*Boletín Oficial del Registro Mercantil*) and in the Company's corporate website (www.iberdrola.com), where it will remain accessible without interruption at least until the General Shareholders' Meeting is held.

Additionally, it is attached the proposed resolutions and management reports in relation to the different items on the agenda of the abovementioned General Shareholders' Meeting. These proposed resolutions and management reports, together with the remaining documentation related to the General Shareholders' Meeting, will be available to the shareholders at the Company's registered office and on its corporate website on the terms expressed in the notice of call.

This information is provided to you for the appropriate purposes.

Yours faithfully,

Secretary of the Board of Directors

NOTICE: This document is a translation of a duly approved Spanish-language document, and is provided for informational purposes only. In the event of any discrepancy between the text of this translation and the text of the original Spanish-language document which this translation is intended to reflect, the text of the original Spanish-language document shall prevail.



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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.

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**General Shareholders'
Meeting
/ 2019**

**Announcement of the
Call to Meeting**



The Board of Directors of IBERDROLA, S.A. has resolved to call a General Shareholders' Meeting at **Palacio Euskalduna in Bilbao (avenida Abandoibarra número 4), on Friday 29 March 2019, at 11:30**, or if the required quorum is not met, on the next day at the same time. The meeting is expected to be held on **first call** on 29 March.

Agenda

Annual accounts and company management

1. Approval of the annual accounts for financial year 2018.
2. Approval of the management reports for financial year 2018.
3. Approval of the statement of non-financial information for financial year 2018.
4. Approval of the management and activities of the Board of Directors during financial year 2018.

Corporate Governance System

5. Amendment of the preamble and articles 4, 6, 7, 8, 22, 32, 33, 34 and 49 of the *By-Laws* in order to reflect the purpose and values of the Iberdrola group, formalise its commitment to the Sustainable Development Goals (SDGs) approved by the United Nations and improve the text using inclusive language.
6. Amendment of articles 37 and 41 of the *By-Laws* to reflect the change in the name of the Corporate Social Responsibility Committee, which is now called the Sustainable Development Committee.

Remuneration

7. Approval of the proposed allocation of profits/losses and distribution of dividends for financial year 2018, the supplementary payment of which will be made within the framework of the "Iberdrola Flexible Remuneration" optional dividend system.
8. Approval of a first increase in capital by means of a scrip issue at a maximum reference market value of 1,520 million euros in order to implement the "Iberdrola Flexible Remuneration" optional dividend system.
9. Approval of a second increase in capital by means of a scrip issue at a maximum reference market value of 1,235 million euros in order to implement the "Iberdrola Flexible Remuneration" optional dividend system.
10. Approval of a reduction in capital by means of the retirement of a maximum of 280,457,000 own shares (4.30% of the share capital).
11. Consultative vote regarding the *Annual Director Remuneration Report* for financial year 2018.

Board of Directors

12. Appointment of Ms Sara de la Rica Goiricelaya as independent director.
13. Ratification of the interim appointment (co-option) and re-election of Mr Xabier Sagredo Ormazza as independent director.
14. Re-election of Ms María Helena Antolín Raybaud as independent director.
15. Re-election of Mr José W. Fernández as independent director.
16. Re-election of Ms Denise Holt as independent director.
17. Re-election of Mr Manuel Moreu Munaiz as independent director.
18. Re-election of Mr Ignacio Sánchez Galán as executive director.
19. Setting of the number of members of the Board of Directors at fourteen.
20. Delegation of powers for the formalisation and conversion into a public instrument of the resolutions adopted.

Attendance bonus for all shareholders participating in the Meeting

The Company will pay **the gross amount of 0.005 euro for each share** present at the General Shareholders' Meeting, thus including shareholders who attend in person or by proxy representation granted to any third party and those who cast an absentee vote.



Participation

Attendance at 29 March Meeting*

All shareholders may attend the General Shareholders' Meeting, vote and take part in the deliberations thereof, provided that their shares are registered in their name on **22 March 2019** (or 25 March if the Meeting is held on second call).

Absentee participation before 29 March*

Shareholders may **grant their proxy to another person, even if not a shareholder, or cast an absentee vote**, through the following channels:

- **Shareholder Information Desks** as indicated on the corporate website (www.iberdrola.com).
- **Electronically**, through the application available on said website.
- **By telephone**, calling 900 100 019.
- **By mail**, sending the attendance, proxy and absentee voting card to the Company (apartado de correos número 1.113, 48080 Bilbao).

As a general rule, proxies and absentee votes must be received by the Company **before 29 March 2019***.

Supplement to call to meeting and proposed resolutions

Shareholders representing at least 3% of the share capital may request the publication of a supplement to the call to the General Shareholders' Meeting including one or more items in the agenda and **submit well-founded proposed resolutions** as provided by law and the Corporate Governance System. Such rights must be exercised by duly authenticated notice that must be received at the registered office of the Company before 28 February 2019.

Information

www.iberdrola.com

The corporate website provides access to all documentation required to be published by law and the Corporate Governance System, including proposed resolutions as well as the reports of the Board of Directors and of the statutory auditor. Said website also provides information regarding the **reduction and the increases in share capital** implemented as well as the **amendments of the Regulations of the Board of Directors** approved since the holding of the last General Shareholders' Meeting on 13 April 2018, and provides **detailed information** regarding the exercise of shareholder rights.

Immediate free shipping of documentation

The Company promotes the use of the corporate website as a more sustainable instrument for reporting information, without prejudice to the **right of the shareholders to examine at the registered office and request the immediate delivery or shipping without charge** of a copy of the individual and consolidated annual accounts and management reports for financial year 2018, together with the respective audit reports, the proposed resolutions and the reports of the Board of Directors.

Questions and clarifications

Until 24 March 2019, inclusive, shareholders may make written requests for the information or clarifications that they deem are required, or ask the written questions they believe are relevant, regarding the matters included in the agenda of the call to meeting, the information accessible to the public that the Company has provided to the National Securities Market Commission since the holding of the last General Shareholders' Meeting, and the audit reports on the annual accounts and management reports for financial year 2018.

Digital channels and Office of the Shareholder

Shareholders may obtain additional information within the **Investor Relations App** (compatible with IOS and Android), in the interactive **On-Line Shareholders (OLS) channel**, which is continuously available on the **corporate website** (www.iberdrola.com), or at the **Office of the Shareholder** (phone: 900 100 019, hours: Monday to Friday, from 09:00 to 19:00 / e-mail: accionistas@iberdrola.com).

* If, as expected, the General Shareholders' Meeting is held on first call (or the next day if held on second call).



Sustainable and accessible event

Iberdrola's General Shareholders' Meeting has been certified as a **sustainable event** under the **ISO 20121:2012** standard since 2016, due to having a management system that encourages the optimisation of the economic, social and environmental impact thereof.

Sustainability

The Company will continue to encourage the hiring of local suppliers and the adoption of measures to **protect the environment**, like **minimisation of the carbon footprint**, a **reduction in energy consumption** and promotion of the **circular economy**.

Universal accessibility

The Company will adopt measures to facilitate the participation of attendees with **mobility, auditory or visual limitations**. Shareholders with visual limitations may request the delivery of this announcement printed in the Braille system, as well as the delivery of any other document published by the Company on occasion of the call to the General Shareholders' Meeting in a format compatible with reading systems for persons with such limitations.

Linguistic plurality

The proceedings will take place in **Spanish** and interpreting services will be available to follow the meeting in **Euskera** (Basque), **English** and **Portuguese**, as well for shareholders to be able to make presentations in any of these languages.

Bilbao, 19 February 2019.

The secretary of the Board of Directors.

Personal data protection: Iberdrola, S.A. will process the personal data that shareholders send to the Company or that are provided thereto by the institutions with which their shares are deposited in order to manage the call to and holding of the General Shareholders' Meeting, based compliance with a legal obligation. The data thereof will also be processed in order to manage the development of, compliance with and supervision of the shareholding relationship, based on performance of the underlying contractual relationship. Finally, the image and voice thereof will be processed in order to record them, reproduce them and broadcast them based on the legitimate interest of the Company.

Said data may be shared with the notary who prepares the minutes for the meeting. They may also be transferred to third parties in exercise of the right to information provided by law.

The rights of access, rectification, objection, erasure, portability and restriction of processing may be exercised in accordance with the *Implementing Rules for the General Shareholders' Meeting*, available on the corporate website (www.iberdrola.com).



General Shareholders'
Meeting
/ 2019
Proposed Resolutions



GENERAL SHAREHOLDERS' MEETING 2019 - PROPOSED RESOLUTIONS

ITEM NUMBER ONE ON THE AGENDA

Approval of the annual accounts for financial year 2018.

RESOLUTION

To approve the individual annual accounts of IBERDROLA, S.A. (balance sheet, profit and loss account, statement of changes in shareholders' equity, statement of cash flows and notes) and the annual accounts of the Company consolidated with those of its subsidiaries (consolidated statements of financial position, consolidated statements of profit and loss, consolidated statements of overall profit and loss, consolidated statements of changes in shareholders' equity, consolidated statements of cash flows and consolidated notes) for the financial year ended on 31 December 2018, formulated by the Board of Directors at its meeting held on 19 February 2019.

ITEM NUMBER TWO ON THE AGENDA

Approval of the management reports for financial year 2018.

RESOLUTION

To approve the individual management report of IBERDROLA, S.A. and the management report of IBERDROLA, S.A. consolidated with that of its subsidiaries for the financial year ended on 31 December 2018 –except for the statement of non-financial information not included in the latter, which is submitted for the approval of the shareholders at the General Shareholders' Meeting under a separate item– formulated by the Board of Directors at its meeting held on 19 February 2019.

ITEM NUMBER THREE ON THE AGENDA

Approval of the statement of non-financial information for financial year 2018.

RESOLUTION

To approve the statement of non-financial information included in the management report of IBERDROLA, S.A. consolidated with that of its subsidiaries for the financial year ended on 31 December 2018, formulated by the Board of Directors at its meeting held on 19 February 2019.

ITEM NUMBER FOUR ON THE AGENDA

Approval of the management and activities of the Board of Directors during financial year 2018.

RESOLUTION

To approve the management of the Company and the activities of the Board of Directors of IBERDROLA, S.A. during the financial year ended on 31 December 2018.

ITEM NUMBER FIVE ON THE AGENDA

Amendment of the preamble and articles 4, 6, 7, 8, 22, 32, 33, 34 and 49 of the *By-Laws* in order to reflect the purpose and values of the Iberdrola group, formalise its commitment to the Sustainable Development Goals (SDGs) approved by the United Nations and improve the text using inclusive language.

RESOLUTION

To amend the preamble and articles 4, 6, 7, 8, 22, 32, 33, 34 and 49 of the *By-Laws* in order to reflect the purpose and values of the Iberdrola group, formalise its commitment to the Sustainable Development Goals (SDGs) approved by the United Nations and improve the text using inclusive language. The preamble and said articles shall hereafter read as follows:



"PREAMBLE

Organised in 1901, Iberdrola represents a business model built on a purpose and certain values, the common denominator and main engine of which is a commitment to the creation of sustainable value in the performance of all of its activities for its professionals, suppliers and shareholders, the people to whom it supplies energy, society and other stakeholders.

These By-Laws constitute the core of its internal system of rules. Pursuant to the corporate autonomy recognised by law, they govern the company contract that all shareholders accept upon acquiring such status and lay the foundations and principles determining the governance of Iberdrola as the controlling entity of a multinational entity group.

The By-Laws go much beyond the content required by law and what is customary for listed companies in that they define in their preliminary title the foundations of Iberdrola as an independent, open holding company of an international industrial group, which is decentralised and committed to a purpose and values, as well as the Sustainable Development Goals (SDGs) approved by the United Nations. The By-Laws also recognise the fact that Iberdrola, due to its size and importance, constitutes an institutional reality, a focal point for many stakeholders and for the economic and social environment in which it does business.

The text of these By-Laws is inspired by the Iberdrola group's purpose, to continue building together each day a healthier, more accessible energy model, based on electricity, as well as by its corporate values: sustainable energy, integrating force and driving force. The purpose and values of the Iberdrola group constitute its corporate philosophy, the ideological and axiological foundation on which its own business enterprise is based, the set of ideas, values and principles that inspire the organisation and conduct of Iberdrola and its group, guide the realisation of its object and specify and give substance to the corporate interest.

The regulatory nature of the purpose and values of the Iberdrola group is expressly recognised in the preliminary title of the By-Laws, at the top of its internal rules, as they are called upon to guide the application and interpretation thereof (always in accordance with applicable law), to govern the day-to-day activities of the Company, to channel its leadership role in its various areas of activity and to guide its sustainable development strategy and the ethical behaviour of all personnel participating in the daily construction of Iberdrola's business enterprise.

In turn, these By-Laws, approved by the shareholders of the Company at a General Shareholders' Meeting, the maximum governance body through which the people holding the legitimate ownership of Iberdrola express their desire, are the basis on which the Company has built its Corporate Governance System, a regulatory structure that ensures the effective articulation of the corporate purpose and values of the Iberdrola group in the form of a true regulatory system. As such, it is subject to continuous review and update in order to immediately conform to regulatory changes and to the most stringent international standards.

The Corporate Governance System makes up a business model that combines a decentralised decision-making structure, inspired by the principle of subsidiarity, with robust coordination mechanisms ensuring the global integration of all of the group's businesses, all on the basis of an effective system of checks and balances that prevents the centralisation of power within a single governance body or a single person.

To the extent applicable thereto, Iberdrola's By-Laws and the other provisions of its Corporate Governance System bind its shareholders, the members of the Board of Directors, senior management and other professionals, as well as any persons validly linked thereto on a general basis. All have the duty to comply with them, as well as the right to demand compliance therewith."

"Article 4. The Iberdrola Group

1. *The Company is configured as a listed holding company and is the controlling entity of a multinational group of companies (the "Group").*
2. *The corporate and governance structure of the Group is defined based on the following:*
 - a) *The Company has duties relating to the establishment, supervision, and implementation of the policies and strategies of the Group, of the basic guidelines for the management thereof, and of decisions on matters of strategic importance at the Group level, as well as the design of the Corporate Governance System.*
 - b) *Country subholding companies group together the equity stakes in the Group's head of business companies and carry out the function of organisation and coordination in relation to such countries and/or businesses as are decided by the Company's Board of Directors, disseminating, implementing*



and ensuring compliance with the policies, strategies and general guidelines of the Group based on the characteristics and unique aspects of their respective countries and/or businesses.

The listed country subholding companies of the Group enjoy a special framework of strengthened autonomy that contemplates the measures that are appropriate to safeguard the interests of the minority shareholders of said companies.

- c) *Finally, the head of business companies of the Group are in charge of the day-to-day administration and effective management of each of the Group's businesses within one or more countries, and of the day-to-day control thereof.*
3. *All companies of the Group share the same corporate interest as well as identical purpose, corporate values and ethical principles."*

"Article 6. Corporate Interest

The Company conceives of the corporate interest as the common interest of all persons owning shares of an independent company focused on the sustainable creation of value by engaging in the activities included in its corporate object, taking into account other stakeholders related to its business activity and its institutional reality, in accordance with the Purpose and Values of the Iberdrola group.

Article 7. Social Dividend

- 1. The Company conceives of the social dividend as the sustainable creation of value for all stakeholders affected by the activities of the Group, the advancement of business communities which the Company participates in and leads, both from the economic viewpoint and from the perspective of business ethics, the promotion of equality and justice, the encouragement of innovation and protection of the environment, as well as through the generation of quality employment and leadership in the fight against climate change.*
- 2. The social dividend measures the direct, indirect and induced impacts of all of the Company's activities in the economic, social and environmental areas, and particularly its contribution to the Sustainable Development Goals (SDGs) approved by the United Nations.*
- 3. Through its sustainable development strategy, the Company causes all of its stakeholders to participate in the social dividend generated by its activities, sharing the created value with them.*

Article 8. Applicable Legal Provisions and Corporate Governance System

- 1. The Company is governed by the legal provisions relating to listed companies and other applicable laws and regulations, as well as by its Corporate Governance System.*
- 2. The Corporate Governance System is the Company's internal system of rules, which is configured in accordance with applicable law in the exercise of corporate autonomy supported thereby and applies to the entire Group. It is intended to ensure through rule-making the best development of the corporate contract that binds its shareholders, and especially the corporate object, the corporate interest and the social dividend, as defined in the preceding articles.*
- 3. The Company's Corporate Governance System is made up of these By-Laws, the Purpose and Values of the Iberdrola group, the Code of Ethics, the corporate policies and the other governance and compliance rules.*
- 4. The Purpose and Values of the Iberdrola group set out its raison d'être, the ideological and axiological foundation of its business enterprise, which, due to its size and the importance, is a focal point for many stakeholders and for the economic and social environment in which its component entities do business.*
- 5. The Purpose and Values of the Iberdrola group also inspires and takes form in the corporate policies and in the other rules of the Corporate Governance System, governing the day-to-day activities of all entities of the Group and guiding their strategy and all of their actions.*
- 6. The shareholders acting at a General Shareholders' Meeting and the Board of Directors of the Company, within their respective purview, develop, apply, and interpret the rules making up the Corporate Governance System in order to ensure compliance at all times with the purposes thereof and, particularly, the fulfilment of the corporate interest.*



7. *Full or summarised versions of the rules making up the Corporate Governance System can be viewed on the Company's corporate website."*

"Article 22. Right to Attend

1. *The holders of at least one voting share may attend the General Shareholders' Meeting and take part in deliberations thereof, with the right to be heard and to vote.*
2. *The General Shareholders' Meeting may be attended by going to the place where the meeting is held or, if so indicated in the call to meeting, to other places provided for such purpose by the Company and that are connected with the principal meeting place by systems that allow recognition and identification of the parties attending, permanent communication among the attendees regardless of their location, and participation and voting, all in real time. Attendees at any of such places shall be considered to be attendees at the same individual meeting, which shall be deemed to have been held at the principal location thereof.*
3. *In order to exercise the right to attend, shareholders must cause the shares to be registered in their name in the corresponding book-entry register at least five days prior to the day on which the General Shareholders' Meeting is to be held.*
4. *The chair of the General Shareholders' Meeting may authorise the attendance of executive personnel, professionals of the companies of the Group and other persons related to the Company. The chair may also grant access to the media, to financial analysts, and to any other person the chair deems appropriate, as well as authorise the simultaneous or delayed broadcast thereof, although the shareholders acting thereat may revoke such authorisation."*

"Article 32. Powers of the Board of Directors

1. *The Board of Directors has the power to adopt resolutions regarding all matters not assigned by law or the Corporate Governance System to the shareholders acting at a General Shareholders' Meeting.*
2. *Although the Board of Directors has the broadest powers and authority to manage and represent the Company, as a general rule of good governance, the Board of Directors shall focus its activities, pursuant to the Corporate Governance System, on the definition and supervision of the general guidelines to be followed by the Company and the Group, attending to the following matters, among others:*
 - a) *Establish, within legal limits, the policies, strategies, and guidelines of the Group, entrusting to the decision-making bodies and the management of the head of business companies of the Group the duties of day-to-day administration and effective management of each of the businesses thereof.*
 - b) *Supervise the general development of the aforementioned policies, strategies, and guidelines by the country subholding companies and by the head of business companies of the Group, establishing appropriate mechanisms of coordination and exchange of information in the interest of the Company and of the companies belonging thereto.*
 - c) *Decide on matters of strategic importance at the Group level.*
3. *The Board of Directors shall generally entrust to its chairman, to the chief executive officers and to senior management the dissemination, coordination and general implementation of the Group's management guidelines, acting in furtherance of the interests of each and every one of the companies belonging thereto.*
4. *The Board of Directors shall design, evaluate and review the Corporate Governance System on an ongoing basis. It shall approve the Purpose and Values of the Iberdrola group and shall pay special attention to the approval and updating of the Corporate Policies, which further develop the principles reflected in these By-Laws and in the other provisions of the Corporate Governance System and codify the guidelines that should govern the activities of the Company, its shareholders, and the Group.*
5. *The Regulations of the Board of Directors shall specify the powers reserved to such body, which may not be entrusted to the representative decision-making bodies or to the senior management of the Company."*

Article 33. Composition of the Board of Directors and Appointment of Directors

1. *The Board of Directors shall be composed of a minimum of nine and a maximum of fourteen directors, who shall be appointed or ratified by the shareholders acting at a General Shareholders' Meeting, subject to the provisions of law and the requirements established by the Corporate Governance System.*



2. *The determination of the number of directors shall be within the purview of the shareholders acting at a General Shareholders' Meeting, for which purpose the shareholders may establish such number either by express resolution or indirectly through the filling or non-filling of vacancies or the appointment of new directors within the aforesaid minimum and maximum numbers.*
3. *The following may not be appointed as directors or as individuals representing a corporate director:*
 - a) *Domestic or foreign companies competing with the Company in the energy industry or other industries, or the directors or members of senior management thereof, or such persons, if any, as are proposed by them in their capacity as shareholders.*
 - b) *Individuals or legal entities serving as directors in more than three companies with shares trading on domestic or foreign stock exchanges.*
 - c) *Persons who, during the two years prior to their appointment, have occupied high-level positions in Spanish government administrations that are incompatible with the simultaneous performance of the duties of a director of a listed company under Spanish national or autonomous community law, or positions of responsibility with entities regulating the energy industry, the securities markets or other industries in which the Group operates.*
 - d) *Individuals or legal entities that are under any other circumstance of disqualification or prohibition governed by provisions of a general nature, including those that have interests in any way opposed to those of the Company or the Group.*
4. *The appointment, ratification, re-election and removal of directors must comply with the provisions of law and the Corporate Governance System. Resolutions proposed to the shareholders at a General Shareholders' Meeting regarding the appointment, ratification and re-election of directors must be accompanied by a report providing the rationale for the proposal.*

Article 34. Types of Directors

1. *Those directors who perform management duties within the Company or its Group, whatever the legal relationship they maintain, shall be deemed executive directors.*
2. *All other directors of the Company, whether proprietary, independent or other external, shall be deemed non-executive directors:*
 - a) *Proprietary directors: those directors who own a shareholding interest that is equal to or greater than that legally regarded as significant at any time, or who have been appointed owing to their status as shareholders, even if their shareholding interest does not reach such amount, as well as those representing the shareholders described above. However, if any of such directors at the same time performs management duties within the Company or the Group, such director shall be deemed an executive director.*
 - b) *Independent directors: those directors who, having been appointed because of their personal and professional qualities, may carry out their duties without being constrained by relationships with the Company or its Group, its significant shareholders, its management personnel or with the other directors. Directors who have been independent directors for a continuous period of more than twelve years cannot be deemed to be independent directors.*
 - c) *Other external directors: those non-executive directors who do not have the characteristics to be deemed proprietary or independent directors.*

The Regulations of the Board of Directors may further elaborate upon and develop these concepts within the framework established by law.

3. *The Board of Directors shall ensure that a majority of its members are independent directors. This instruction, as well as those set forth in these By-Laws and in the Regulations of the Board of Directors regarding the composition of the committees of the Board of Directors, shall be mandatory for such body, which must follow them in the exercise of its powers to propose appointments and re-elections of directors to the shareholders at a General Shareholders' Meeting and to make interim appointments of directors to cover vacancies and in appointing members of the committees of the Board of Directors, and merely constitute guidance for the shareholders.*



4. *A rationale for the status of each director shall be given by the Board of Directors to the shareholders at the General Shareholders' Meeting at which the appointment thereof must be made or ratified or the re-election thereof approved, and shall be maintained or, if applicable, modified in the Annual Corporate Governance Report, after a report from the Appointments Committee.*

"Article 49. Powers of Information and Inspection

1. *A director shall have the broadest powers to obtain information regarding any aspect of the Company, to examine its books, records, documents and other background information on corporate transactions, to inspect all of its facilities and to communicate with the members of senior management of the Company.*
2. *The exercise of the aforementioned powers shall be channelled through the secretary of the Board of Directors, who shall act on behalf of the chairman thereof pursuant to the provisions of the Corporate Governance System."*

ITEM NUMBER SIX ON THE AGENDA

Amendment of articles 37 and 41 of the By-Laws to reflect the change in the name of the Corporate Social Responsibility Committee, which is now called the Sustainable Development Committee.

RESOLUTION

To amend articles 37 and 41 of the By-Laws to reflect the change in the name of the Corporate Social Responsibility Committee, which is called the Sustainable Development Committee after the reform of the Corporate Governance System approved by the Board of Directors on 23 October 2018. Said articles shall hereafter read as follows:

"Article 37. Committees of the Board of Directors

1. *The Board of Directors must have an Audit and Risk Supervision Committee, an Appointments Committee, and a Remuneration Committee (or a single Appointments and Remuneration Committee), on a permanent basis.*
2. *The Board of Directors may also have an executive committee, called the Executive Committee (Comisión Ejecutiva Delegada), a consultative committee called the Sustainable Development Committee, and may create any other consultative committees with the powers that the Board of Directors determines, all of a voluntary nature.*
3. *The committees shall be governed by the provisions of the Corporate Governance System, including the specific regulations thereof, when available, which must be approved by the Board of Directors and, by way of supplement and to the extent not incompatible with the nature thereof, by the provisions regarding the operation of the Board of Directors."*

Article 41. Sustainable Development Committee

1. *If created, the Sustainable Development Committee shall be deemed an internal informational and consultative body without executive duties, with information, advisory and proposal-making powers within its scope of action.*
2. *The Sustainable Development Committee shall be composed of a minimum of three and a maximum of five directors appointed by the Board of Directors upon a proposal of the Appointments Committee, from among the non-executive directors, and the majority thereof must be classified as independent.*
3. *The Board of Directors shall appoint a chair of the Sustainable Development Committee from among the independent directors forming part thereof, as well as its secretary, who need not be a director.*
4. *The Sustainable Development Committee shall have the powers set forth in the Regulations of the Board of Directors and in its own regulations."*

ITEM NUMBER SEVEN ON THE AGENDA



Approval of the proposed allocation of profits/losses and distribution of dividends for financial year 2018, the supplementary payment of which will be made within the framework of the "Iberdrola Flexible Remuneration" optional dividend system.

RESOLUTION

To approve the proposed allocation of profits/losses and distribution of dividends for financial year 2018 formulated by the Board of Directors at its meeting held on 19 February 2019, which is described below:

To distribute, with a charge to the results of the financial year ended 31 December 2018, a dividend in the aggregate gross amount that will be equal to the sum of the following amounts (the "**Dividend**"):

- a) 131,425,714.92 euros, which were paid on account of the dividend for financial year 2018 on 5 February 2019 to the holders of 870,368,973 shares of IBERDROLA, S.A. (the "**Company**" or "**Iberdrola**") who elected to receive their remuneration in cash within the framework of the second implementation of the "Iberdrola Flexible Remuneration" system for financial year 2018 by collecting an amount of 0.151 euro (gross) per share (the total amount paid to said holders will be referred to as the "**Total Interim Dividend**"); and
- b) the determinable amount resulting from multiplying:
 - i. the gross amount per share to be distributed by the Company as a supplementary dividend payment for financial year 2018 within the framework of the first implementation of the "Iberdrola Flexible Remuneration" optional dividend system for financial year 2019 (the "**Supplementary Dividend**"), and which will as determined by the Company's Board of Directors pursuant to the rules set forth in the section "*Common Terms and conditions of the dividend distribution and increase in capital resolutions proposed under items number seven, eight and nine on the agenda, by virtue of which the "Iberdrola Flexible Remuneration" optional dividend system is implemented, hereinafter, the "Common Terms"*"); by
 - ii. the total number of shares with respect to which the holders thereof have elected to receive the Supplementary Dividend within the framework of the first implementation of the "Iberdrola Flexible Remuneration" optional dividend system.

The amount of the Supplementary Dividend, and therefore the amount of the Dividend, cannot be determined as of the date of formulation of this proposed resolution.

For the purposes hereof, it is hereby noted that the payment of the Supplementary Dividend shall be implemented together with the implementation of the increase in capital submitted for approval of the shareholders at the General Shareholders' Meeting under item number eight on the agenda, in order to offer the shareholders the ability to receive their remuneration in cash (by collecting the Supplementary Dividend) or in newly-issued bonus shares of the Company (through said increase in capital).

The collection of the Supplementary Dividend provided for in this resolution is thus configured, in accordance with the provisions of the Common Terms, as one of the alternatives that a shareholder of Iberdrola can choose when receiving their remuneration within the framework of the first implementation of the "Iberdrola Flexible Remuneration" optional dividend system for financial year 2019. As a result of the foregoing, and as described below in the Common Terms, it shall be deemed that those shareholders choosing to receive their remuneration in cash through the Supplementary Dividend with respect to all or part of their shares expressly, automatically and irrevocably waive the free-of-charge allocation rights corresponding to said shares and therefore the ability to transfer them on the market or receive newly-issued bonus shares corresponding to said free-of-charge allocation rights.

The distribution of the Supplementary Dividend, which is expected to take place during the month of July 2019, shall be implemented through the participants in "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR), the Board of Directors being hereby authorised to establish the specific date for payment of the Supplementary Dividend, to designate the entity that is to act as paying agent and to take such other steps as may be required or appropriate for the successful completion of the distribution.

The Board of Directors is also delegated the power to set the conditions applicable to the payment of the Supplementary Dividend to the extent not provided for in this resolution, including the determination of the specific gross amount of the Supplementary Dividend subject to the aforementioned rules.

Finally, pursuant to the provisions of section 249.2 of the *Companies Act*, the Board of Directors is expressly authorised to further delegate the powers referred to in this resolution.

The basis for distribution and the resulting proposed distribution (expressed in euros) is as follows:



BASIS FOR DISTRIBUTION:

Balance from prior financial years:	8,070,225,096.52
Profits for financial year 2018:	991,767,992.38
TOTAL:	9,061,993,088.90

DISTRIBUTION:

To Dividend:	Amount pending determination which will result from adding: (a) the Total Interim Dividend, and (b) the product resulting from multiplying the Supplementary Dividend by the total number of shares with respect to which the holders thereof have elected to receive the Supplementary Dividend within the framework of the first implementation of the "Iberdrola Flexible Remuneration" optional dividend system.
To remainder:	Determinable amount that will result from subtracting the amount allocated to the legal reserve and the amount allocated to the Dividend from the total basis for distribution.

TOTAL: **9,061,993,088.90**

On the date that the Board of Directors (or the body acting by delegation therefrom) decides to implement the increase in capital that is being submitted for approval of the shareholders at the General Shareholders' Meeting under item number eight on the agenda (and therefore, to commence the first implementation of the "Iberdrola Flexible Remuneration" optional dividend system for financial year 2019), the minimum amount of the Supplementary Dividend shall be announced. The final amount of the Supplementary Dividend shall be communicated as soon as the Board of Directors (or the body acting by delegation therefrom) determines it in accordance with the provisions of the Common Terms. Furthermore, once the first implementation of the "Iberdrola Flexible Remuneration" system for financial year 2019 is completed, the Board of Directors, with express power of substitution, shall proceed to specify the aforementioned proposed distribution, determining the final amount of the Dividend and the amount to be allocated to remainder.

The Common Terms include a sample calculation of the Supplementary Dividend, among other figures relating to the implementation of the increase in capital submitted for approval of the shareholders at the General Shareholders' Meeting under item number eight on the agenda.

ITEM NUMBER EIGHT ON THE AGENDA

Approval of a first increase in capital by means of a scrip issue at a maximum reference market value of 1,520 million euros in order to implement the "Iberdrola Flexible Remuneration" optional dividend system.

RESOLUTION

To increase the share capital of IBERDROLA, S.A. (the "**Company**" or "**Iberdrola**") upon the terms and conditions described in the section below, entitled "*Common terms and conditions of the dividend distribution and increase in capital resolutions proposed under items number seven, eight and nine on the agenda, pursuant to which the "Iberdrola Flexible Remuneration" optional dividend system is implemented*" (the "**Common Terms**"), at a maximum reference market value of 1,520 million euros for the shares to be issued in implementation of said increase.

The increase in capital shall be implemented together with the supplementary payment of the dividend submitted for approval of the shareholders at the General Shareholders' Meeting under item seven on the agenda, in order to offer the shareholders the ability to receive their remuneration in cash (receiving said supplementary payment of the dividend) or in newly-issued bonus shares of the Company (through the increase in capital). The delivery of bonus shares issued within the context of the increase in capital is thus configured as one of the alternatives that a shareholder can choose when receiving their remuneration, pursuant to the provisions of the Common Terms.

Pursuant to the provisions of section 297.1.a) of the *Companies Act*, to delegate to the Board of Directors the power to set the date on which the increase in capital is to be carried out, if at all, and to set the terms and conditions applicable to all matters not included in this resolution.



Pursuant to the provisions of section 249.2 of the *Companies Act*, to expressly authorise the Board of Directors to further delegate the powers referred to in this resolution.

This increase in capital is expected to be implemented together with the supplementary payment of the dividend contemplated in item number seven on the agenda during the month of July 2019.

ITEM NUMBER NINE ON THE AGENDA

Approval of a second increase in capital by means of a scrip issue at a maximum reference market value of 1,235 million euros in order to implement the “Iberdrola Flexible Remuneration” optional dividend system.

RESOLUTION

To increase the share capital of IBERDROLA, S.A. (the “**Company**” or “**Iberdrola**”) upon the terms and conditions described in the section below, entitled “*Common terms and conditions of the dividend distribution and increase in capital resolutions proposed under items number seven, eight and nine on the agenda, pursuant to which the “Iberdrola Flexible Remuneration” optional dividend system is implemented*” (the “**Common Terms**”), at a maximum reference market value of 1,235 million euros for the shares to be issued in implementation of said increase.

The increase in capital is expected to be implemented together with the payment of the interim dividend amount for financial year 2019, if any, to be approved by the Company's Board of Directors (the “**Interim Dividend**”) in order to offer the shareholders the ability to receive their remuneration in cash (by collecting the Interim Dividend) or in newly-issued bonus shares of the Company (through the increase in capital). The delivery of bonus shares issued within the context of the increase in capital is thus configured as one of the alternatives that a shareholder can choose when receiving their remuneration, pursuant to the provisions of the Common Terms.

Pursuant to the provisions of section 297.1.a) of the *Companies Act*, to delegate to the Board of Directors the power to set the date on which the increase in capital is to be carried out, if at all, and to set the terms and conditions applicable to all matters not included in this resolution.

Pursuant to the provisions of section 249.2 of the *Companies Act*, to expressly authorise the Board of Directors to further delegate the powers referred to in this resolution.

This increase in capital is expected to be implemented together with the Interim Dividend payment during the month of December 2019 or January 2020.

COMMON TERMS AND CONDITIONS OF THE DIVIDEND DISTRIBUTION AND INCREASE IN CAPITAL RESOLUTIONS PROPOSED UNDER ITEMS NUMBER SEVEN, EIGHT AND NINE ON THE AGENDA, BY VIRTUE OF WHICH THE “IBERDROLA FLEXIBLE REMUNERATION” OPTIONAL DIVIDEND SYSTEM IS IMPLEMENTED

1. Main Characteristics of the “Iberdrola Flexible Remuneration” Optional Dividend System

The purpose of the resolutions for the allocation of profits/losses and dividend distribution and increase in capital resolutions proposed under items number seven, eight and nine on the agenda is to implement the “Iberdrola Flexible Remuneration” optional dividend system pursuant to which the shareholders of IBERDROLA, S.A. (the “**Company**” or “**Iberdrola**”) are offered the ability to receive their remuneration in cash or in newly-issued bonus shares.

For this purpose, there shall be two implementations of the “Iberdrola Flexible Remuneration” system in each of which one dividend payment shall be made (each, a “**Dividend Payment**”, and collectively, the “**Dividend Payments**”) along with the implementations of the increases in capital (the “**Increases in Capital**” and each of them, an “**Increase in Capital**”) submitted for approval of the shareholders at the General Shareholders' Meeting under items number eight and nine on the agenda:

- (i) The first implementation of the “Iberdrola Flexible Remuneration” system, which is expected to take place during the month of July 2019 (the “**First Implementation**”), shall be carried out through the supplementary payment of the dividend for financial year 2018 contemplated in item number seven on the agenda (the “**Supplementary Dividend**”) together with the implementation of the Increase in Capital submitted for approval of the shareholders at the General Shareholders' Meeting under item number eight on the agenda.
- (ii) The second implementation of the “Iberdrola Flexible Remuneration” system, which is expected to take place during the months of December 2019 or January 2020 (the “**Second Implementation**”, and collectively with the First Implementation, the “**Implementations**” and each of the Implementations, individually, an “**Implementation**”), shall be carried out through the payment of an interim amount of the dividend for financial year 2019 (the “**Interim Dividend**”) to be approved, if appropriate, by the Board of Directors pursuant to the provisions of section 2.2 below,



together with the implementation of the Increase in Capital submitted for approval of the shareholders at the General Shareholders' Meeting under item number nine on the agenda.

The Supplementary Dividend and the Interim Dividend shall hereinafter be referred to collectively as the "**Dividends**" and each of the Dividends individually as a "**Dividend**".

In each of the Implementations, the shareholders may choose from among the following options upon the terms and conditions established by the Board of Directors.

- (a) Receiving their remuneration in cash by collecting the Dividend in question (whether with respect to all of their shares or a portion thereof), for which purpose the shareholders shall be required to make an express election in this regard.
- (b) Receiving their remuneration in newly-issued bonus shares of the Company. To this end, shareholders must refrain from transferring their free-of-charge allocation rights on the market. In this case, at the end of the trading period for the free-of-charge allocation rights, the shareholders shall receive such number of new shares (as they are proportionately entitled to receive), entirely as bonus shares.
- (c) Transferring all or part of their free-of-charge allocation rights on the market during the trading period pursuant to the provisions of section 5 below.

The final amount of each of the Dividend Payments and of each of the Increases in Capital shall be determined by the Company's Board of Directors (or the body acting by delegation therefrom) within the context of each of the Implementations and pursuant to the provisions of the sections below.

Within the year following the date of approval of the resolutions included in items number seven, eight and nine on the agenda, each of the Implementations may be made by the Board of Directors, with express power of substitution, at its sole discretion, and therefore without having to once again obtain the approval of the shareholders at a General Shareholders' Meeting, and based on the legal and financial conditions existing at the time of each of the Implementations, in order to offer the Company's shareholders a flexible and efficient remuneration formula.

The shareholders may only elect remuneration option (a) above (i.e. receive the Dividend in question) during the "**Common Election Period**". The Common Election Period will begin on the same day as the trading period for the free-of-charge allocation rights, and the Board of Directors (with express power of substitution) must establish the specific term of the Common Election Period, which may in no event exceed the term of the period for trading the free-of-charge allocation rights.

Based on their preferences and needs, the Company's shareholders may combine any of the alternatives mentioned in paragraphs (a) through (c) above. In any event, the election of one of the remuneration options automatically excludes the ability to choose either of the other two options regarding the same shares.

As described below (see section 3 below), if the requirements of section 277 of the *Companies Act* to distribute the Interim Dividend are not met within the framework of the Second Implementation, the Company will make an irrevocable commitment to acquire the free-of-charge allocation rights arising from the second Increase in Capital at a guaranteed fixed price upon the terms and conditions described below (the "**Purchase Commitment**" and the "**Fixed Purchase Price**", respectively). In this case, the shareholders may monetise their free-of-charge allocation rights by transferring them to the Company at the Fixed Purchase Price and thus receive a cash amount equal to the one that the Company would have distributed as the Interim Dividend.

2. Amount of the Dividends.

2.1. Gross amount per share to be distributed to the shareholders as a Supplementary Dividend in the First Implementation

The gross amount to be distributed to the shareholders as a Supplementary Dividend for each share of Iberdrola with the right to receive it shall be determined within the context of the First Implementation by the Board of Directors, with express powers of substitution, subject to the terms and conditions set forth in item number seven on the agenda and in this section (the "**Supplementary Dividend**"). The amount of the Supplementary Dividend shall be calculated in accordance with the terms set forth in this section.

During the Common Election Period for the First Implementation, the Company's shareholders shall have the ability to expressly choose to receive the Supplementary Dividend with respect to all or part of the shares they own and that are outstanding on the relevant date upon the terms set by the Board of Directors, with express power of substitution, and pursuant to applicable securities clearing and settlement rules. If they choose to receive the



Supplementary Dividend with respect to all or part of their shares, the shareholders shall expressly, automatically and irrevocably waive the free-of-charge allocation rights corresponding to said shares.

After the Common Election Period for the First Implementation, the Board of Directors, with express power of substitution, shall determine the aggregate gross amount in euros corresponding to the Dividend Payment for the First Implementation (equal to the final amount of the Supplementary Dividend) and shall make payment thereof through the participants in "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR), the Board of Directors being hereby authorised for such purpose, with express power of substitution, to establish the specific date on which the Dividend Payment should occur, to designate the entity that is to act as paying agent, and to take such other steps as may be required or appropriate for the successful completion of the Dividend Payment. Furthermore, after calculating said aggregate gross amount corresponding to the Dividend Payment for the First Implementation, the Board of Directors (with express power of substitution) shall, if applicable, rescind the resolution on distribution of the Supplementary Dividend with respect to the amounts that were not distributed to those shareholders who elected (expressly or implicitly) to receive newly-issued bonus shares of the Company or who have sold their free-of-charge allocation rights on the market.

The free-of-charge allocation rights acquired on the market during the trading period established for this purpose by the Board of Directors shall not give the acquiring parties the right to choose to receive the Supplementary Dividend. Therefore, the new holders of these rights may only monetise their investment through the sale thereof on the market during said trading period that has been activated for this purpose. Alternatively, they may receive the newly-issued bonus shares to which they are entitled.

Section 4.1 below includes the formula for calculating the gross amount per share corresponding to the Supplementary Dividend.

2.2. Gross amount per share to be distributed to the shareholders as an Interim Dividend in the Second Implementation

The gross amount to be distributed as an Interim Dividend, if any, for each share of Iberdrola with the right to receive it shall be as determined by the Board of Directors pursuant to the corresponding resolution to be adopted prior to 31 December 2019 and pursuant to the provisions of section 277 of the *Companies Act* (the "**Interim Dividend**").

During the Common Election Period for the Second Implementation, the Company's shareholders shall have the ability to expressly choose to receive the Interim Dividend with respect to all or part of the shares they own and that are outstanding on the relevant date upon the terms set by the Board of Directors and pursuant to applicable securities clearing and settlement rules. If they choose to receive the Interim Dividend with respect to all or part of their shares, the shareholders shall expressly, automatically and irrevocably waive the free-of-charge allocation rights corresponding to said shares.

After the Common Election Period for the Second Implementation, the Board of Directors, with the express power of substitution, shall determine the aggregate gross amount in euros corresponding to the Dividend Payment for the Second Implementation and shall make payment thereof through the participants in "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR). To this end, the Board of Directors (with express power of substitution) shall establish the specific date on which the Dividend Payment should occur, shall designate the entity that is to act as paying agent, and shall take such other steps as may be required or appropriate for the successful completion of the Dividend Payment. Furthermore, after calculating said aggregate gross amount corresponding to the Dividend Payment for the Second Implementation, the Board of Directors (with express power of substitution) shall, if applicable, rescind the resolution on distribution of the Interim Dividend with respect to the amounts that were not distributed to those shareholders who elected (expressly or implicitly) to receive newly-issued bonus shares of the Company or who have sold their free-of-charge allocation rights on the market.

The free-of-charge allocation rights acquired on the market during the trading period established for this purpose by the Board of Directors shall not give the acquiring parties the right to choose to receive the Interim Dividend. Therefore, the new holders of these rights may only monetise their investment through the sale thereof on the market during said trading period that has been activated for this purpose. Alternatively, they may choose to receive the newly-issued bonus shares to which they are entitled at the end of the aforementioned trading period.

Without prejudice to the foregoing, if the requirements of section 277 of the *Companies Act* are not met within the framework of the Second Implementation in order to distribute the Interim Dividend, the Company will make the Purchase Commitment in order for the shareholders to be able to monetise their free-of-charge allocation rights by transferring them to the Company at the Fixed Purchase Price upon the terms and conditions described in section 3 below.



Section 4.1 below includes the formula for calculating the gross amount per share corresponding to the Interim Dividend.

3. Purchase Commitment within the Framework of the Second Implementation.

If the requirements of section 277 of the *Companies Act* are not met to distribute the Interim Dividend within the framework of the Second Implementation, the Company will make the Purchase Commitment upon the terms described in this section in order to ensure that the shareholders can receive all or part of their remuneration in cash.

As soon as the Company verifies that the requirements of section 277 of the *Companies Act* are not met, it shall communicate this circumstance to the market.

The Fixed Purchase Price shall be calculated by applying the formula used to determine the Interim Dividend (see section 4.1 below), such that the amount that would be received by shareholders choosing this option would be equal to the amount they would have received if it had been possible to distribute the Interim Dividend. The Fixed Purchase Price shall be calculated prior to the commencement of the trading period for the free-of-charge allocation rights of the second Increase in Capital and shall be published as soon as it is determined.

The Purchase Commitment assumed by the Company shall cover the free-of-charge allocation rights received by those who are registered as being entitled thereto in the book-entry records of "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR) on the relevant date pursuant to the securities clearing and settlement rules from time to time in effect. The free-of-charge allocation rights acquired on the market during the trading period established for this purpose by the Board of Directors shall not give the acquiring parties the right to exercise the Purchase Commitment or, therefore, to receive the Fixed Purchase Price. Therefore, the new holders of these rights may only monetise their investment through the sale thereof on the market during said trading period that has been activated for this purpose. Alternatively, they may choose to receive the newly-issued bonus shares to which they are entitled at the end of the aforementioned trading period.

The Purchase Commitment shall be in effect and may be accepted during such term as is established for these purposes by the Board of Directors (with express power of substitution), and which must in any case be included within the trading period for the free-of-charge allocation rights.

For these purposes, the Company is authorised to acquire said free-of-charge allocation rights, with a maximum limit of all rights issued in relation to the second Increase in Capital, but must in any case comply with applicable legal restrictions from time to time in effect.

The acquisition by the Company of the free-of-charge allocation rights as a result of the Purchase Commitment shall be carried out with a charge to the reserves contemplated in section 303.1 of the *Companies Act*.

The Company shall waive the new shares corresponding to the free-of-charge allocation rights that it has acquired by application of the Purchase Commitment. In such an event, pursuant to the provisions of section 311 of the *Companies Act*, there will be an incomplete allocation of the Increase in Capital corresponding to the Second Implementation, and share capital shall be increased solely by the amount corresponding to the free-of-charge allocation rights that have not been waived.

4. Common Characteristics of the Increases in Capital.

The amount of each of the Increases in Capital shall be the amount resulting from multiplying: (a) the nominal value of each share of the Company, equal to seventy-five euro cents, by (b) the total determinable number of new shares of the Company to be issued, in accordance with the formula set forth in section 4.1 below, on the date of each of the Implementations (the new shares of the Company issued by way of implementation of each of the Increases in Capital shall be collectively referred to as the "New Shares", and each one, individually, as a "New Share").

Both Increases in Capital shall be carried out, if at all, by means of the issuance and flotation, on their respective dates of implementation, of the New Shares, which shall be ordinary shares having a nominal value of seventy-five euro cents each, of the same class and series as those currently outstanding, represented by book entries.

The Increases in Capital shall be entirely carried out with a charge to the reserves contemplated in section 303.1 of the *Companies Act*. When implementing each of the Increases in Capital, the Board of Directors, with express power of substitution, shall determine the reserve(s) to be used and the amount of such reserve(s) in accordance with the balance sheet used as a basis for the transaction.



The New Shares shall be issued at par, i.e. at their nominal value of seventy-five euro cents, without a share premium, and shall be allocated without charge to the shareholders of the Company who have opted for this remuneration alternative.

Pursuant to the provisions of section 311 of the *Companies Act*, the possibility of an incomplete allocation of the Increases in Capital is contemplated in the event that the Company, a company within its group, a shareholder or a third party waives all or part of the free-of-charge allocation rights to which they are entitled at the time of implementation of each of the Increases in Capital, for which reason, in the event of such waiver, the share capital shall be increased by the corresponding amount. For these purposes, it shall be deemed that those who have chosen to receive their remuneration in cash by means of collecting the Dividend in question with respect to all or part of their shares expressly, automatically and irrevocably waive the free-of-charge allocation rights corresponding to said shares, upon the terms and conditions set forth herein.

4.1 New Shares to Be Issued in each of the Increases in Capital.

The maximum number of New Shares to be issued in each of the Increases in Capital shall be the number resulting from the application of the following formula, with the resulting number being rounded to the next lower integer:

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

where:

NNS = Number of New Shares to be issued within the framework of the relevant Increase in Capital;

TNShrs. = Number of shares of the Company outstanding on the date that the Board of Directors, with express power of substitution, resolves to implement the relevant Increase in Capital; and

Num. rights = Number of free-of-charge allocation rights required for the allocation of one New Share within the framework of the relevant Increase in Capital, which number will result from the application of the following formula, with the result being rounded to the next higher integer:

$$\text{Num. rights} = \text{TNShrs.} / \text{Provisional number of shares}$$

where:

Provisional number of shares = Amount of the Option / ListPri.

For these purposes, "**Amount of the Option**" shall mean the maximum reference market value of the relevant Increase in Capital to be set by the Board of Directors, with express power of substitution, and which shall not be greater than the amount referred to in the proposed increase in capital resolutions submitted for the approval of the shareholders at the General Shareholders' Meeting under items number eight and nine on the agenda (i.e. 1,520 and 1,235 million euros, respectively).

For its part, "**ListPri**" shall be the arithmetic mean of the average weighted listing prices of the Company's shares on the Bilbao, Madrid, Barcelona and Valencia Stock Exchanges through the Automated Quotation System (*Sistema de Interconexión Bursátil*) (Continuous Market) during the five trading sessions prior to the relevant resolution adopted by the Board of Directors (with express power of substitution) which determines the number of free-of-charge allocation rights needed for the allocation of one New Share in the relevant Increase in Capital, rounded to the closest one-thousandth part of one euro.

Furthermore, the gross amount per share of the Dividend in question, or if compliance with the requirements of section 277 of the *Companies Act* is not verified in Second Implementation, the Fixed Purchase Price per free-of-charge allocation right will be that which results from the application of the following formula:

$$\text{Dividend (or, if applicable, Fixed Purchase Price)} = \text{ListPri} / (\text{Num. rights} + 1)$$

4.2 Free-of-charge Allocation Rights.

In each of the Increases in Capital, each outstanding share of the Company on the date of implementation of the corresponding Increase in Capital (TNShrs.) shall grant its holder one free-of-charge allocation right.

The number of free-of-charge allocation rights required to receive one New Share in each of the Increases in Capital shall be automatically determined according to the ratio existing between the number of outstanding shares



of the Company on the date of implementation of the relevant Increase in Capital (TNShrs.) and the provisional number of New Shares, calculated by using the formula contained in section 4.1 above. Specifically, the holders of free-of-charge allocation rights shall be entitled to receive one New Share for the number of free-of-charge allocation rights held by them, which shall be determined as provided in section 4.1 above (Num. rights).

In the event that the number of free-of-charge allocation rights required for the allocation of one New Share (Num. rights) multiplied by the number of New Shares to be issued (NNS) results in a number that is lower than the number of outstanding shares of the Company on the date of implementation of the corresponding Increase in Capital (TNShrs.), the Company (or such entity within its group, if any, as holds shares of the Company) shall waive a number of free-of-charge allocation rights equal to the difference between both figures for the sole purpose that the number of New Shares be a whole number and not a fraction.

The free-of-charge allocation rights shall be allocated to those who are registered as being entitled thereto in the book-entry records of "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR) on the relevant date pursuant to the securities clearing and settlement rules from time to time in effect.

The free-of-charge allocation rights shall be transferable upon the same terms as the shares from which they derive. The free-of-charge allocation rights may be traded on the market during such term as is established by the Board of Directors (with express power of substitution) in implementing the relevant Increase in Capital, which term shall not be less than fifteen calendar days. During such term, a sufficient number of free-of-charge allocation rights may be acquired on the market in the proportion required to receive New Shares. Notwithstanding the foregoing, the free-of-charge allocation rights acquired on the market during the trading period established for this purpose shall not give the acquiring party the right to choose to receive the corresponding Dividend (or, if applicable, to exercise the Purchase Commitment and receive the Fixed Purchase Price). Therefore, the new holders of these free-of-charge allocation rights may only monetise their investment through the sale thereof on the market during said trading period that has been activated for this purpose. Alternatively, they may choose to receive the newly-issued bonus shares to which they are entitled at the end of the aforementioned trading period.

Therefore, during the trading period for the free-of-charge allocation rights, subject to any other terms and conditions established by the Board of Directors, with express power of substitution, the holders of the free-of-charge allocation rights may choose between:

- (a) receiving their remuneration in New Shares, in which case, at the end of the trading period they shall be allocated the New Shares to which they are entitled pursuant to the terms and conditions of the implementation of the Increase in Capital in question;
- (b) transferring all or part of their free-of-charge allocation rights on the market, in which case the consideration that the holders of the free-of-charge allocation rights will receive for the sale thereof will depend on the listing price of said rights; or
- (c) only during the Common Election Period determined by the Board of Directors (with express power of substitution), receiving their remuneration in cash by collecting the corresponding Dividend (or, if applicable, by collecting the Fixed Purchase Price), for which purpose the shareholders shall be required to make an express election in this regard. The shareholders may choose to receive their cash remuneration with respect to all or part of their shares.

In this case, it shall be deemed that those choosing to receive their remuneration in cash with respect to all or part of their shares expressly, automatically and irrevocably waive the free-of-charge allocation rights corresponding to said shares and the ability to transfer them on the market. To this end, the participants in "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR) will block said free-of-charge allocation rights, which may not be transferred on the market and which shall automatically expire at the end of the trading period, without the holders thereof being entitled to receive New Shares.

As mentioned above, the free-of-charge allocation rights acquired on the market during the trading period established for this purpose shall not give the acquiring parties the right to choose to receive the Dividend (nor, if applicable, the Fixed Purchase Price). Therefore, the new holders of these rights may only monetise their investment through the sale thereof on the market during said trading period that has been activated for this purpose. Alternatively, they may choose to receive the newly-issued bonus shares to which they are entitled at the end of the aforementioned trading period.

Based on their preferences and needs, the Company's shareholders may combine any of the alternatives mentioned in paragraphs (a) through (c) above with respect to different groups of shares that each of them own.



4.3 Balance Sheet for the Transaction and Reserve with a Charge to which the Increases in Capital are Carried Out.

The balance sheet used as a basis for the two Increases in Capital is the one for the financial year ended 31 December 2018, duly audited and submitted to the shareholders for approval at this General Shareholders' Meeting under item number one on the agenda.

The Increases in Capital shall be entirely carried out with a charge to the reserves contemplated in section 303.1 of the *Companies Act*. When implementing each of the Increases in Capital, the Board of Directors, with express power of substitution, shall determine the reserve(s) to be used and the amount of such reserve(s) in accordance with the balance sheet used as a basis for the transaction.

4.4 Representation of the New Shares.

The New Shares shall be represented by book entries, the book-entry registration of which is entrusted to "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR) and its participants.

4.5 Rights Attaching to the New Shares.

As from the date on which the relevant Increase in Capital is declared to be subscribed and paid up, the New Shares shall grant the holders thereof the same financial, voting and like rights as the ordinary shares of the Company then outstanding.

4.6 Shares on Deposit.

Once the period for trading the free-of-charge allocation rights during each of the Increases in Capital has ended, the New Shares that could not be allocated for reasons not attributable to the Company shall be kept on deposit for those who provide evidence that they are the lawful holders of the corresponding free-of-charge allocation rights. Once three years have passed from the end of each of the periods for trading the free-of-charge allocation rights, the New Shares issued by virtue of the relevant Increase in Capital that are still pending allocation may be sold in accordance with the provisions of section 117 of the *Companies Act*, at the expense and peril of the interested parties. The cash amount from such sale shall be deposited with Banco de España or with Caja General de Depósitos at the disposal of the interested parties.

4.7 Application for Admission to Trading.

The Company shall make application for trading the New Shares to be issued as a consequence of each of the Increases in Capital on the Bilbao, Madrid, Barcelona and Valencia Stock Exchanges, through the Automated Quotation System (*Sistema de Interconexión Bursátil*) (Continuous Market), and shall carry out such acts and formalities as are required and submit the documents needed to the appropriate bodies for admission to trading of the New Shares issued as a result of each of the approved Increases in Capital, with an express statement for the record of the Company's submission to the rules that may now or hereafter exist with respect to Stock Exchange matters, and especially regarding trading, continued trading and removal from trading on official markets.

A subsequent request for removal from trading of the shares of the Company shall be adopted with the same formalities as those that apply to the application for trading and, in such event, the interests of the shareholders opposing or not voting on the resolution to remove shall be safeguarded, in compliance with the requirements set out in applicable law at such time.

5. Implementation of the "Iberdrola Flexible Remuneration" System. Implementations.

Within a period of one year from the date of approval of this resolution, the Board of Directors, with express power of substitution, may set the date on which each of the Implementations must be carried out and set the terms and conditions thereof as to all matters not provided for in this resolution (including, in particular, the Amount of the Option corresponding to each of the Implementations and the Supplementary Dividend).

Furthermore, it is expected that prior to 31 December 2019, the Board of Directors will determine the Interim Dividend to be paid for purposes of the Second Implementation as well as the other conditions applicable to the Interim Dividend, pursuant to the provisions of section 277 of the *Companies Act*. To this end, and in accordance with the provisions of section 161 of the *Companies Act*, the shareholders acting at this General Shareholders' Meeting hereby instruct the Board of Directors, if the requirements established in section 277 of the *Companies Act* are met, to approve the distribution of the Interim Dividend and set the terms and conditions applicable to the corresponding Dividend Payment, all in order to carry out the Second Implementation.



Notwithstanding the foregoing, if the Board of Directors, with express power of substitution, does not deem it advisable to carry out one or both Implementations, in whole or in part, within the aforementioned period, it may refrain from doing so, with the duty to inform the shareholders thereof at the next General Shareholders' Meeting.

Specifically, the Board of Directors, with express power of substitution, shall analyse and take into account the market conditions, the circumstances of the Company itself or those deriving from an event that has social or financial significance for the Company, and if these or other factors make it inadvisable, in its opinion, to carry out one or both Implementations, it may refrain from doing so. In addition, the resolutions of the shareholders at this General Shareholders' Meeting relating to the Supplementary Dividend and to the Increases in Capital shall be deprived of any and all effect in the event that the Board of Directors does not exercise the powers delegated thereto, or in the case of the Second Implementation, does not approve the distribution of the Interim Dividend or honour the Purchase Commitment (if the requirements of section 277 of the *Companies Act* are not met) within a period of one year from approval of the resolutions.

Once the period for trading the free-of-charge allocation rights corresponding to each of the Increases in Capital has ended, the following shall apply:

- (a) The New Shares shall be allocated to those who, according to the book-entry records maintained by "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR) and its participants, are the holders of free-of-charge allocation rights in the proportion resulting from section 4 above due to not having waived them upon the terms set forth above.
- (b) The period for trading the free-of-charge allocation rights shall be declared to have ended and the appropriation of the account(s) with a charge to which the relevant Increase in Capital will be implemented shall be formalised on the books in the respective amount, with which appropriation the Increase in Capital will be paid up.
- (c) The Company shall pay the Supplementary Dividend or the Interim Dividend (or, if the requirements of section 277 of the *Companies Act* are not met within the framework of the Second Implementation, the Fixed Purchase Price), as applicable, to the shareholders that have expressly chosen to receive it within the period and subject to the terms and conditions determined for these purposes by the Board of Directors, pursuant to the provisions of section 2 above.

Likewise, once each of the periods for trading the free-of-charge allocation rights has ended, the Board of Directors, with express power of substitution, shall adopt the resolutions required to amend the *By-Laws* so that they reflect the new amount of the share capital and the number of shares resulting from the implementation of the relevant Increase in Capital, and to make application for trading of the resulting New Shares on the Bilbao, Madrid, Barcelona and Valencia Stock Exchanges, through the Automated Quotation System (Continuous Market).

6. Delegation to Carry Out Each of the Implementations.

In particular, and by way of example only, the following powers are delegated to the Board of Directors, with express power of substitution:

- (a) To set the date on which each of the Implementations must be carried out, which shall in any case be within a period of one year from the approval of this resolution, and to determine the specific schedule for each of the Implementations.
- (b) As regards each of the Implementations, to set the Amount of the Option, the amount of the Supplementary Dividend (in the case of the First Implementation), the number of New Shares and the number of free-of-charge allocation rights necessary for the allocation of one New Share, applying the rules established by this resolution for such purpose.
- (c) To determine the reserve(s), among those contemplated in this resolution, with a charge to which each of the Increases in Capital will be implemented.
- (d) To designate the company or companies that will assume the duties of agent and/or financial adviser in connection with each of the Implementations, and sign all required contracts and documents for such purpose. In particular, to appoint the entity that must act as paying agent in each of the Dividend Payments.
- (e) To set the duration of the periods for trading the free-of-charge allocation rights corresponding to each of the Increases in Capital.



- (f) As regards each of the Implementations, to set the specific duration of the Common Election Period and the terms and conditions under which the shareholders may state their preferences regarding the receipt of their remuneration (in cash or in New Shares).
- (g) After the Common Election Period for each Implementation, to determine the aggregate gross amount in euros corresponding to the Dividend Payment in question and to make payment thereof through the participants in "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR).
- (h) To declare the Increases in Capital to be closed and implemented, for such purpose setting the number of New Shares actually allocated in each of them, and therefore the amount by which the Company's share capital must be increased in accordance with the rules established by the shareholders at this General Shareholders' Meeting, as well as declare, if applicable, the existence of an incomplete allocation of each of the Increases in Capital.
- (i) To rescind the resolution on distribution of the corresponding Dividend with respect to the amounts that were not distributed to those shareholders who elected (expressly or implicitly) to receive New Shares.
- (j) In the case of the First Implementation, to determine the aggregate total amount to be distributed as a dividend with a charge to the results for the financial year ended 31 December 2018 pursuant to the provisions of item number seven on the agenda (i.e. the final amount of the Supplementary Dividend), to specify, in view of said amount, the amount of the total basis for distribution established in said item on the agenda to be allocated to remainder, and to complete the resulting proposed application of profits/losses and distribution of the dividend for financial year 2018.
- (k) In the case of the First Implementation and if the Board of Directors, with express power of substitution, does not deem it appropriate to implement the First Implementation, in whole or in part, during said period, to determine the aggregate total amount to be distributed as a dividend with a charge to the results for the financial year ended 31 December 2018 pursuant to the provisions of item number seven on the agenda, to specify the amount of the total basis for distribution established in said item on the agenda to be allocated to remainder, and to complete the resulting proposed application of profits/losses and distribution of the dividend for financial year 2018.
- (l) To amend the article of the *By-Laws* setting the share capital such that it reflects the amount of share capital and the number of outstanding shares resulting from the implementation of the relevant Increase in Capital.
- (m) To waive any free-of-charge allocation rights to subscribe for New Shares in each of the Increases in Capital, for the sole purpose of facilitating that the number of New Shares be a whole number and not a fraction.
- (n) If the Purchase Commitment must be honoured within the framework of the Second Implementation due to the requirements of section 277 of the *Companies Act* for the distribution of the Interim Dividend not having been met, to determine the acquisition by the Company of the corresponding free-of-charge allocation rights, set the period of time during which the Purchase Commitment will be in effect (within the limits established in these resolutions), honour the Purchase Commitment by paying the corresponding amounts to the shareholders who have accepted said commitment, waive the free-of-charge allocation rights owned by the company at the end of the trading period of the Second Implementation as a result of the Purchase Commitment, and thus the New Shares corresponding to such rights, and take any other measures or actions needed to fully honour the Purchase Commitment.
- (o) To take all steps required for the New Shares to be included in the book-entry records of "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR) and admitted to trading on the Bilbao, Madrid, Barcelona and Valencia Stock Exchanges through the Automated Quotation System (Continuous Market) after each of the Increases in Capital.
- (p) To take any actions that are necessary or appropriate to implement and formalise each of the Increases in Capital before any Spanish or foreign public or private entities or agencies, including acts for purposes of representation, supplementation, or correction of defects or omissions that might prevent or hinder the full effectiveness of the foregoing resolutions.

7. Sample Calculation relating to the First Implementation.

Set out below, solely for purposes of facilitating an understanding of the application hereof, is a sample calculation, in the case of the First Implementation, of the maximum number of new shares to be issued in the increase in capital submitted for the approval of the shareholders at the General Shareholders' Meeting under item number eight on the agenda, of the maximum nominal value of such increase, of the number of free-of-charge allocation rights required for the allocation of one new share and of the Dividend (which in this First Implementation would be equal to the Supplementary Dividend).



The results of these calculations are not representative of those that might be obtained, which, in the case of the First Implementation, will depend on the different variables used in the formulas (basically, the listing price of Iberdrola shares at that time (ListPri) and the Amount of the Option, as determined by the Board of Directors (with express power of substitution) in exercise of the power delegated by the shareholders at the General Shareholders' Meeting).

Solely for the purposes of this example:

- The Amount of the Option is 1,281 million euros.
- The TNShrs. is 6,240,000,000¹.
- A ListPri of 7.182 euros is assumed (solely for the purposes of this example, the listing price of the Iberdrola shares at the closing of the trading session of 8 February 2019 has been used as a reference).

Therefore:

Provisional number of shares = Amount of the Option / ListPri	$1,281,000,000 / 7.182 = 178,362,573.0994150 = 178,362,573$ shares (rounded downwards)
Num. rights = TNShrs. / Provisional number of shares	$6,240,000,000 / 178,362,573 = 34.98491805228670 = 35$ rights (rounded upwards)
NNS = TNShrs. / Num. rights	$6,240,000,000 / 35 = 178,285,714.2857140 = 178,285,714$ shares (rounded downwards)
Dividend = ListPri / (Num. rights +1)	$7.182 / (35+ 1) = 0.19950 = 0.200$ euros (rounded to the closest thousandth of one euro)

Therefore:

- (i) The maximum number of shares to be issued in the First Implementation would be 178,285,714.
- (ii) The maximum nominal amount of the increase in capital submitted for approval of the shareholders at the General Shareholders' Meeting under item number eight on the agenda would be 133,714,285.50 euros (178,285,714 x 0.75).
- (iii) 35 free-of-charge allocation rights (or old shares) would be necessary for the allocation of one new share.²
- (iv) In this example, the Supplementary Dividend would be equal to 0.200 euros (gross) per share.

¹ For purposes of this example, it is assumed that this would be the total number of shares of the Company outstanding after the implementation of the reduction in capital provided for in the resolution corresponding to item number ten on the agenda if it is implemented in the total maximum amount thereof (i.e. 280,457,000 shares).

² In this example, the Company (or an entity of its group that holds shares of the Company) would be required to waive 10 free-of-charge allocation rights corresponding to 10 own shares in order for the number of shares to be issued to be an integer.



ITEM NUMBER TEN ON THE AGENDA

Approval of a reduction in capital by means of the retirement of a maximum of 280,457,000 own shares (4.30% of the share capital).

RESOLUTION

1. Reduction in Capital by means of the Retirement of Both Currently Existing Own Shares in Treasury and of Own Shares to Be Acquired through the Settlement of Derivatives Acquired prior to the Formulation of this Proposed Resolution through a Buy-back Programme for the Retirement thereof.

To reduce the share capital of IBERDROLA, S.A. (the "**Company**") by the amount resulting from the sum of:

- i. 109,070,542.50 euros, through the retirement of 145,427,390 currently existing own shares in treasury as at 18 February 2019, each with a nominal value of seventy-five euro cents, acquired under the authorisation granted by the shareholders at the General Shareholders' Meeting held on 13 April 2018 under item twelve on the agenda and within the limits established by section 146 and related provisions and section 509 of the *Companies Act* (the "**Existing Treasury Shares**"); and
- ii. the aggregate nominal value, up to the maximum amount of 101,272,207.50 euros, of the own shares of the Company, each with a nominal value of seventy-five euro cents, up to a limit of 135,029,610 own shares (the "**Overall Limit**"), that are acquired for their retirement both through the settlement, no later than 14 June 2019, of the derivatives acquired by the Company prior to 19 February 2019 as well as under the programme for the buy-back of up to 135,029,610 own shares that will be in effect until no later than 14 June 2019, approved by the Board of Directors on 19 February 2019 (the "**Buy-back Programme**"), under (a) the provisions of *Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse* and of *Commission Delegated Regulation (EU) No 2016/1052 of 8 March 2016 supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council on market abuse with regard to regulatory technical standards for the conditions applicable to buy-back programmes and stabilisation measures*, and (b) the authorisation granted by the shareholders at the General Shareholders' Meeting held on 13 April 2018 under item twelve on the agenda.

Consequently, the maximum amount of the reduction in capital (the "**Reduction in Capital**") shall be 210,342,750 euros, through the retirement of a maximum of 280,457,000 own shares, each with a nominal value of seventy-five euro cents, representing not more than 4.30% of the share capital at the time this resolution is approved.

As set out below, the final amount of the Reduction in Capital will be set by the Company's Board of Directors (with express power of substitution) depending upon the final number of shares acquired as a result of both the settlement of the derivatives acquired by the Company prior to 19 February 2019 and within the framework of the Buy-back Programme, provided they do not exceed the Overall Limit. Otherwise, there will be a retirement of all of the shares acquired pursuant to the Buy-back Programme as well as of the number of shares acquired as a result of the settlement of the derivatives acquired by the Company prior to 19 February 2019 equal to the difference between the Overall Limit and the shares acquired in implementation of the Buy-back Programme, and the remaining treasury shares will not be retired.

2. Procedure for Acquisition of the Shares that Will Be Retired under the Buy-back Programme.

Without prejudice to the Existing Treasury Shares, and in accordance with the resolution approved by the Board of Directors at its meeting of 19 February 2019, the Company may acquire a maximum number of 135,029,610 own shares by way of implementation of the Buy-back Programme for all of the shareholders and for their retirement, each of such own shares having a nominal value of seventy-five euro cents and representing a maximum of 2.07% of the share capital of the Company on the date of approval of this resolution, which number is within the legal limit and the limit provided for in the authorisation for the acquisition of own shares granted by the shareholders at the General Shareholders' Meeting held on 13 April 2018 under item twelve on the agenda.

As provided in the aforementioned resolution of the Board of Directors, the own shares shall be acquired subject to such terms as to price and volume as are established in article 5 of *Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse* and in *Commission Delegated Regulation (EU) No 2016/1052 of 8 March 2016 supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the conditions applicable to buy-back programmes and stabilisation measures*.

In accordance with the foregoing, pursuant to section 340.3 of the *Companies Act*, if the Company fails to acquire the maximum number of 135,029,610 own shares, each with a nominal value of seventy-five euro cents, both through the settlement, no later than 14 June 2019, of the derivatives acquired by the Company prior to 19 February 2019 and



under the Buy-back Programme, it shall be understood that the share capital is reduced by the sum of (i) the amount corresponding to the Existing Treasury Shares, and (ii) the amount corresponding to the sum of the shares effectively acquired pursuant to the settlement, no later than 14 June 2019, of the derivatives acquired by the Company prior to 19 February 2019 and within the framework of the Buy-back Programme.

3. Procedure for the Reduction and Reserves with a Charge to which It Is Carried Out.

Pursuant to the provisions of section 342 of the *Companies Act*, the Reduction in Capital must be implemented within one month following the expiration of the Buy-back Programme.

The Reduction in Capital does not entail a return of contributions to the shareholders because the Company itself is the holder of the shares being retired, and it shall be carried out with a charge to unrestricted reserves by funding a retired capital reserve in an amount equal to the nominal value of the retired shares; such reserve may only be used by complying with the same requirements as those applicable to a reduction in share capital, as provided by section 335 c) of the *Companies Act*.

Therefore, in accordance with the provisions of such section, creditors of the Company will not be entitled to assert the right of objection contemplated by section 334 of the *Companies Act* in connection with the Reduction in Capital.

4. Ratification of Resolutions of the Board of Directors.

To ratify the resolutions of the Board of Directors regarding the approval of the Buy-back Programme and the establishment of the terms and conditions thereof, including the determination of the maximum number of shares to be acquired within the framework and the effective period thereof, as well as to ratify the acts, statements and formalities carried out through the date hereof in connection with the public communication of the Buy-back Programme.

5. Delegation of Powers.

To delegate to the Board of Directors, with express power of substitution, the powers necessary to implement this resolution within a period not to exceed one month following the expiration of the Buy-back Programme, with authority to establish any terms that are not expressly set forth in this resolution or that are a consequence hereof. In particular, and by way of example only, the following powers are delegated to the Board of Directors, with express power of substitution:

- (a) To modify the maximum number of shares that may be bought back by the Company, within the limits set in this resolution and by law, as well as any other terms and conditions of the Buy-back Programme, all in accordance with the provisions of *Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse* and in *Commission Delegated Regulation (EU) No 2016/1052 of 8 March 2016 supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council on market abuse with regard to regulatory technical standards for the conditions applicable to buy-back programmes and stabilisation measures*.
- (b) To perform any acts, make any statements or take any steps that may be required in connection with the public communication of the Buy-back Programme and with the formalities, if any, that must be carried out at Spanish regulatory agencies and Stock Exchanges; negotiate, agree to and sign all contracts, agreements, commitments or instructions that may be necessary or appropriate for the successful completion of the Buy-back Programme.
- (c) To cause all announcements required by law to be published, acquire the shares under the Buy-back Programme and retire them within one month following the expiration of the Buy-back Programme, in accordance with the terms approved herein.
- (d) To declare the approved Reduction in Capital to be completed and implemented, establishing, for such purpose, the final number of shares that must be retired and, as a result, the amount by which the share capital of the Company must be reduced in accordance with the rules specified in this resolution.
- (e) To set the final amount of the Reduction in Capital based on the provisions of this resolution and establish any other terms that may be required to implement it, all in accordance with the terms and conditions set forth above.
- (f) To amend the article of the *By-Laws* setting the share capital such that it reflects the amount of share capital and the number of outstanding shares resulting from the implementation of the Reduction in Capital.
- (g) To take such steps and carry out such formalities as may be required and submit such documents as may be necessary to the competent bodies such that, once the shares of the Company have been retired and the notarial instrument for the Reduction in Capital has been executed and registered with the Commercial Registry, the retired shares are delisted from the Bilbao, Madrid, Barcelona and Valencia Stock Exchanges, through the Automated



Quotation System (Continuous Market), and they are removed from the corresponding book-entry registers of "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR).

- (h) To perform all acts that may be necessary or appropriate to implement and formalise the Reduction in Capital before any Spanish or foreign public or private entities and agencies, including acts for purposes of representation, supplementation or correction of defects or omissions that might prevent or hinder the full effectiveness of the foregoing resolutions.

Pursuant to the provisions of section 249.2 of the *Companies Act*, the Board of Directors is expressly authorised to further delegate the powers referred to in this resolution.

ITEM NUMBER ELEVEN ON THE AGENDA

Consultative vote regarding the *Annual Director Remuneration Report* for financial year 2018.

RESOLUTION

To approve, on a consultative basis, the *Annual Director Remuneration Report* for financial year 2018, the full text of which was made available to the shareholders together with the other documentation relating to the General Shareholders' Meeting from the date of publication of the announcement of the call to meeting.

ITEM NUMBER TWELVE ON THE AGENDA

Appointment of Ms Sara de la Rica Goiricelaya as independent director.

RESOLUTION

To appoint Ms Sara de la Rica Goiricelaya as director, upon the proposal of the Appointments Committee, for the by-law mandated four-year term, with the classification of independent director.

ITEM NUMBER THIRTEEN ON THE AGENDA

Ratification of the interim appointment (co-option) and re-election of Mr Xabier Sagredo Ormaza as independent director.

RESOLUTION

To ratify the appointment of Mr Xabier Sagredo Ormaza as independent director appointed on an interim basis by resolution of the Board of Directors adopted at the meeting held on 19 February 2019 and to re-elect him upon a proposal of the Appointments Committee for the bylaw-mandated four-year term, with the classification of independent director.

ITEM NUMBER FOURTEEN ON THE AGENDA

Re-election of Ms María Helena Antolín Raybaud as independent director.

RESOLUTION

To re-elect Ms María Helena Antolín Raybaud as director, upon the proposal of the Appointments Committee, for the by-law mandated four-year term, with the classification of independent director.

ITEM NUMBER FIFTEEN ON THE AGENDA

Re-election of Mr José W. Fernández as independent director.

RESOLUTION

To re-elect Mr José Walfredo Fernández as director, upon the proposal of the Appointments Committee, for the by-law mandated four-year term, with the classification of independent director.

ITEM NUMBER SIXTEEN ON THE AGENDA



Re-election of Ms Denise Holt as independent director.

RESOLUTION

To re-elect Ms Denise Mary Holt as director, upon the proposal of the Appointments Committee, for the by-law mandated four-year term, with the classification of independent director.

ITEM NUMBER SEVENTEEN ON THE AGENDA

Re-election of Mr Manuel Moreu Munaiz as independent director.

RESOLUTION

To re-elect Mr Manuel Moreu Munaiz as director, upon the proposal of the Appointments Committee, for the by-law mandated four-year term, with the classification of independent director.

ITEM NUMBER EIGHTEEN ON THE AGENDA

Re-election of Mr Ignacio Sánchez Galán as executive director.

RESOLUTION

To re-elect Mr Ignacio Sánchez Galán as director, after a report from the Appointments Committee, for the by-law mandated four-year term, with the classification of executive director.

ITEM NUMBER NINETEEN ON THE AGENDA

Setting of the number of members of the Board of Directors at fourteen.

RESOLUTION

To set the number of members of the Board of Directors at fourteen.

ITEM NUMBER TWENTY ON THE AGENDA

Delegation of powers for the formalisation and conversion into a public instrument of the resolutions adopted.

RESOLUTION

Without prejudice to the powers delegated in the preceding resolutions, to jointly and severally authorise the Board of Directors, the Executive Committee, the chairman & CEO, and the secretary and the deputy secretary of the Board of Directors, such that any of them may:

- (a) Formalise and convert into public instruments the resolutions adopted by the shareholders at this General Shareholders' Meeting, further developing, clarifying, specifying, interpreting, completing and correcting them, carrying out such acts or legal transactions as may be necessary or appropriate for the implementation thereof, execute such public or private documents as they deem necessary or appropriate for the full effectiveness thereof, and correct all omissions, defects or errors, whether substantive or otherwise, that might prevent the recording thereof with the Commercial Registry.
- (b) Approve or vote in favour of the approval of the annual financial information for the financial year ended 31 December 2018 of the country subholding companies and other subsidiaries of IBERDROLA, S.A. referred to in item numbers one and two of the agenda in which the Company holds a direct interest.
- (c) Deposit with the Commercial Registry the individual annual accounts of IBERDROLA, S.A. and the annual accounts thereof consolidated with those of its subsidiaries, as well as the corresponding management reports.
- (d) Formulate the restated text of the *By-Laws*, including the amendments approved at this General Shareholders' Meeting.



- (e) In the exercise of the powers vested therein by the Corporate Governance System, approve appropriate modifications of the other internal rules of the Company in order to conform the text thereof to the changes made to the *By-Laws*, and particularly revise the text thereof to eliminate the use of non-inclusive language.
- (f) Resolve any questions regarding the interpretation of the *By-Laws* as well as any other rule of the Company's Corporate Governance System.
- (g) Implement the resolutions regarding shareholder remuneration referred to in item numbers seven to ten of the agenda, in accordance with the provisions of the *Shareholder Remuneration Policy*.
- (h) Register with the Commercial Registry the resolutions regarding the composition of the Board of Directors referred to in item numbers twelve to seventeen of the agenda.
- (i) Manage the payment of the attendance bonus and decide on the payment thereof to the owners of shares not included in the list of attendees due to reasons beyond their control, and if in doubt make the appropriate decisions to preserve the rights of the shareholders relating to the General Shareholders' Meeting.
- (j) In compliance with the provisions of article 16 of the *Regulations for the General Shareholders' Meeting*, donate the remaining promotional materials or symbolic gifts delivered to promote the maximum participation of the shareholders at the General Meeting to a non-profit organisation or use them for any other social-welfare purpose they deem appropriate.
- (k) In accordance with the provisions of the Company's *Sustainable Management Policy*, obtain and become aware of the opinion and expectations of the shareholders and other stakeholders affected by the General Shareholders' Meeting regarding the organisation of the event and, if applicable, identify opportunities for improvement for the holding of subsequent meetings.
- (l) Determine all other circumstances that may be required, adopt and implement the necessary resolutions, publish the notices and provide the guarantees that may be required for the purposes established by law, as well as formalise the required documents, carry out all necessary proceedings and comply with all requirements under the law for the full effectiveness of the resolutions adopted by the shareholders at this General Shareholders' Meeting.
- (m) Replace all or some of the powers enumerated in this resolution and give those expressly granted thereto by the shareholders at this General Shareholders' Meeting in the resolutions adopted under the foregoing items on the agenda, to the extent allowed by law, to the persons they deem appropriate.



**General Shareholders'
Meeting
/ 2019**

Report of the Board of
Directors
Proposed amendments
of the By-Laws



REPORT OF THE BOARD OF DIRECTORS OF IBERDROLA, S.A. REGARDING THE PROPOSED AMENDMENTS OF THE BY-LAWS INCLUDED IN ITEMS NUMBER FIVE AND SIX ON THE AGENDA FOR THE 2019 GENERAL SHAREHOLDERS' MEETING

1. Object of the Report

This report has been prepared by the Board of Directors of IBERDROLA, S.A. ("Iberdrola" or the "Company") pursuant to the provisions of section 286 of the *Companies Act (Ley de Sociedades de Capital)*, in order to provide a rationale for the proposed amendments of the *By-Laws* included in items number five and six on the agenda.

Pursuant to such section, the Board of Directors has prepared this report setting forth the purpose of and rationale for the proposed by-law amendments, attaching such proposed amendments below.

In addition, in order to provide the shareholders with a clear view of the scope of the amendment and a comparison between the new text of the articles proposed to be amended and the text currently in effect, attached to this report as an annex is a verbatim transcription of both texts organised in a two-column table, for information purposes. The text contained in the right-hand column shows the changes proposed to be made to the text currently in force, which is contained in the left-hand column.

2. Purpose of and Rationale for the Proposals

The amendment submitted to the shareholders for approval at the General Shareholders' Meeting seeks to achieve several aims: to reflect the purpose and values of the Iberdrola group, to formalise its commitment to the Sustainable Development Goals approved by the United Nations (the "SDGs"), to update the references to the Corporate Social Responsibility Committee, which is now called the Sustainable Development Committee, and to introduce improvements to the text using inclusive language.

The purpose of each of such amendments and a detailed description of the rationale therefor are set forth in the sections below.

2.1 The purpose and values of the Iberdrola group

The future entails challenges and opportunities. A distinctive feature of the Iberdrola group has historically been its record of growth and anticipation of the energy needs of society through the adoption of solutions that preserve the environment for future generations.

It is along this path that Iberdrola has become a world leader in renewable energy. In particular, over the last 15 years, the Company has undertaken a profound transformation, decisively getting ahead of the energy transition in order to face the challenges posed by climate change and the need for clean electricity.

Iberdrola has thus attained a position built upon strong values, through an integration process involving contributions from different cultures on both sides of the Atlantic, held together by a *raison d'être*, a purpose.

The main objective of the by-law amendment submitted to the shareholders for approval at the General Shareholders' Meeting is to formalise such purpose, which is the product of deep reflection about the reasons why Iberdrola exists and why it does what it does.

Cemented by a history of business success, this process of reflection looks to the challenges and opportunities presented by the future of the energy industry, which is undergoing continuous change based on three main pillars: technological progress, decarbonisation and electrification, and an increase in customer connectivity. Iberdrola is convinced that this transformation process must necessarily lead to a change in the energy model. A better model: healthier, more accessible and based on electricity.

The Iberdrola group is aware of the need for this change, and also of the need to tackle it in collaboration with all of its stakeholders.

Such change is the purpose pursued by the Iberdrola group: "to continue building together each day a healthier, more accessible energy model, based on electricity".

This purpose, in line with the provisions of the *General Sustainable Development Policy* and with the strategic pillars underlying the "Outlook 2018-2022", expresses:

- The Iberdrola group's commitment to what today constitutes an urgent social need: the transformation of the current energy model towards a new model that prioritises the well-being of people and the preservation of the planet.
- The commitment to a real and global energy transition based on decarbonisation and electrification of the energy sector and of the economy as a whole, decidedly contributes to the fight against climate change, and at the same time favours the creation of new opportunities for economic, social and environmental development.



- Foresight. The fact that Iberdrola has spent more than a decade working to make this transformation a reality, driving the development of clean energy throughout the world, and that it continues to invest its resources to reach the objectives of the Paris Agreement.
- The Iberdrola group's determination to continue building a more electricity-based energy model, which abandons the use of fossil fuels and generalises the use of renewable energy sources, the efficient storage of energy, smart grids and digital transformation.
- The conviction that a more electricity-based energy model is also healthier for people, whose health and well-being in the short term depend to a large extent on the environmental quality of their surroundings (air, water, food, biodiversity, etc.), and in the long term to the success of the fight against climate change.
- The Iberdrola group's aspiration for the new energy model to be not only more electricity-based and healthy, but also more accessible to all, thus favouring inclusiveness, equality, equity and social development.
- The Iberdrola group's desire to continue building this new model in collaboration with all involved players, pursuant to the provisions of the *Stakeholder Relations Policy*.

This corporate purpose is also aligned with the Iberdrola group's commitment to the shared creation of value and the generation of a social dividend, its sustainable development and corporate social responsibility strategy, and thus the 2030 Agenda and the Sustainable Development Goals (SDGs) approved by the United Nations.

This is a shared proposal, to which Iberdrola contributes with its activities and which is based on three key values, which inspire and guide its strategy and all of its actions, which are common to all companies making up the Iberdrola group:

- Sustainable energy:

The first of the three new values, sustainable energy, is explained by the Iberdrola group's desire to always be a model of inspiration, creating economic, social and environmental value throughout its environment and thinking about the future, which is given shape in the Company's sustainable development policies and in its entire corporate social responsibility strategy.

This value also expresses the commitment to responsibility, ethics, safety and transparency.

In this regard, the value of sustainable energy seeks to express the idea that the Iberdrola group and all of its professionals act responsibly towards people, communities and the environment, committed to Iberdrola's sustainable development strategy, seeking maximisation of the social dividend generated by the group's activities and businesses, from which all of its stakeholders benefit.

- Integrating force:

The second of the values is made up of the integrating force. This means to express the force and responsibility of the group, which works to involve all of its stakeholders in accordance with the provisions of the *Stakeholder Relations Policy* and its strategy in this area.

This value, which expresses the commitment to diversity, dialogue, empathy and solidarity, attempts to reflect the Iberdrola group's aspiration for all of its professionals to form a diverse team united around a common purpose, which works without geographic, cultural or operational barriers, which shares talent, knowledge and information, and which has a global, long-term vision. This second value also links the group's *Human Resources Framework Policy* to its talent recruitment and management strategy.

- Driving force:

The third of the values is the driving force, which reflects the innovative commitment of the Iberdrola group, seeking to make into a reality small and large changes that make life easier for people, being efficient and self-demanding, always seeking continuous improvement, and which expresses the commitment to other values like simplicity, agility and foresight.

The value of driving force seeks to express the non-conformist attitude that the Iberdrola group expects from its professionals, the constant pursuit of excellence and opportunities for improvement, embracing change and new ideas, as well as the desire to learn from mistakes and make progress based on feedback to their actions, staying ahead of the customers' needs

The value of driving force is also consistent with the fact that the Iberdrola group favours work organisation and information exchange processes that are simple, agile and efficient and which make good use of technology.

In order to include the purpose and the corporate values within the *By-Laws* of the Company, expressly acknowledge the regulatory nature thereof and update the references therein to the *Mission, Vision and Values of the Iberdrola group*, which after the approval by the Board of Directors of the Amendment of the provision on 19 February 2019, is now called the *Purpose and Values of the Iberdrola group*, it is proposed to amend the preamble



and articles 4, 6, 8 and 32 of the *By-Laws*. Various technical improvements are also included in the text of article 4 in order to make the regulation of the group's corporate structure more flexible.

2.2 Formalisation of the Iberdrola group's commitment to the SDGs

Secondly, the amendment of the *By-Laws* is aimed at formalising the Iberdrola group's commitment to the SDGs.

Consistently with its activities, the Iberdrola group focuses its efforts on the supply of affordable and clean energy (SDG number seven) and on climate action (SDG number thirteen), for which purpose it has designed a specific plan of long-term incentives. In addition, the group contributes directly to ensuring the availability of clean water and sanitation (SDG number six), has increased its investments in R&D+i (SDG number nine), promotes respect for terrestrial ecosystems (SDG number fifteen) and works on the establishment of partnerships to achieve the goals (SDG number seventeen).

Iberdrola also contributes in an indirect manner to the other SDGs, the achievement of which it supports and whose underlying principles guide all of its activities. The Iberdrola group's contribution to the social and economic development of the communities in which it does business and to the protection of the environment is channelled through its sustainable energy business model and translates into the social dividend generated.

On 23 October 2018, the Board of Directors of Iberdrola approved a wide-ranging reform of its Corporate Governance System in order to include the SDGs in its business strategy and its internal regulations.

As a culmination point in this reform process, it is proposed to amend the preamble and article 7 of the *By-Laws* in order to include the Iberdrola group's commitment to the achievement of the SDGs at the highest rule-making level.

2.3 Reflecting the change of name of the Corporate Social Responsibility Committee, which is now called the Sustainable Development Committee

At the meeting held on 23 October, the Board of Directors also decided to change the name of the Corporate Social Responsibility Committee, which was thereafter called the Sustainable Development Committee. In so doing, the Iberdrola group wished to emphasise its commitment to the SDGs and to the group's sustainable development strategy.

In order to ensure the proper internal consistency of the Corporate Governance System, in which the *By-Laws* are the fundamental set of regulations, it is proposed to amend articles 37 and 41 of the *By-Laws* by updating the references to the Corporate Social Responsibility Committee.

2.4 Other wording improvements

Lastly, it is proposed to insert other wording improvements using inclusive language. The amendments proposed for this purpose affect the preamble and articles 6, 7, 8, 22, 32, 33, 34 and 49, as described in the annex to this report.

3. Layout of Proposed Amendments

To facilitate the proper exercise of voting rights by the shareholders, pursuant to the provisions of section 197 *bis* of the *Companies Act* and article 40.1 of the *Regulations for the General Shareholders' Meeting*, the amendments of the preamble and of articles 4, 6, 7, 8, 22, 32, 33, 34 and 49 of the *By-Laws* is submitted for the approval of the shareholders at the General Shareholders' Meeting grouped into a single item on the agenda (item number five on the agenda), given that all of them share the same ends: to reflect the purpose and values of the Iberdrola group, to formalise its commitment to the SDGs and to improve the text using inclusive language.

Furthermore, the amendments of articles 37 and 41 of the *By-Laws* to update the references to the Corporate Social Responsibility Committee, which since October 2018 has been called the Sustainable Development Committee, are submitted to joint voting (item number six on the agenda) that is separate from those set out in the preceding item.

4. Proposed Resolutions Submitted to the Shareholders at the General Shareholders' Meeting

The proposed resolutions submitted to the shareholders for approval at the General Shareholders' Meeting read as follows:

"ITEM NUMBER FIVE ON THE AGENDA

Amendment of the preamble and articles 4, 6, 7, 8, 22, 32, 33, 34 and 49 of the By-Laws in order to reflect the purpose and values of the Iberdrola group, formalise its commitment to the Sustainable Development Goals (SDGs) approved by the United Nations and improve the text using inclusive language.

RESOLUTION

To amend the preamble and articles 4, 6, 7, 8, 22, 32, 33, 34 and 49 of the By-Laws in order to reflect the purpose and values of the Iberdrola group, formalise its commitment to the Sustainable Development Goals (SDGs) approved by the



United Nations and improve the text using inclusive language. The preamble and said articles shall hereafter read as follows:

"PREAMBLE

Organised in 1901, Iberdrola represents a business model built on a purpose and certain values, the common denominator and main engine of which is a commitment to the creation of sustainable value in the performance of all of its activities for its professionals, suppliers and shareholders, the people to whom it supplies energy, society and other stakeholders.

These By-Laws constitute the core of its internal system of rules. Pursuant to the corporate autonomy recognised by law, they govern the company contract that all shareholders accept upon acquiring such status and lay the foundations and principles determining the governance of Iberdrola as the controlling entity of a multinational entity group.

The By-Laws go much beyond the content required by law and what is customary for listed companies in that they define in their preliminary title the foundations of Iberdrola as an independent, open holding company of an international industrial group, which is decentralised and committed to a purpose and values, as well as the Sustainable Development Goals (SDGs) approved by the United Nations. The By-Laws also recognise the fact that Iberdrola, due to its size and importance, constitutes an institutional reality, a focal point for many stakeholders and for the economic and social environment in which it does business.

The text of these By-Laws is inspired by the Iberdrola group's purpose, to continue building together each day a healthier, more accessible energy model, based on electricity, as well as by its corporate values: sustainable energy, integrating force and driving force. The purpose and values of the Iberdrola group constitute its corporate philosophy, the ideological and axiological foundation on which its own business enterprise is based, the set of ideas, values and principles that inspire the organisation and conduct of Iberdrola and its group, guide the realisation of its object and specify and give substance to the corporate interest.

The regulatory nature of the purpose and values of the Iberdrola group is expressly recognised in the preliminary title of the By-Laws, at the top of its internal rules, as they are called upon to guide the application and interpretation thereof (always in accordance with applicable law), to govern the day-to-day activities of the Company, to channel its leadership role in its various areas of activity and to guide its sustainable development strategy and the ethical behaviour of all personnel participating in the daily construction of Iberdrola's business enterprise.

In turn, these By-Laws, approved by the shareholders of the Company at a General Shareholders' Meeting, the maximum governance body through which the people holding the legitimate ownership of Iberdrola express their desire, are the basis on which the Company has built its Corporate Governance System, a regulatory structure that ensures the effective articulation of the corporate purpose and values of the Iberdrola group in the form of a true regulatory system. As such, it is subject to continuous review and update in order to immediately conform to regulatory changes and to the most stringent international standards.

The Corporate Governance System makes up a business model that combines a decentralised decision-making structure, inspired by the principle of subsidiarity, with robust coordination mechanisms ensuring the global integration of all of the group's businesses, all on the basis of an effective system of checks and balances that prevents the centralisation of power within a single governance body or a single person.

To the extent applicable thereto, Iberdrola's By-Laws and the other provisions of its Corporate Governance System bind its shareholders, the members of the Board of Directors, senior management and other professionals, as well as any persons validly linked thereto on a general basis. All have the duty to comply with them, as well as the right to demand compliance therewith."

"Article 4. The Iberdrola Group

1. *The Company is configured as a listed holding company and is the controlling entity of a multinational group of companies (the "Group").*
2. *The corporate and governance structure of the Group is defined based on the following:*
 - a) *The Company has duties relating to the establishment, supervision, and implementation of the policies and strategies of the Group, of the basic guidelines for the management thereof, and of decisions on matters of strategic importance at the Group level, as well as the design of the Corporate Governance System.*



- b) *Country subholding companies group together equity stakes in the Group's head of business companies and perform the duty of organisation and coordination in relation to the countries and/or businesses that the Company's Board of Directors decides, disseminating, implementing and ensuring compliance with the policies, strategies and general guidelines of the Group based on the characteristics and unique aspects of their respective countries and/or businesses.*

The listed country subholding companies of the Group enjoy a special framework of strengthened autonomy that contemplates the measures that are appropriate to safeguard the interests of the minority shareholders of said companies.

- c) *Finally, the head of business companies of the Group are in charge of the day-to-day administration and effective management of each of the Group's businesses within one or more countries, and of the day-to-day control thereof.*
3. *All companies of the Group share the same corporate interest as well as an identical purpose, corporate values and ethical principles."*

"Article 6. Corporate Interest

The Company conceives of the corporate interest as the common interest of all persons owning shares of an independent company focused on the sustainable creation of value by engaging in the activities included in its corporate object, taking into account other stakeholders related to its business activity and its institutional reality, in accordance with the Purpose and Values of the Iberdrola group.

Article 7. Social Dividend

1. *The Company conceives of the social dividend as the sustainable creation of value for all stakeholders affected by the activities of the Group, the advancement of business communities which the Company participates in and leads, both from the economic viewpoint and from the perspective of business ethics, the promotion of equality and justice, the encouragement of innovation and protection of the environment, as well as through the generation of quality employment and leadership in the fight against climate change.*
2. *The social dividend measures the direct, indirect and induced impacts of all of the Company's activities in the economic, social and environmental areas, and particularly its contribution to the Sustainable Development Goals (SDGs) approved by the United Nations.*
3. *Through its sustainable development strategy, the Company causes all of its stakeholders to participate in the social dividend generated by its activities, sharing the created value with them.*

Article 8. Applicable Legal Provisions and Corporate Governance System

1. *The Company is governed by the legal provisions relating to listed companies and other applicable laws and regulations, as well as by its Corporate Governance System.*
2. *The Corporate Governance System is the Company's internal system of rules, which is configured in accordance with applicable law in the exercise of corporate autonomy supported thereby and applies to the entire Group. It is intended to ensure through rule-making the best development of the corporate contract that binds its shareholders, and especially the corporate object, the corporate interest and the social dividend, as defined in the preceding articles.*
3. *The Company's Corporate Governance System is made up of these By-Laws, the Purpose and Values of the Iberdrola group, the Code of Ethics, the corporate policies and the other governance and compliance rules.*
4. *The Purpose and Values of the Iberdrola group set out its raison d'être, the ideological and axiological foundation of its business enterprise, which, due to its size and the importance, is a focal point for many stakeholders and for the economic and social environment in which its component entities do business.*
5. *The Purpose and Values of the Iberdrola group also inspires and takes form in the corporate policies and in the other rules of the Corporate Governance System, governing the day-to-day activities of all entities of the Group and guiding their strategy and all of their actions.*
6. *The shareholders acting at a General Shareholders' Meeting and the Board of Directors of the Company, within their respective purview, develop, apply, and interpret the rules making up the Corporate Governance System in*



order to ensure compliance at all times with the purposes thereof and, particularly, the fulfilment of the corporate interest.

7. *Full or summarised versions of the rules making up the Corporate Governance System can be viewed on the Company's corporate website."*

"Article 22. Right to Attend

1. *The holders of at least one voting share may attend the General Shareholders' Meeting and take part in deliberations thereof, with the right to be heard and to vote.*
2. *The General Shareholders' Meeting may be attended by going to the place where the meeting is held or, if so indicated in the call to meeting, to other places provided for such purpose by the Company and that are connected with the principal meeting place by systems that allow recognition and identification of the parties attending, permanent communication among the attendees regardless of their location, and participation and voting, all in real time. Attendees at any of such places shall be considered to be attendees at the same individual meeting, which shall be deemed to have been held at the principal location thereof.*
3. *In order to exercise the right to attend, shareholders must cause the shares to be registered in their name in the corresponding book-entry register at least five days prior to the day on which the General Shareholders' Meeting is to be held.*
4. *The chair of the General Shareholders' Meeting may authorise the attendance of executive personnel, professionals of the companies of the Group and other persons related to the Company. The chair may also grant access to the media, to financial analysts, and to any other person the chair deems appropriate, as well as authorise the simultaneous or delayed broadcast thereof, although the shareholders acting thereat may revoke such authorisation."*

"Article 32. Powers of the Board of Directors

1. *The Board of Directors has the power to adopt resolutions regarding all matters not assigned by law or the Corporate Governance System to the shareholders acting at a General Shareholders' Meeting.*
2. *Although the Board of Directors has the broadest powers and authority to manage and represent the Company, as a general rule of good governance, the Board of Directors shall focus its activities, pursuant to the Corporate Governance System, on the definition and supervision of the general guidelines to be followed by the Company and the Group, attending to the following matters, among others:*
 - a) *Establish, within legal limits, the policies, strategies, and guidelines of the Group, entrusting to the decision-making bodies and the management of the head of business companies of the Group the duties of day-to-day administration and effective management of each of the businesses thereof.*
 - b) *Supervise the general development of the aforementioned policies, strategies, and guidelines by the country subholding companies and by the head of business companies of the Group, establishing appropriate mechanisms of coordination and exchange of information in the interest of the Company and of the companies belonging thereto.*
 - c) *Decide on matters of strategic importance at the Group level.*
3. *The Board of Directors shall generally entrust to its chairman, to the chief executive officers and to senior management the dissemination, coordination and general implementation of the Group's management guidelines, acting in furtherance of the interests of each and every one of the companies belonging thereto.*
4. *The Board of Directors shall design, evaluate and review the Corporate Governance System on an ongoing basis. It shall approve the Purpose and Values of the Iberdrola group and shall pay special attention to the approval and updating of the Corporate Policies, which further develop the principles reflected in these By-Laws and in the other provisions of the Corporate Governance System and codify the guidelines that should govern the activities of the Company, its shareholders, and the Group.*
5. *The Regulations of the Board of Directors shall specify the powers reserved to such body, which may not be entrusted to the representative decision-making bodies or to the senior management of the Company.*



Article 33. Composition of the Board of Directors and Appointment of Directors

1. *The Board of Directors shall be composed of a minimum of nine and a maximum of fourteen directors, who shall be appointed or ratified by the shareholders acting at a General Shareholders' Meeting, subject to the provisions of law and the requirements established by the Corporate Governance System.*
2. *The determination of the number of directors shall be within the purview of the shareholders acting at a General Shareholders' Meeting, for which purpose the shareholders may establish such number either by express resolution or indirectly through the filling or non-filling of vacancies or the appointment of new directors within the aforesaid minimum and maximum numbers.*
3. *The following may not be appointed as directors or as individuals representing a corporate director:*
 - a) *Domestic or foreign companies competing with the Company in the energy industry or other industries, or the directors or members of senior management thereof, or such persons, if any, as are proposed by them in their capacity as shareholders.*
 - b) *Individuals or legal entities serving as directors in more than three companies with shares trading on domestic or foreign stock exchanges.*
 - c) *Persons who, during the two years prior to their appointment, have occupied high-level positions in Spanish government administrations that are incompatible with the simultaneous performance of the duties of a director of a listed company under Spanish national or autonomous community law, or positions of responsibility with entities regulating the energy industry, the securities markets or other industries in which the Group operates.*
 - d) *Individuals or legal entities that are under any other circumstance of disqualification or prohibition governed by provisions of a general nature, including those that have interests in any way opposed to those of the Company or the Group.*
4. *The appointment, ratification, re-election and removal of directors must comply with the provisions of law and the Corporate Governance System. Resolutions proposed to the shareholders at a General Shareholders' Meeting regarding the appointment, ratification and re-election of directors must be accompanied by a report providing the rationale for the proposal.*

Article 34. Types of Directors

1. *Those directors who perform management duties within the Company or its Group, whatever the legal relationship they maintain, shall be deemed executive directors.*
2. *All other directors of the Company, whether proprietary, independent or other external, shall be deemed non-executive directors:*
 - a) *Proprietary directors: those directors who own a shareholding interest that is equal to or greater than that legally regarded as significant at any time, or who have been appointed owing to their status as shareholders, even if their shareholding interest does not reach such amount, as well as those representing the shareholders described above. However, if any of such directors at the same time performs management duties within the Company or the Group, such director shall be deemed an executive director.*
 - b) *Independent directors: those directors who, having been appointed because of their personal and professional qualities, may carry out their duties without being constrained by relationships with the Company or its Group, its significant shareholders, its management personnel or with the other directors. Directors who have been independent directors for a continuous period of more than twelve years cannot be deemed to be independent directors.*
 - c) *Other external directors: those non-executive directors who do not have the characteristics to be deemed proprietary or independent directors.*

The Regulations of the Board of Directors may further elaborate upon and develop these concepts within the framework established by law.

3. *The Board of Directors shall ensure that a majority of its members are independent directors. This instruction, as well as those set forth in these By-Laws and in the Regulations of the Board of Directors regarding the composition of the committees of the Board of Directors, shall be mandatory for such body, which must follow them in the exercise of its powers to propose appointments and re-elections of directors to the shareholders at a General Shareholders' Meeting and to make interim appointments of directors to cover vacancies and in*



appointing members of the committees of the Board of Directors, and merely constitute guidance for the shareholders.

- 4. A rationale for the status of each director shall be given by the Board of Directors to the shareholders at the General Shareholders' Meeting at which the appointment thereof must be made or ratified or the re-election thereof approved, and shall be maintained or, if applicable, modified in the Annual Corporate Governance Report, after a report from the Appointments Committee."*

"Article 49. Powers of Information and Inspection

- 1. A director shall have the broadest powers to obtain information regarding any aspect of the Company, to examine its books, records, documents and other background information on corporate transactions, to inspect all of its facilities and to communicate with the members of senior management of the Company.*
- 2. The exercise of the aforementioned powers shall be channelled through the secretary of the Board of Directors, who shall act on behalf of the chairman thereof pursuant to the provisions of the Corporate Governance System."*

ITEM NUMBER SIX ON THE AGENDA

Amendment of articles 37 and 41 of the By-Laws to reflect the change in the name of the Corporate Social Responsibility Committee, which is now called the Sustainable Development Committee.

RESOLUTION

To amend articles 37 and 41 of the By-Laws to reflect the change in the name of the Corporate Social Responsibility Committee, which is called the Sustainable Development Committee after the reform of the Corporate Governance System approved by the Board of Directors on 23 October 2018. Said articles shall hereafter read as follows:

"Article 37. Committees of the Board of Directors

- 1. The Board of Directors must have an Audit and Risk Supervision Committee, an Appointments Committee, and a Remuneration Committee (or a single Appointments and Remuneration Committee), on a permanent basis.*
- 2. The Board of Directors may also have an executive committee, called the Executive Committee (Comisión Ejecutiva Delegada), a consultative committee called the Sustainable Development Committee, and may create any other consultative committees with the powers that the Board of Directors determines, all of a voluntary nature.*
- 3. The committees shall be governed by the provisions of the Corporate Governance System, including the specific regulations thereof, when available, which must be approved by the Board of Directors and, by way of supplement and to the extent not incompatible with the nature thereof, by the provisions regarding the operation of the Board of Directors."*

"Article 41. Sustainable Development Committee

- 1. If created, the Sustainable Development Committee shall be deemed an internal informational and consultative body without executive duties, with information, advisory and proposal-making powers within its scope of action.*
- 2. The Sustainable Development Committee shall be composed of a minimum of three and a maximum of five directors appointed by the Board of Directors upon a proposal of the Appointments Committee, from among the non-executive directors, and the majority thereof must be classified as independent.*
- 3. The Board of Directors shall appoint a chair of the Sustainable Development Committee from among the independent directors forming part thereof, as well as its secretary, who need not be a director.*
- 4. The Sustainable Development Committee shall have the powers set forth in the Regulations of the Board of Directors and in its own regulations."*

In Bilbao, on 19 February 2019.



ANNEX

BY-LAWS

PREAMBLE

Organised in 1901, Iberdrola represents a business model built on a mission, a vision, and certain values, the common denominator and main engine of which is a commitment to the sustainable creation of value in the performance of all of its activities for society, its professionals, its customers, its suppliers, its shareholders, and its other stakeholders.

These *By-Laws*, approved by the shareholders acting at a General Shareholders' Meeting of the Company, the highest governance body through which the legitimate owners of Iberdrola express their will, constitute the core of its internal rules, and pursuant to the corporate autonomy recognised by law, governs the company contract that all shareholders accept upon acquiring their status as such, that binds them in their capacity as such, and that lays the foundations and principles determining the governance of Iberdrola as the controlling entity of a multinational entity group.

The *By-Laws* go much beyond the content required by law and what is customary for listed companies in that they define in their preliminary title the foundations of Iberdrola as an independent, open holding company of an international industrial group, which is decentralised and committed to a mission, a vision, and values, as well as a clear strategy to maximise its social dividend. *The By-Laws* also recognise the fact that Iberdrola, due to its size and importance, constitutes an institutional reality, a focal point for many stakeholders and for the economic and social environment in which it does business.

The text thereof is inspired by the *Mission, Vision, and Values of the Iberdrola group*, which governs the day-to-day activities of the Company, channels its leadership role in its various areas of activity, drives its strategy of maximising the social dividend, and guides the ethical behaviour of all personnel participating in the daily construction of Iberdrola's business enterprise.

The Mission of the Group is based on the sustainable creation of value in carrying out all of its activities, as the

BY-LAWS

PREAMBLE

Organised in 1901, Iberdrola represents a business model built on a ~~mission, a vision,~~purpose and certain values, the common denominator and main engine of which is a commitment to the ~~sustainable~~ creation of sustainable value in the performance of all of its activities for ~~society,~~ its professionals, ~~its customers,~~ ~~its suppliers,~~ ~~its~~ and shareholders, the people to whom it supplies energy, society and ~~its~~ other stakeholders.

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The text ~~thereof is inspired by the Mission, Vision, and Values of the Iberdrola group, which governs~~ of these By-Laws is inspired by the Iberdrola group's purpose, to continue building together each day a healthier, more accessible energy model, based on electricity, as well as by its corporate values: sustainable energy, integrating force and driving force. The purpose and values of the Iberdrola group constitute its corporate philosophy, the ideological and axiological foundation on which its own business enterprise is based, the set of ideas, values and principles that inspire the organisation and conduct of Iberdrola and its group, guide the realisation of its object and specify and give substance to the corporate interest.

The regulatory nature of the purpose and values of the Iberdrola group is expressly recognised in the preliminary title of the By-Laws, at the top of its internal rules, as they are called upon to guide the application and interpretation thereof (always in accordance with applicable law), to govern the day-to-day activities of the Company, ~~channels~~to channel its leadership role in its various areas of activity, ~~drives~~ and to guide its sustainable development strategy ~~of maximising the social dividend, and guides~~and the ethical behaviour of all personnel participating in the daily construction of Iberdrola's business enterprise.

~~The Mission of the Group is based on the sustainable creation of value in carrying out all of its activities, as the~~



leading multinational group in the energy sector providing a quality service through the use of environmentally-friendly energy sources, which engages in innovation, leads the process of digital transformation in its area of activity, and is committed to the fight against climate change through all of its business activities, with a social dividend and the generation of employment and wealth, considering its employees to be a strategic asset. Along these lines, Iberdrola fosters their development, training, and measures of reconciliation, favouring a good working environment and equal opportunity. All of the foregoing is within the framework of its strategy of social responsibility and compliance with tax rules.

The Mission is complemented, on the one hand, by a Vision contemplating an ambition to play the lead towards a better future, sustainably creating value with a quality service for the people and for the communities in which the Group does business, and on the other, by certain specific Values, which include the sustainable creation of value, respect for ethical principles, good corporate governance and transparency, development of its human resources, social commitment, encouragement of the stakeholders' sense of belonging, safety and reliability of supply, quality, innovation, respect for the environment, customer focus, and institutional loyalty.

In turn, these *By-Laws* are the basis on which the Company has built its Corporate Governance System, a regulatory structure that ensures the effective articulation of the principles set out in the *Mission, Vision, and Values of the Iberdrola group* in the form of a true regulatory system that is subject to continuous review and update in order to immediately conform to regulatory changes and to the most stringent international standards.

The Corporate Governance System makes up a business model that combines a decentralised decision-making structure, inspired by the principle of subsidiarity, with robust coordination mechanisms ensuring the global integration of all of the Group's businesses, all on the basis of an effective system of checks and balances that prevents the centralisation of power within a single governance body or a single person.

To the extent applicable thereto, Iberdrola's *By-Laws* and the other provisions of its Corporate Governance System bind its shareholders, directors, officers and other professionals, as well as any persons validly linked thereto on a general basis. All have the duty to comply with them, as well as the right to demand compliance therewith.

Article 4. The Iberdrola Group

1. The Company is configured as a listed holding company and is the controlling entity of a multinational group of companies (the "**Group**").
2. The corporate and governance structure of the Company is defined based on the following:
 - a) The Company has duties relating to the establishment, supervision, and implementation of the policies and strategies of the Group, of the basic guidelines for the management thereof, and of decisions on

~~leading multinational group in the energy sector providing a quality service through the use of environmentally-friendly energy sources, which engages in innovation, leads the process of digital transformation in its area of activity, and is committed to the fight against climate change through all of its business activities, with a social dividend and the generation of employment and wealth, considering its employees to be a strategic asset. Along these lines, Iberdrola fosters their development, training, and measures of reconciliation, favouring a good working environment and equal opportunity. All of the foregoing is within the framework of its strategy of social responsibility and compliance with tax rules.~~

~~The Mission is complemented, on the one hand, by a Vision contemplating an ambition to play the lead towards a better future, sustainably creating value with a quality service for the people and for the communities in which the Group does business, and on the other, by certain specific Values, which include the sustainable creation of value, respect for ethical principles, good corporate governance and transparency, development of its human resources, social commitment, encouragement of the stakeholders' sense of belonging, safety and reliability of supply, quality, innovation, respect for the environment, customer focus, and institutional loyalty.~~

In turn, these *By-Laws*, approved by the shareholders of the Company at a General Shareholders' Meeting, the maximum governance body through which the people holding the legitimate ownership of Iberdrola express their desire, are the basis on which the Company has built its Corporate Governance System, a regulatory structure that ensures the effective articulation of the principles set out in the *Mission, Vision, and Values* corporate purpose and values of the Iberdrola group in the form of a true regulatory system As such, it that is subject to continuous review and update in order to immediately conform to regulatory changes and to the most stringent international standards.

The Corporate Governance System makes up a business model that combines a decentralised decision-making structure, inspired by the principle of subsidiarity, with robust coordination mechanisms ensuring the global integration of all of the Group's businesses, all on the basis of an effective system of checks and balances that prevents the centralisation of power within a single governance body or a single person.

To the extent applicable thereto, Iberdrola's *By-Laws* and the other provisions of its Corporate Governance System bind its shareholders, directors, officers the members of the Board of Directors, senior management and other professionals, as well as any persons validly linked thereto on a general basis. All have the duty to comply with them, as well as the right to demand compliance therewith.

Article 4. The Iberdrola Group

1. The Company is configured as a listed holding company and is the controlling entity of a multinational group of companies (the "**Group**").
2. The corporate and governance structure of the Company Group is defined based on the following:
 - a) The Company has duties relating to the establishment, supervision, and implementation of the policies and strategies of the Group, of the basic guidelines for the management thereof, and of decisions on



matters of strategic importance at the Group level, as well as the design of the Corporate Governance System.

- b) The country subholding companies carry out the function of organisation and strategic coordination in those countries and at those businesses decided by the Company's Board of Directors.

These entities group together equity stakes in the energy head of business companies within the various countries in which the Group does business. The Group also has a country subholding company for the non-energy head of business companies, which do business in various countries.

Country subholding companies are responsible for disseminating, implementing, and ensuring compliance with the policies, strategies, and general guidelines of the Group in each of the countries in which it operates, taking into account the characteristics and unique aspects thereof.

The listed country subholding companies of the Group enjoy a special framework of strengthened autonomy that contemplates the measures that are appropriate to safeguard the interests of the minority shareholders of said companies.

- c) Finally, the head of business companies of the Group are in charge of the day-to-day administration and effective management of each of the Group's businesses within one or more countries, and of the day-to-day control thereof.

3. All companies of the Group share the same corporate interest as well as identical corporate values and ethical principles.

Article 6. Corporate Interest

The Company conceives of the corporate interest as the common interest of all shareholders of an independent company focused on the sustainable creation of value by engaging in the activities included in its corporate object, taking into account other stakeholders related to its business activity and its institutional reality, in accordance with the *Mission, Vision, and Values of the Iberdrola group*.

Article 7. Social Dividend

1. The Company conceives of the social dividend as the sustainable creation of value for all stakeholders affected by the activities of the Group in carrying out its businesses, the advancement of business communities which the Company participates in and leads, both from the economic viewpoint and from the perspective of business ethics, the promotion of

matters of strategic importance at the Group level, as well as the design of the Corporate Governance System.

- ~~b) The country subholding companies carry out the function of organisation and strategic coordination in those countries and at those businesses decided by the Company's Board of Directors.~~

~~These entities group together equity stakes in the energy head of business companies within the various countries in which the Group does business operates. The Group also has a country subholding company for the non-energy head of business companies, which do business in various countries.~~

- b) Country subholding companies are responsible for group together the equity stakes in the Group's head of business companies and carry out the function of organisation and coordination in relation to such countries and/or businesses as are decided by the Company's Board of Directors, disseminating, implementing, and ensuring compliance with the policies, strategies, and general guidelines of the Group ~~in each of the countries in which it operates, taking into account~~ based on the characteristics and unique aspects ~~thereof~~ of their respective countries and/or businesses.

The listed country subholding companies of the Group enjoy a special framework of strengthened autonomy that contemplates the measures that are appropriate to safeguard the interests of the minority shareholders of said companies.

- c) Finally, the head of business companies of the Group are in charge of the day-to-day administration and effective management of each of the Group's businesses within one or more countries, and of the day-to-day control thereof.

3. All companies of the Group share the same corporate interest as well as identical purpose, corporate values and ethical principles.

Article 6. Corporate Interest

The Company conceives of the corporate interest as the common interest of all ~~shareholders~~ persons owning shares of an independent company focused on the sustainable creation of value by engaging in the activities included in its corporate object, taking into account other stakeholders related to its business activity and its institutional reality, in accordance with the ~~Mission, Vision,~~ Purpose and Values of the Iberdrola group.

Article 7. Social Dividend

1. The Company conceives of the social dividend as the sustainable creation of value for all stakeholders affected by the activities of the Group ~~in carrying out its businesses~~, the advancement of business communities which the Company participates in and leads, both from the economic viewpoint and from the perspective of business ethics, the promotion of



equality and justice, the encouragement of innovation and protection of the environment, as well as through the generation of quality employment, its strategy of social responsibility, and its effort in the fight against climate change.

2. The Company is conscious of the importance of the social dividend for all of the communities in which the Group is present. Maximisation of the social dividend and the Company's commitment to the sustainable creation of value, ethical principles, transparency and good corporate governance, the development of its human resources, social commitment, a sense of belonging, safety and reliability, quality, innovation, protection of the environment, customer focus, and institutional loyalty are key values that the Board of Directors takes into account in order to define the strategy of the Group.

Article 8. Applicable Legal Provisions and Corporate Governance System

1. The Company is governed by the legal provisions relating to listed companies and other applicable laws and regulations, as well as by its Corporate Governance System.
2. The Corporate Governance System is the Company's internal system of rules, which is configured in accordance with applicable law in the exercise of corporate autonomy supported thereby and applies to the entire Group. It is intended to ensure through rule-making the best development of the corporate contract that binds its shareholders, and especially the corporate object and the corporate interest, as defined in the preceding articles.
3. The Corporate Governance System is made up of these *By-Laws*, the *Mission, Vision, and Values of the Iberdrola group*, the *Corporate Policies*, the governance rules of the corporate decision-making bodies and other internal committees, and the codes, regulations, and procedures making up and elaborating upon the Company's regulatory compliance system.
4. The *Mission, Vision, and Values of the Iberdrola group* constitutes the corporate philosophy of the Company, contains the ideological and axiological foundation upon which its business enterprise is based, and expresses a desire to optimise its corporate and institutional reality, in the awareness that, due to its size and the importance of its activities, it is a focal point for many stakeholders and for the economic and social environment in which its companies do business.
5. The *Mission, Vision, and Values of the Iberdrola*

equality and justice, the encouragement of innovation and protection of the environment, as well as through the generation of quality employment, ~~its strategy of social responsibility, and its effort~~ and leadership in the fight against climate change.

2. ~~The Company is conscious of the importance of the social dividend for all of the communities in which the Group is present. Maximisation of the social dividend and the Company's commitment to the sustainable creation of value, ethical principles, transparency and good corporate governance, the development of its human resources, social commitment, a sense of belonging, safety and reliability, quality, innovation, protection of the environment, customer focus, and institutional loyalty are key values that the Board of Directors takes into account in order to define the strategy of the Group.~~ social dividend measures the direct, indirect and induced impacts of all of the Company's activities in the economic, social and environmental areas, and particularly its contribution to the Sustainable Development Goals (SDGs) approved by the United Nations.
3. Through its sustainable development strategy, the Company causes all of its stakeholders to participate in the social dividend generated by its activities, sharing the created value with them.

Article 8. Applicable Legal Provisions and Corporate Governance System

1. The Company is governed by the legal provisions relating to listed companies and other applicable laws and regulations, as well as by its Corporate Governance System.
2. The Corporate Governance System is the Company's internal system of rules, which is configured in accordance with applicable law in the exercise of corporate autonomy supported thereby and applies to the entire Group. It is intended to ensure through rule-making the best development of the corporate contract that binds its shareholders, and especially the corporate object ~~and~~, the corporate interest and the social dividend, as defined in the preceding articles.
3. The Company's Corporate Governance System is made up of these *By-Laws*, the ~~Mission, Vision, Purpose~~ Mission, Vision, Purpose and *Values of the Iberdrola group*, the ~~Corporate Policies, the governance rules of Code of Ethics, the corporate decision-making bodies policies~~ Corporate Policies, the governance rules of Code of Ethics, the corporate ~~decision-making bodies policies~~ and the other ~~internal committees, and the codes, regulations, and procedures making up and elaborating upon the Company's regulatory governance and compliance system~~ rules.
4. The ~~Mission, Vision, Purpose~~ Mission, Vision, Purpose and *Values of the Iberdrola group* ~~constitutes the corporate philosophy of the Company, contains~~ set out its raison d'être, the ideological and axiological foundation ~~upon which~~ of its business enterprise ~~is based, and expresses a desire to optimise its corporate and institutional reality, in the awareness that, which~~, due to its size and the importance ~~of its activities~~, it is a focal point for many stakeholders and for the economic and social environment in which its ~~companies~~ component entities do business.
5. The ~~Mission, Vision, Purpose~~ Mission, Vision, Purpose and *Values of the*



group inspires and takes form in the Corporate Policies and in the other rules of the Corporate Governance System, governing the day-to-day activities of all companies of the Group and guiding their strategy and all of their actions.

6. The Board of Directors has approved a *Code of Ethics* that further develops the bylaw-mandated commitment of the Company to the *Mission, Vision, and Values of the Iberdrola group* and ethical principles.
7. Full or summarised versions of the rules making up the Corporate Governance System can be viewed on the Company's corporate website.
8. The shareholders acting at a General Shareholders' Meeting and the Board of Directors of the Company, within their respective purview, develop, apply, and interpret the rules making up the Corporate Governance System in order to ensure compliance at all times with the purposes thereof and, particularly, the fulfilment of the corporate interest.

Article 22. Right to Attend

1. The holders of at least one voting share may attend the General Shareholders' Meeting and take part in deliberations thereof, with the right to be heard and to vote.
2. The General Shareholders' Meeting may be attended by going to the place where the meeting is held or, if so indicated in the call to meeting, to other places provided for such purpose by the Company and that are connected with the principal meeting place by systems that allow recognition and identification of the parties attending, permanent communication among the attendees regardless of their location, and participation and voting, all in real time. Attendees at any of such places shall be considered to be attendees at the same individual meeting, which shall be deemed to have been held at the principal location thereof.
3. In order to exercise the right to attend, shareholders must cause the shares to be registered in their name in the corresponding book-entry register at least five days prior to the day on which the General Shareholders' Meeting is to be held.
4. The chair of the General Shareholders' Meeting may authorise the attendance of officers, employees, and other persons related to the Company. The chair may also grant access to the media, to financial analysts, and to any other person the chair deems appropriate, as well as authorise the simultaneous or delayed broadcast thereof, although the shareholders acting thereat may revoke such authorisation.

Article 32. Powers of the Board of Directors

1. The Board of Directors has the power to adopt resolutions regarding all matters not assigned by law

Iberdrola group also inspires and takes form in the ~~Corporate Policies~~ corporate policies and in the other rules of the Corporate Governance System, governing the day-to-day activities of all ~~companies~~ entities of the Group and guiding their strategy and all of their actions.

- ~~6. The Board of Directors has approved a Code of Ethics that further develops the bylaw-mandated commitment of the Company to the Mission, Vision, and Values of the Iberdrola group and ethical principles.~~
- ~~7. Full or summarised versions of the rules making up the Corporate Governance System can be viewed on the Company's corporate website.~~
6. ~~8.~~ The shareholders acting at a General Shareholders' Meeting and the Board of Directors of the Company, within their respective purview, develop, apply, and interpret the rules making up the Corporate Governance System in order to ensure compliance at all times with the purposes thereof and, particularly, the fulfilment of the corporate interest.

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2. The General Shareholders' Meeting may be attended by going to the place where the meeting is held or, if so indicated in the call to meeting, to other places provided for such purpose by the Company and that are connected with the principal meeting place by systems that allow recognition and identification of the parties attending, permanent communication among the attendees regardless of their location, and participation and voting, all in real time. Attendees at any of such places shall be considered to be attendees at the same individual meeting, which shall be deemed to have been held at the principal location thereof.
3. In order to exercise the right to attend, shareholders must cause the shares to be registered in their name in the corresponding book-entry register at least five days prior to the day on which the General Shareholders' Meeting is to be held.
4. The chair of the General Shareholders' Meeting may authorise the attendance of ~~officers, employees,~~ executive personnel, professionals of the companies of the Group and other persons related to the Company. The chair may also grant access to the media, to financial analysts, and to any other person the chair deems appropriate, as well as authorise the simultaneous or delayed broadcast thereof, although the shareholders acting thereat may revoke such authorisation.

Article 32. Powers of the Board of Directors

1. The Board of Directors has the power to adopt resolutions regarding all matters not assigned by law



- or the Corporate Governance System to the shareholders acting at a General Shareholders' Meeting.
2. Although the Board of Directors has the broadest powers and authority to manage and represent the Company, as a general rule of good governance, the Board of Directors shall focus its activities, pursuant to the Corporate Governance System, on the definition and supervision of the general guidelines to be followed by the Company and the Group, attending to the following matters, among others:
 - a) Establish, within legal limits, the policies, strategies, and guidelines of the Group, entrusting to the decision-making bodies and the management of the head of business companies of the Group the duties of day-to-day administration and effective management of each of the businesses thereof.
 - b) Supervise the general development of the aforementioned policies, strategies, and guidelines by the country subholding companies and by the head of business companies of the Group, establishing appropriate mechanisms of coordination and exchange of information in the interest of the Company and of the companies belonging thereto.
 - c) Decide on matters of strategic importance at the Group level.
 3. The Board of Directors shall generally entrust to its chairman, to the chief executive officers, and to the senior officers the dissemination, coordination, and general implementation of the Group's management guidelines, acting in furtherance of the interests of each and every one of the companies belonging thereto.
 4. The Board of Directors shall design, evaluate, and review the Corporate Governance System on an ongoing basis. It shall approve the *Mission, Vision, and Values of the Iberdrola group* and shall pay special attention to the approval and updating of the *Corporate Policies*, which further develop the principles reflected in these *By-Laws* and in the other provisions of the Corporate Governance System and codify the guidelines that should govern the activities of the Company, its shareholders, and the Group.
 5. The *Regulations of the Board of Directors* shall specify the powers reserved to such body, which may not be entrusted to the representative decision-making bodies or to the senior management of the Company.

Article 33. Composition of the Board of Directors and Appointment of Directors

1. The Board of Directors shall be composed of a minimum of nine and a maximum of fourteen directors, who shall be appointed or ratified by the shareholders acting at a General Shareholders' Meeting, subject to the provisions of law and the requirements established by the Corporate

- or the Corporate Governance System to the shareholders acting at a General Shareholders' Meeting.
2. Although the Board of Directors has the broadest powers and authority to manage and represent the Company, as a general rule of good governance, the Board of Directors shall focus its activities, pursuant to the Corporate Governance System, on the definition and supervision of the general guidelines to be followed by the Company and the Group, attending to the following matters, among others:
 - a) Establish, within legal limits, the policies, strategies, and guidelines of the Group, entrusting to the decision-making bodies and the management of the head of business companies of the Group the duties of day-to-day administration and effective management of each of the businesses thereof.
 - b) Supervise the general development of the aforementioned policies, strategies, and guidelines by the country subholding companies and by the head of business companies of the Group, establishing appropriate mechanisms of coordination and exchange of information in the interest of the Company and of the companies belonging thereto.
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 4. The Board of Directors shall design, evaluate, and review the Corporate Governance System on an ongoing basis. It shall approve the ~~Mission, Vision, Purpose~~ and Values of the Iberdrola group and shall pay special attention to the approval and updating of the *Corporate Policies*, which further develop the principles reflected in these *By-Laws* and in the other provisions of the Corporate Governance System and codify the guidelines that should govern the activities of the Company, its shareholders, and the Group.
 5. The Regulations of the Board of Directors shall specify the powers reserved to such body, which may not be entrusted to the representative decision-making bodies or to the senior management of the Company.

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1. The Board of Directors shall be composed of a minimum of nine and a maximum of fourteen directors, who shall be appointed or ratified by the shareholders acting at a General Shareholders' Meeting, subject to the provisions of law and the requirements established by the Corporate Governance System.



Governance System.

2. The determination of the number of directors shall be within the purview of the shareholders acting at a General Shareholders' Meeting, for which purpose the shareholders may establish such number either by express resolution or indirectly through the filling or non-filling of vacancies or the appointment of new directors within the aforesaid minimum and maximum numbers.
3. The following may not be appointed as directors or as individuals representing a corporate director:
 - e) Domestic or foreign companies competing with the Company in the energy industry or other industries, or the directors or senior officers thereof, or such persons, if any, as are proposed by them in their capacity as shareholders.
 - f) Individuals or legal entities serving as directors in more than three companies with shares trading on domestic or foreign stock exchanges.
 - g) Persons who, during the two years prior to their appointment, have occupied high-level positions in Spanish government administrations that are incompatible with the simultaneous performance of the duties of a director of a listed company under Spanish national or autonomous community law, or positions of responsibility with entities regulating the energy industry, the securities markets, or other industries in which the Group operates.
 - h) Individuals or legal entities that are under any other circumstance of disqualification or prohibition governed by provisions of a general nature, including those that have interests in any way opposed to those of the Company or the Group.
4. The appointment, ratification, re-election, and removal of directors must comply with the provisions of law and the Corporate Governance System. Resolutions proposed to the shareholders at a General Shareholders' Meeting regarding the appointment, ratification, and re-election of directors must be accompanied by a report providing the rationale for the proposal.

Article 34. Types of Directors

1. Those directors who perform management duties within the Company or its Group, whatever the legal relationship they maintain, shall be deemed executive directors.
2. All other directors of the Company, whether proprietary, independent, or other external, shall be deemed non-executive directors:
 - a) Proprietary directors: those directors who own a shareholding interest that is equal to or greater than that legally regarded as significant at any time, or who have been appointed owing to their status as shareholders, even if their shareholding interest does not reach such

2. The determination of the number of directors shall be within the purview of the shareholders acting at a General Shareholders' Meeting, for which purpose the shareholders may establish such number either by express resolution or indirectly through the filling or non-filling of vacancies or the appointment of new directors within the aforesaid minimum and maximum numbers.
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 - b) Individuals or legal entities serving as directors in more than three companies with shares trading on domestic or foreign stock exchanges.
 - c) Persons who, during the two years prior to their appointment, have occupied high-level positions in Spanish government administrations that are incompatible with the simultaneous performance of the duties of a director of a listed company under Spanish national or autonomous community law, or positions of responsibility with entities regulating the energy industry, the securities markets, or other industries in which the Group operates.
 - d) Individuals or legal entities that are under any other circumstance of disqualification or prohibition governed by provisions of a general nature, including those that have interests in any way opposed to those of the Company or the Group.
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2. All other directors of the Company, whether proprietary, independent, or other external, shall be deemed non-executive directors:
 - a) Proprietary directors: those directors who own a shareholding interest that is equal to or greater than that legally regarded as significant at any time, or who have been appointed owing to their status as shareholders, even if their shareholding interest does not reach such



amount, as well as those representing the shareholders described above. However, if any of such directors at the same time performs management duties within the Company or the Group, such director shall be deemed an executive director.

- b) Independent directors: those directors who, having been appointed because of their personal and professional qualities, may carry out their duties without being constrained by relationships with the Company or its Group, its significant shareholders, its officers, or the other directors. Directors who have been independent directors for a continuous period of more than twelve years cannot be deemed to be independent directors.
- c) Other external directors: those non-executive directors who do not have the characteristics to be deemed proprietary or independent directors.

The *Regulations of the Board of Directors* may further elaborate upon and develop these concepts within the framework established by law.

- 3. The Board of Directors shall ensure that a majority of its members are independent directors. This instruction, as well as those set forth in these *By-Laws* and in the *Regulations of the Board of Directors* regarding the composition of the committees of the Board of Directors, shall be mandatory for such body, which must follow them in the exercise of its powers to propose appointments and re-elections of directors to the shareholders at a General Shareholders' Meeting and to make interim appointments of directors to cover vacancies and in appointing members of the committees of the Board of Directors, and merely constitute guidance for the shareholders.
- 4. A rationale for the status of each director shall be given by the Board of Directors to the shareholders at the General Shareholders' Meeting at which the appointment thereof must be made or ratified or the re-election thereof approved, and shall be maintained or, if applicable, modified in the Annual Corporate Governance Report, after a report from the Appointments Committee.

Article 37. Committees of the Board of Directors

- 1. The Board of Directors must have an Audit and Risk Supervision Committee, an Appointments Committee, and a Remuneration Committee (or a single Appointments and Remuneration Committee), on a permanent basis.
- 2. The Board of Directors may also have an executive committee, called the Executive Committee (*Comisión Ejecutiva Delegada*), a consultative committee called the Corporate Social Responsibility Committee, and may create any other consultative committees with the powers that the Board of Directors determines, all of a voluntary nature.
- 3. The committees shall be governed by the provisions of the Corporate Governance System, including the

amount, as well as those representing the shareholders described above. However, if any of such directors at the same time performs management duties within the Company or the Group, such director shall be deemed an executive director.

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- c) Other external directors: those non-executive directors who do not have the characteristics to be deemed proprietary or independent directors.

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- 1. The Board of Directors must have an Audit and Risk Supervision Committee, an Appointments Committee, and a Remuneration Committee (or a single Appointments and Remuneration Committee), on a permanent basis.
- 2. The Board of Directors may also have an executive committee, called the Executive Committee (*Comisión Ejecutiva Delegada*), a consultative committee called the ~~Corporate Social Responsibility~~ Sustainable Development Committee, and may create any other consultative committees with the powers that the Board of Directors determines, all of a voluntary nature.
- 3. The committees shall be governed by the provisions of the Corporate Governance System, including the



specific regulations thereof, when available, which must be approved by the Board of Directors and, by way of supplement and to the extent not incompatible with the nature thereof, by the provisions regarding the operation of the Board of Directors.

Article 41. Corporate Social Responsibility Committee

1. If created, the Corporate Social Responsibility Committee shall be deemed an internal informational and consultative body without executive duties, with information, advisory, and proposal-making powers within its scope of action.
2. The Corporate Social Responsibility Committee shall be composed of a minimum of three and a maximum of five directors appointed by the Board of Directors upon a proposal of the Appointments Committee, from among the non-executive directors, and the majority thereof must be classified as independent.
3. The Board of Directors shall appoint a chair of the Corporate Social Responsibility Committee from among the independent directors forming part thereof, as well as its secretary, who need not be a director.
4. The Corporate Social Responsibility Committee shall have the powers set forth in the *Regulations of the Board of Directors* and in its own regulations.

Article 49. Powers of Information and Inspection

1. A director shall have the broadest powers to obtain information regarding any aspect of the Company, to examine its books, records, documents, and other background information on corporate transactions, to inspect its facilities, and to communicate with the senior officers of the Company.
2. The exercise of the aforementioned powers shall be channelled through the secretary of the Board of Directors, who shall act on behalf of the chairman thereof pursuant to the provisions of the Corporate Governance System.

specific regulations thereof, when available, which must be approved by the Board of Directors and, by way of supplement and to the extent not incompatible with the nature thereof, by the provisions regarding the operation of the Board of Directors.

Article 41. ~~Corporate Social Responsibility~~Sustainable Development Committee

1. If created, the ~~Corporate Social Responsibility~~Sustainable Development Committee shall be deemed an internal informational and consultative body without executive duties, with information, advisory, and proposal-making powers within its scope of action.
2. The ~~Corporate Social Responsibility~~Sustainable Development Committee shall be composed of a minimum of three and a maximum of five directors appointed by the Board of Directors upon a proposal of the Appointments Committee, from among the non-executive directors, and the majority thereof must be classified as independent.
3. The Board of Directors shall appoint a chair of the ~~Corporate Social Responsibility~~Sustainable Development Committee from among the independent directors forming part thereof, as well as its secretary, who need not be a director.
4. The ~~Corporate Social Responsibility~~Sustainable Development Committee shall have the powers set forth in the *Regulations of the Board of Directors* and in its own regulations.

Article 49. Powers of Information and Inspection

1. A director shall have the broadest powers to obtain information regarding any aspect of the Company, to examine its books, records, documents, and other background information on corporate transactions, to inspect all of its facilities, and to communicate with the members of senior officersmanagement of the Company.
2. The exercise of the aforementioned powers shall be channelled through the secretary of the Board of Directors, who shall act on behalf of the chairman thereof pursuant to the provisions of the Corporate Governance System.



General Shareholders' Meeting / 2019

Report of the Board of
Directors
Proposed increases in
capital by means of scrip
issues of the “Iberdrola
Flexible Remuneration”
optional dividend system



REPORT SUBMITTED BY THE BOARD OF DIRECTORS OF IBERDROLA, S.A. REGARDING THE PROPOSED IMPLEMENTATION OF TWO INCREASES IN CAPITAL BY MEANS OF SCRIP ISSUES IN ORDER TO IMPLEMENT THE "IBERDROLA FLEXIBLE REMUNERATION" OPTIONAL DIVIDEND SYSTEM INCLUDED IN ITEMS NUMBER EIGHT AND NINE ON THE AGENDA FOR THE 2019 GENERAL SHAREHOLDERS' MEETING

1. Object of the Report

This report has been prepared by the Board of Directors of IBERDROLA, S.A. (the "**Company**" or "**Iberdrola**") pursuant to the provisions of sections 286 and 296 of the *Companies Act (Ley de Sociedades de Capital)*, in order to provide a rationale for the two proposed increases in share capital by means of scrip issues through the issuance of new shares with a charge to reserves, which are submitted to the shareholders for approval at the General Shareholders' Meeting under items number eight and nine on the agenda and under the section "*Common terms and conditions of the dividend distribution and increase in capital resolutions proposed under items number seven, eight and nine on the agenda, by virtue of which the "Iberdrola Flexible Remuneration" optional dividend system is implemented*" (the "**Common Terms**").

Pursuant to such sections, the Board of Directors must prepare a report setting forth the rationale for the proposals being submitted to the shareholders at the General Shareholders' Meeting, to the extent that the approval of each increase and the implementation thereof necessarily entails the amendment of the article of the *By-Laws* regarding share capital.

Given that the two increases in share capital by means of scrip issues have the same purpose and are implemented in a similar manner, this report provides the rationale for both proposals. For purposes of easier understanding by the shareholders of the transaction that gives rise to the proposals, a description of the purpose of and rationale for both increases in share capital is first provided. A description is then presented of the main terms and conditions thereof. Finally, the proposed resolutions submitted to the shareholders for approval at the General Shareholders' Meeting are included.

2. Purpose of and Rationale for the Proposals

2.1 Purpose of the Proposals

The "Iberdrola Flexible Remuneration" optional dividend system reflects Iberdrola's desire to continuously apply the best corporate governance practices, especially in the area of its shareholder remuneration policy.

From 2010 to 2017, Iberdrola implemented the "Iberdrola Flexible Dividend" (Scrip Dividend) system, which allowed shareholders to receive bonus shares of the Company, giving them the benefit of favourable tax treatment but without limiting their ability to alternatively receive an amount in cash equal to the payment of the traditional dividend.

Thanks to the ongoing dialogue and interaction maintained with its shareholders under the *Shareholder Engagement Policy*, in 2018 Iberdrola identified the possibility of improving the "Iberdrola Flexible Dividend" system, particularly the formula used to monetise the traditional dividend, which until then was implemented through the sale to the Company of the free-of-charge allocation rights at a guaranteed fixed price, and which in some jurisdictions could have a different tax and accounting treatment than the one that would apply to the receipt of a cash dividend.

As a consequence of the foregoing, the Company developed an alternative to monetise the traditional dividend that could be more attractive for all shareholders, particularly including the international shareholders. The result was the optional dividend system called "Iberdrola Flexible Remuneration", which replaced the traditional "Iberdrola Flexible Dividend" system and was welcomed by all shareholders of the Company, receiving the support of more than 99.9% of the votes.

This system, the approval of which is again submitted to the shareholders at the General Shareholders' Meeting, is based on the same principle of offering the shareholders the ability to receive bonus shares or to monetise the amount of their remuneration, optimising the alternative consisting of receiving a fixed amount in cash instead of shares.

Thus, shareholders who prefer to receive their remuneration in cash may do so through a supplementary dividend approved by the shareholders or through payment of the interim dividend for financial year 2019 approved by the Board of Directors, instead of transferring to the Company at a guaranteed fixed price the free-of-charge allocation rights they receive within the context of the implementation of the increases in capital, as happened under the traditional system. In many cases, this clarifies and simplifies the tax and accounting treatment of the remuneration of the shareholders, particularly including international shareholders, choosing the option to receive an amount in cash. In addition, shareholders who desire to receive their remuneration in cash will continue to have the option to



sell their free-of-charge allocation rights on the market, although in this case the amount of the remuneration they receive will depend on market conditions in general and the listing price of the free-of-charge allocation rights in particular.

For this reason, in addition to the dividend contemplated in the proposed resolution corresponding to item number seven on the agenda (the "**Supplementary Dividend**"), it is expected that, prior to 31 December 2019, the Board of Directors will adopt a resolution approving the distribution of an amount on account of the dividend for financial year 2019 (the "**Interim Dividend**"), which will in any case be subject to compliance with the requirements of section 277 of the *Companies Act*.

Notwithstanding the foregoing, if the requirements of section 277 of the *Companies Act* are not met in the Second Implementation (as such term is defined below) to distribute the Interim Dividend, the Company will make an irrevocable commitment to acquire the free-of-charge allocation rights arising from the second Increase in Capital at a guaranteed fixed price upon the terms and conditions described below (the "**Purchase Commitment**" and the "**Fixed Purchase Price**", respectively).

2.2 **Structure of the Proposals**

The proposals submitted to the shareholders for approval at the General Shareholders' Meeting under items number eight and nine on the agenda and under the Common Terms have been structured in the form of two increases in share capital with a charge to the reserves contemplated in section 303.1 of the *Companies Act* (each such increase in capital shall be referred to as an "**Increase in Capital**" and both of them collectively as the "**Increases in Capital**"), which shall be implemented together with the payment of the Supplementary Dividend and the Interim Dividend (each a "**Dividend**" and collectively the "**Dividends**"), respectively. In particular:

- (i) The first implementation of the "Iberdrola Flexible Remuneration" optional dividend system (the "**First Implementation**") shall be carried out through the implementation of the Increase in Capital submitted for approval of the shareholders at the General Shareholders' Meeting under item number eight on the agenda, together with the payment of the Supplementary Dividend.
- (ii) The second implementation of the "Iberdrola Flexible Remuneration" optional dividend system (the "**Second Implementation**", and collectively with the First Implementation, the "**Implementations**" and each of the Implementations, individually, an "**Implementation**") shall be carried out through the implementation of the Increase in Capital submitted for approval of the shareholders under item number nine on the agenda together with the payment of the Interim Dividend, to the extent that the requirements set out in section 277 of the *Companies Act* are met. The Purchase Commitment would be implemented if said requirements are not met.

It is expected that the First Implementation will take place in the month of July 2019, while the Second Implementation is expected to take place in the months of December 2019 or January 2020.

In each of the Implementations, the shareholders may choose from among the following remuneration options upon the terms and conditions established by the Board of Directors.

- (a) Receiving their remuneration in cash by collecting the Dividend in question (whether with respect to all of their shares or a portion thereof), for which purpose the shareholders shall be required to make an express election in this regard.
- (b) Receiving their remuneration in newly-issued bonus shares of the Company. To this end, they must refrain from transferring their free-of-charge allocation rights on the market. In this case, at the end of the trading period, the shareholders shall receive such number of new shares as they are proportionately entitled to receive, entirely as bonus shares.
- (c) Transferring all or part of their free-of-charge allocation rights on the market during the trading period pursuant to the provisions of section 3.2 below. In this case, the consideration for such rights would depend on market conditions in general and on the listing price of such rights in particular.

The shareholders may only elect remuneration option (a) above during the "**Common Election Period**". The Common Election Period will begin on the same day as the trading period for the free-of-charge allocation rights, and the Board of Directors (with express power of substitution) must establish the specific term of the Common Election Period, which may in no event exceed the term of said trading period.

Based on their preferences and needs, the Company's shareholders may combine any of the alternatives mentioned in paragraphs (a) through (c) above with respect to different groups of shares that each of them own. In any event, the election of one of the remuneration options automatically excludes the ability to choose either of the other two options regarding the same shares.



Furthermore, as already mentioned, if the requirements of section 277 of the *Companies Act* are not met on occasion of the Second Implementation, and therefore the Company cannot distribute the Interim Dividend, the shareholders may monetise their free-of-charge allocation rights by transferring them to the Company at the Fixed Purchase Price within the framework of the Purchase Commitment and thus receive a cash amount equal to the payment of the Interim Dividend that the Company would otherwise have distributed.

In this regard, it should be borne in mind that the tax treatment of the above alternatives is different, as described in section 3.5 below.

3. **Main Terms and Conditions of the Increases in Capital**

Set forth below are the main terms and conditions of the Increases in Capital.

3.1 **Nominal Amount of the Increases in Capital, Number of Shares to Be Issued, and Number of Free-of-charge Allocation Rights Required for the Allocation of One New Share**

The amount of each of the Increases in Capital shall be the result of multiplying the nominal value of each share of the Company (seventy-five euro cents per share) by the total determinable number of new shares of the Company to be issued on the date of each of the Implementations. The Increases in Capital will thus be carried out at par (i.e. without a share premium).

In turn, the maximum number of new shares to be issued in each Increase in Capital shall be the number resulting from the application of the following formula (rounding the result to the next lower integer):

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

where:

NNS = Number of new shares to be issued;

TNShrs. = Number of shares of the Company outstanding on the date that the Board of Directors or the body acting by delegation therefrom resolves to implement each Increase in Capital; and

Num. rights = Number of free-of-charge allocation rights required for the allocation of one new share in the Increase in Capital in question, which number will result from the application of the following formula, rounded to the next higher integer:

$$\text{Num. rights} = \text{TNShrs.} / \text{Provisional number of shares}$$

where:

$$\text{Provisional number of shares} = \text{Amount of the Option} / \text{ListPri}$$

For these purposes, "**Amount of the Option**" shall mean the maximum reference market value of the relevant Increase in Capital to be set by the Board of Directors (or the body acting by delegation therefrom) and which will be a maximum amount of 1,520 million euros in the Increase in Capital submitted for the approval of the shareholders under item number eight on the agenda and of 1,235 million euros in the Increase in Capital submitted for the approval of the shareholders at the General Shareholders' Meeting under item number nine on the agenda.

"ListPri" shall be the arithmetic mean of the average weighted listing prices of the Company's shares on the Bilbao, Madrid, Barcelona and Valencia Stock Exchanges in the five trading sessions prior to the resolution of the Board of Directors (or of the body acting by delegation therefrom) which determines the number of free-of-charge allocation rights needed for the allocation of one new share, rounded to the closest one-thousandth part of one euro.

The number thus calculated shall be rounded as required to obtain a whole number of shares and a ratio for the conversion of rights into shares that is also an integer. In addition, and for the same purposes, the Company or a company of its group that holds shares of the Company shall waive the corresponding free-of-charge allocation rights as provided in section 3.2 below.

Furthermore, the gross amount per share of the Dividend in question, or if the requirements of section 277 of the *Companies Act* to distribute the Interim Dividend are not met, the gross amount of the Fixed Purchase Price per free-of-charge allocation right, will be calculated as follows:



$$\text{Dividend}^* = \text{ListPri} / (\text{Num. rights} + 1)$$

* Or, if applicable, Fixed Purchase Price

Solely for purposes of facilitating an understanding of the application hereof, the Common Terms include a sample calculation of the maximum number of new shares to be issued in the Increase in Capital submitted for the approval of the shareholders under item number eight on the agenda, of the maximum nominal value of such increase, of the number of free-of-charge allocation rights required for the allocation of one new share, and of the gross Supplementary Dividend per share.

The Amount of the Option of each Increase in Capital, together with the other items to be determined on each of the Implementations, shall be made public by means of a notice of significant event (*hecho relevante*) to be sent to the National Securities Market Commission (*Comisión Nacional del Mercado de Valores*).

3.2 Free-of-charge Allocation Rights

In each Increase in Capital, each outstanding share will grant its holder one free-of-charge allocation right.

It shall be deemed that those shareholders choosing to receive their remuneration in cash through the Dividend with respect to all or part of their shares expressly, automatically and irrevocably waive the free-of-charge allocation rights corresponding to said shares and the ability to transfer them on the market. To this end, the participants in "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR) will block said free-of-charge allocation rights, which may not be transferred on the market and which shall automatically expire at the end of the trading period, without the holders thereof being entitled to receive new shares.

The number of free-of-charge allocation rights required to receive one new share in each Increase in Capital shall be automatically determined according to the ratio existing between the number of shares of the Company then outstanding on the date of implementation of the Increase in Capital in question (TNShrs.) and the provisional number of new shares, calculated by using the formula contained in section 3.1 above. Specifically, the holders of free-of-charge allocation rights shall be entitled to receive one new share in exchange for the number of free-of-charge allocation rights held by them, which shall be determined as provided in section 3.1 above.

In the event that the number of free-of-charge allocation rights required for the allocation of one new share (Num. rights) multiplied by the number of new shares to be issued (NNS) results in a number that is lower than the number of outstanding shares of the Company on the date of implementation of the Increase in Capital in question, the Company (or such entity within its group, if any, as holds shares of the Company) shall waive a number of free-of-charge allocation rights equal to the difference between both figures for the sole purpose that the number of new shares be a whole number and not a fraction. In such an event, as well as to the extent that shareholders of the Company elect to receive the Dividend, there will be an incomplete allocation of the Increase in Capital in question, and share capital shall be increased solely by the amount corresponding to the free-of-charge allocation rights that have not been waived, pursuant to the provisions of section 311 of the *Companies Act*.

The free-of-charge allocation rights shall be allocated to those who are registered as being entitled thereto in the book-entry records of "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR) on the relevant date pursuant to the securities clearing and settlement rules from time to time in effect. The free-of-charge allocation rights may be traded during such term as is established by the Board of Directors (with express power of substitution), which term shall not be less than fifteen calendar days. During such term, a sufficient number of free-of-charge allocation rights may be acquired on the market in the proportion required to receive new shares. Notwithstanding the foregoing, these free-of-charge allocation rights acquired on the market during the trading period shall not give the acquiring party the right to choose to receive the Dividend per share. Therefore, the new holders of these rights may only monetise their investment through the sale thereof on the market, or alternatively receive the new bonus shares to which they are entitled.

Shareholders that do not have free-of-charge allocation rights in a number sufficient to receive one new share in each Increase in Capital may: (a) acquire on the market a sufficient number of free-of-charge allocation rights which, added to those already held by them, grant them the right to receive one new share; (b) transfer all or part of their free-of-charge allocation rights on the market (with the consideration for their rights depending on market conditions in general and on the listing price of the free-of-charge allocation rights in particular); or (c) elect to receive the Dividend.

3.3 Gross Amount per Share to be Distributed to the Shareholders as the Dividend in the Implementations

As previously explained, upon the implementation of each Increase in Capital, the shareholders may choose to receive a certain Dividend per share. The gross amount to be distributed as the Dividend for each share of



Iberdrola with the right to receive it shall be determined within the context of each of the Implementations by the Board of Directors, with express powers of substitution, pursuant to the rules set forth below.

In both Implementations, the gross amount per share of the Dividend will be the amount resulting from the application of the following formula:

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

In the Second Implementation, the Board of Directors shall adopt the corresponding resolution on distribution of the Interim Dividend prior to 31 December 2019, subject in any case to the provisions of section 277 of the *Companies Act*.¹

During the Common Election Period for each Implementation, the Company's shareholders shall have the ability to expressly choose to receive the Dividend per share with respect to all or part of the shares they own and that are outstanding on the relevant date upon the terms set by the Board of Directors, with express power of substitution, and pursuant to applicable securities clearing and settlement rules. If they choose to receive the Dividend per share in question with respect to all or part of their shares, the shareholders shall expressly, automatically and irrevocably waive the free-of-charge allocation rights corresponding to said shares pursuant to the provisions of section 3.2 above.

After the Common Election Period, the Board of Directors, with express power of substitution, shall determine the aggregate gross amount in euros corresponding to the Dividend payment from each of the Implementations and shall make payment thereof through the participants in "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR), the Board of Directors being hereby authorised for such purpose, with express power of substitution, to establish the specific date on which the payment of the Dividend should occur, to designate the entity that is to act as paying agent and to take such other steps as may be required or appropriate for the successful payment of the Dividend. Furthermore, after calculating said aggregate gross amount of the Dividend corresponding to each Implementation, the Board of Directors (with express power of substitution) shall rescind the resolution on distribution of the corresponding Dividend with respect to the amounts that were not distributed to those shareholders who elected (expressly or implicitly) to receive new shares.

3.4 Purchase Commitment within the Framework of the Second Implementation

As already mentioned, if the requirements set forth in section 277 of the *Companies Act* to distribute the Interim Dividend are not met within the framework of the Second Implementation, in order to ensure that the shareholders can receive all or part of their remuneration in cash, the Company will make an irrevocable commitment to acquire the free-of-charge allocation rights arising from the second Increase in Capital at a guaranteed fixed price (i.e. the Purchase Commitment and the Fixed Purchase Price, respectively) upon the following terms and conditions.

The Fixed Purchase Price shall be calculated by applying the formula used to determine the gross amount per share of the Dividend in question, such that the amount that would be received by shareholders choosing this option would be equal to the amount they would have received if it had been possible to distribute the Interim Dividend. The Fixed Purchase Price shall be calculated prior to the commencement of the trading period for the free-of-charge allocation rights of the second Increase in Capital and shall be published as soon as it is determined.

The Purchase Commitment assumed by the Company shall cover the free-of-charge allocation rights received by those who are registered as being entitled thereto in the book-entry records of "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR) on the relevant date pursuant to the securities clearing and settlement rules from time to time in effect, but excluding those rights that have been transferred on the market.

The Purchase Commitment shall be in effect and may be accepted during such term as is established for these purposes by the Board of Directors (with express power of substitution), and which must in any case be included within the trading period for the free-of-charge allocation rights.

For these purposes, the Company is authorised to acquire said free-of-charge allocation rights, with a maximum limit of all rights issued in the second Increase in Capital, but must in any case comply with applicable legal restrictions from time to time in effect.

The acquisition by the Company of the free-of-charge allocation rights as a result of the Purchase Commitment shall be carried out with a charge to the reserves contemplated in section 303.1 of the *Companies Act*.

¹ If the requirements of section 277 of the *Companies Act* to distribute the Interim Dividend are not met, the gross amount of the Fixed Purchase Price per free-of-charge allocation right will be equal to the gross amount of the Interim Dividend per share resulting from the above formula (see section 3.4 below).



The Company shall waive the new shares corresponding to the free-of-charge allocation rights that it has acquired by application of the Purchase Commitment. In such an event, there will be an incomplete allocation of the Increase in Capital corresponding to the Second Implementation, and share capital shall be increased solely by the amount corresponding to the free-of-charge allocation rights that have not been waived, pursuant to the provisions of section 311 of the *Companies Act*.

3.5 Rights Attaching to the New Shares

The new shares issued in each Increase in Capital shall be ordinary shares having a nominal value of seventy-five euro cents each, of the same class and series as those currently outstanding, 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) and its participants.

As from the date that each Increase in Capital is declared to be subscribed and paid up, the new shares shall grant the holders thereof the same financial, voting and like rights as the ordinary shares of the Company then outstanding.

The Increases in Capital shall be carried out free of expenses and fees as to the allocation of the new shares issued. The Company shall bear the costs of issuance, subscription, flotation, admission to trading and other costs associated with the Increases in Capital.

Without prejudice to the foregoing, the Company's shareholders should bear in mind that, pursuant to applicable law, the participants in "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR) with which they keep their shares on deposit may establish such pass-through management fees and expenses as they may freely determine as a consequence of maintaining the securities in their book-entry records. Moreover, pursuant to applicable law, these participants may establish such pass-through fees and expenses as they may freely determine for the processing of orders to purchase and sell free-of-charge allocation rights.

3.6 Balance Sheet for the Transaction and Reserves with a Charge to which the Increases in Capital are Carried Out

The balance sheet used as a basis for the Increases in Capital is the one for the financial year ended 31 December 2018, which has been audited by KPMG Auditores, S.L. and which is submitted to the shareholders for approval at the General Shareholders' Meeting under item number one on the agenda.

The Increases in Capital shall be entirely carried out with a charge to the reserves contemplated in section 303.1 of the *Companies Act*. When implementing each of them, the Board of Directors (with express power of substitution) shall determine the reserve(s) that will be used and the amount of such reserve(s) in accordance with the balance sheet used as a basis for the transaction.

3.7 Tax Regime

Within the framework of the implementation of the "Iberdrola Flexible Remuneration" optional dividend system in 2018, and particularly the option for the Supplementary Dividend and the Interim Dividend, the Company submitted a binding consultation to the 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 on the date of publication of this report as described below is taken from the answer to such binding consultation, as well as from the answers by the DGT to the binding consultations obtained by the Company on 27 April 2010 and 1 October 2010 (made in relation to the traditional remuneration system called "Iberdrola Flexible Dividend").

In any event, one should keep in mind that the Spanish government announced certain tax measures that could affect the taxation of the "Iberdrola Flexible Remuneration" optional dividend system for the shareholders. In particular, on 23 October 2018, the Spanish government submitted to public comment a *Draft Financial Transactions Tax Act (Anteproyecto de Ley del Impuesto sobre las Transacciones Financieras)* ("ITF") that might tax certain financial transactions in shares of Iberdrola (or American Depositary Receipts (ADRs) or Crest Depository Interests (CDIs)) carried out in Spain. As at the date of this report, there is no additional information regarding the ITF or when (if at all) the approval thereof might occur. In any event, shareholders are advised to consult their tax advisers regarding the impact of these tax measures (if they ultimately enter into force), taking into account the particular circumstances of each shareholder or holder of free-of-charge allocation rights.



Receiving newly-issued bonus shares.

Pursuant to Spanish tax regulations, the shareholders that choose to receive new shares as a consequence of the Increases in Capital 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 los No Residentes*) ("IRNR"), whether or not they act through a permanent establishment in Spain (in the 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 Increase in Capital 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 bonus shares. The age of such bonus shares for these shareholders will be the age attributed to 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.

Transferring all or part of their free-of-charge allocation rights on the market.

In the event that the shareholders sell their free-of-charge 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-of-charge 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 for the avoidance of double taxation and for the prevention of tax evasion signed by Spain and to which they might be entitled, and the exemptions established in the IRNR rules.

In addition, for individual shareholders subject to the IRPF applicable within the common regions of Spain, the amount obtained in the transfers of free-of-charge 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 the provisions applicable to the aforementioned taxes.

Receiving their remuneration in cash by collecting the Dividend in question, or alternatively, transferring all of their free-of-charge allocation rights to the Company at the Fixed Purchase Price pursuant to the Purchase Commitment.²

Finally, if the shareholders choose to receive the Supplementary Dividend or the Interim Dividend (or if they receive the Fixed Purchase Price, if applicable), the amount obtained will be covered by the tax regime for financial returns ("capital gains"), and will therefore be subject to the corresponding withholding and taxation.

It should be borne in mind that this analysis (which has been performed on the basis of specific assumptions) does not cover all the possible tax consequences of the proposals described in this report relating to the "Iberdrola Flexible Remuneration" optional dividend system and/or the implementation of the Increases in Capital and the distribution of the Supplementary Dividend and of the Interim Dividend. If a change in these assumptions changes the description of the taxation of the proposals covered by this report, the new tax treatment will be communicated to the market as appropriate. In particular, it does not describe the consequences to which shareholders that are not residents in Spain for tax purposes may be subject in their countries of residence. Therefore, it is recommended that tax advisers be consulted regarding the specific tax impact of the proposed remuneration system, taking into account the particular circumstances of each shareholder or holder of free-of-charge allocation rights, and that attention be paid to any amendments that may be made to the law applicable as of the date of this report, to the transitional provisions thereof and to the rules for interpretation.

Finally, the holders of American Depositary Receipts (ADRs) and CREST Depository Interests (CDIs) representing shares of the Company are advised to consult with their tax advisers on the taxation thereof in Spain or their jurisdictions of residence before making a decision in connection with the Increases in Capital.

² If the requirements of section 277 of the *Companies Act* to distribute the Interim Dividend are not met.



3.8 Delegation to Carry Out Each of the Implementations

It is proposed to delegate to the Board of Directors, with express power of substitution, the power to set the date on which each of the Implementations is to be carried out, as well as to establish the terms and conditions applicable to each of the Implementations as to all matters not provided for by the shareholders at the General Shareholders' Meeting (including, in particular, the Amount of the Option), all on the terms and within the period of one year contemplated in section 297.1.a) of the *Companies Act*. Notwithstanding the foregoing, if the Board of Directors (with express power of substitution) does not deem it advisable to carry out one or both Implementations, in whole or in part, within the aforementioned period, it may refrain from doing so, with the duty to inform the shareholders thereof at the next General Shareholders' Meeting. Specifically, the Board of Directors (with express power of substitution) shall analyse and take into account the market conditions, the circumstances of the Company itself or those deriving from an event that has social or financial significance, and if these or other factors make it inadvisable, in its opinion, to carry out one or both Implementations, it may refrain from doing so. In addition, the resolutions approved by the shareholders at this General Shareholders' Meeting relating to the Supplementary Dividend and to the Increases in Capital shall be deprived of any and all effect in the event that the Board of Directors does not exercise the powers delegated thereto, or in the case of the Second Implementation, does not approve the distribution of the Interim Dividend or honour the Purchase Commitment, within a period of one year from approval of the resolutions.

On the dates that the Board of Directors, or the body acting by delegation therefrom, decides to implement an Increase in Capital, establishing for such purpose all of the final terms and conditions thereof as to all matters not provided for by the shareholders at the General Shareholders' Meeting, the Company shall make public such terms and conditions. In particular, prior to the commencement of each free-of-charge allocation period, the Company shall make available to the public a document containing information on the number and nature of the shares, the reasons for the Increase in Capital and the gross amount of the Dividend per share, all as provided by section 26.1.e) of *Royal Decree 1310/2005 of 4 November partially developing Law 24/1988 of 28 July on the Securities Market regarding the admission of securities to trading on official secondary markets, public offerings for sale or subscription and the prospectus required for such purposes* or the legal provisions that apply at any particular time.

Once the period for trading the free-of-charge allocation rights in respect of each Increase in Capital has ended:

- i. The new shares shall be allocated to those who, according to the records maintained by "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR) and its participants, are the holders of free-of-charge allocation rights in the required proportion (due to not having waived them on the terms provided above).
- ii. The period for trading the free-of-charge allocation rights shall be declared to have ended and the appropriation of the account(s) with a charge to which the Increase in Capital will be implemented shall be formalised on the books in the respective amount, with which appropriation the Increase in Capital shall be paid up.
- iii. The Company shall pay the Supplementary Dividend or the Interim Dividend (or, if the requirements of section 277 of the *Companies Act* are not met within the framework of the Second Implementation, the Fixed Purchase Price), as applicable, to the shareholders that have expressly chosen this remuneration option within the period and subject to the terms and conditions determined for these purposes by the Board of Directors.

Finally, in each Increase in Capital, the Board of Directors (with express power of substitution) shall adopt the resolutions required to amend the *By-Laws* so that they reflect the new amount of share capital and the number of shares resulting from the Increase in Capital in question, and to make application for trading the new shares as described in the next section.

3.9 Admission of the New Shares to Trading

The Company shall make application for trading the new shares to be issued as a consequence of each Increase in Capital on the Bilbao, Madrid, Barcelona and Valencia Stock Exchanges, through the Automated Quotation System (*Sistema de Interconexión Bursátil*) (Continuous Market), and shall carry out such acts and formalities as are required for admission to trading of the new shares issued in each Increase in Capital.

4. Proposed Resolutions Submitted to the Shareholders at the General Shareholders' Meeting

The proposed resolutions submitted to the shareholders for approval at the General Shareholders' Meeting read as follows:

"ITEM NUMBER SEVEN ON THE AGENDA

Approval of the proposed allocation of profits/losses and distribution of dividends for financial year 2018, the



supplementary payment of which will be made within the framework of the "Iberdrola Flexible Remuneration" optional dividend system.

RESOLUTION

To approve the proposed allocation of profits/losses and distribution of dividends for financial year 2018 formulated by the Board of Directors at its meeting held on 19 February 2019, which is described below:

To distribute, with a charge to the results of the financial year ended 31 December 2018, a dividend in the aggregate gross amount that will be equal to the sum of the following amounts (the "**Dividend**"):

- a) 131,425,714.92 euros, which were paid on account of the dividend for financial year 2018 on 5 February 2019 to the holders of 870,368,973 shares of IBERDROLA, S.A. (the "**Company**" or "**Iberdrola**") who elected to receive their remuneration in cash within the framework of the second implementation of the "Iberdrola Flexible Remuneration" system for financial year 2018 by collecting an amount of 0.151 euro (gross) per share (the total amount paid to said holders will be referred to as the "**Total Interim Dividend**"); and
- b) the determinable amount resulting from multiplying:
 - i. the gross amount per share to be distributed by the Company as a supplementary dividend payment for financial year 2018 within the framework of the first implementation of the "Iberdrola Flexible Remuneration" optional dividend system for financial year 2019 (the "**Supplementary Dividend**"), and which will as determined by the Company's Board of Directors pursuant to the rules set forth in the section "Common Terms and conditions of the dividend distribution and increase in capital resolutions proposed under items number seven, eight and nine on the agenda, by virtue of which the "Iberdrola Flexible Remuneration" optional dividend system is implemented, hereinafter, the "**Common Terms**"); by
 - ii. the total number of shares with respect to which the holders thereof have elected to receive the Supplementary Dividend within the framework of the first implementation of the "Iberdrola Flexible Remuneration" optional dividend system.

The amount of the Supplementary Dividend, and therefore the amount of the Dividend, cannot be determined as of the date of formulation of this proposed resolution.

For the purposes hereof, it is hereby noted that the payment of the Supplementary Dividend shall be implemented together with the implementation of the increase in capital submitted for approval of the shareholders at the General Shareholders' Meeting under item number eight on the agenda, in order to offer the shareholders the ability to receive their remuneration in cash (by collecting the Supplementary Dividend) or in newly-issued bonus shares of the Company (through said increase in capital).

The collection of the Supplementary Dividend provided for in this resolution is thus configured, in accordance with the provisions of the Common Terms, as one of the alternatives that a shareholder of Iberdrola can choose when receiving their remuneration within the framework of the first implementation of the "Iberdrola Flexible Remuneration" optional dividend system for financial year 2019. As a result of the foregoing, and as described below in the Common Terms, it shall be deemed that those shareholders choosing to receive their remuneration in cash through the Supplementary Dividend with respect to all or part of their shares expressly, automatically and irrevocably waive the free-of-charge allocation rights corresponding to said shares and therefore the ability to transfer them on the market or receive newly-issued bonus shares corresponding to said free-of-charge allocation rights.

The distribution of the Supplementary Dividend, which is expected to take place during the month of July 2019, shall be implemented through the participants in "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR), the Board of Directors being hereby authorised to establish the specific date for payment of the Supplementary Dividend, to designate the entity that is to act as paying agent and to take such other steps as may be required or appropriate for the successful completion of the distribution.

The Board of Directors is also delegated the power to set the conditions applicable to the payment of the Supplementary Dividend to the extent not provided for in this resolution, including the determination of the specific gross amount of the Supplementary Dividend subject to the aforementioned rules.

Finally, pursuant to the provisions of section 249.2 of the Companies Act, the Board of Directors is expressly authorised to further delegate the powers referred to in this resolution.

The basis for distribution and the resulting proposed distribution (expressed in euros) is as follows:



BASIS FOR DISTRIBUTION:

Balance from prior financial years:	8,070,225,096.52
Profits for financial year 2018:	991,767,992.38
TOTAL:	9,061,993,088.90

DISTRIBUTION:

To Dividend: Amount pending determination which will result from adding: (a) the Total Interim Dividend, and (b) the product resulting from multiplying the Supplementary Dividend by the total number of shares with respect to which the holders thereof have elected to receive the Supplementary Dividend within the framework of the first implementation of the "Iberdrola Flexible Remuneration" optional dividend system.

To remainder: Determinable amount that will result from subtracting the amount allocated to the legal reserve and the amount allocated to the Dividend from the total basis for distribution.

TOTAL: **9,061,993,088.90**

On the date that the Board of Directors (or the body acting by delegation therefrom) decides to implement the increase in capital that is being submitted for approval of the shareholders at the General Shareholders' Meeting under item number eight on the agenda (and therefore, to commence the first implementation of the "Iberdrola Flexible Remuneration" optional dividend system for financial year 2019), the minimum amount of the Supplementary Dividend shall be announced. The final amount of the Supplementary Dividend shall be communicated as soon as the Board of Directors (or the body acting by delegation therefrom) determines it in accordance with the provisions of the Common Terms. Furthermore, once the first implementation of the "Iberdrola Flexible Remuneration" system for financial year 2019 is completed, the Board of Directors, with express power of substitution, shall proceed to specify the aforementioned proposed distribution, determining the final amount of the Dividend and the amount to be allocated to remainder.

The Common Terms include a sample calculation of the Supplementary Dividend, among other figures relating to the implementation of the increase in capital submitted for approval of the shareholders at the General Shareholders' Meeting under item number eight on the agenda.

ITEM NUMBER EIGHT ON THE AGENDA

Approval of a first increase in capital by means of a scrip issue at a maximum reference market value of 1,520 million euros in order to implement the "Iberdrola Flexible Remuneration" optional dividend system.

RESOLUTION

To increase the share capital of IBERDROLA, S.A. (the "Company" or "Iberdrola") upon the terms and conditions described in the section below, entitled "Common terms and conditions of the dividend distribution and increase in capital resolutions proposed under items number seven, eight and nine on the agenda, pursuant to which the "Iberdrola Flexible Remuneration" optional dividend system is implemented" (the "Common Terms"), at a maximum reference market value of 1,520 million euros for the shares to be issued in implementation of said increase.

The increase in capital shall be implemented together with the supplementary payment of the dividend submitted for approval of the shareholders at the General Shareholders' Meeting under item seven on the agenda, in order to offer the shareholders the ability to receive their remuneration in cash (receiving said supplementary payment of the dividend) or in newly-issued bonus shares of the Company (through the increase in capital). The delivery of bonus shares issued within the context of the increase in capital is thus configured as one of the alternatives that a shareholder can choose when receiving their remuneration, pursuant to the provisions of the Common Terms.

Pursuant to the provisions of section 297.1.a) of the Companies Act, to delegate to the Board of Directors the power to set the date on which the increase in capital is to be carried out, if at all, and to set the terms and conditions applicable to all matters not included in this resolution.



Pursuant to the provisions of section 249.2 of the Companies Act, to expressly authorise the Board of Directors to further delegate the powers referred to in this resolution.

This increase in capital is expected to be implemented together with the supplementary payment of the dividend contemplated in item number seven on the agenda during the month of July 2019.

ITEM NUMBER NINE ON THE AGENDA

Approval of a second increase in capital by means of a scrip issue at a maximum reference market value of 1,235 million euros in order to implement the "Iberdrola Flexible Remuneration" optional dividend system.

RESOLUTION

To increase the share capital of IBERDROLA, S.A. (the "**Company**" or "**Iberdrola**") upon the terms and conditions described in the section below, entitled "Common terms and conditions of the dividend distribution and increase in capital resolutions proposed under items number seven, eight and nine on the agenda, pursuant to which the "Iberdrola Flexible Remuneration" optional dividend system is implemented" (the "**Common Terms**"), at a maximum reference market value of 1,235 million euros for the shares to be issued in implementation of said increase.

The increase in capital is expected to be implemented together with the payment of the interim dividend amount for financial year 2019, if any, to be approved by the Company's Board of Directors (the "**Interim Dividend**") in order to offer the shareholders the ability to receive their remuneration in cash (by collecting the Interim Dividend) or in newly-issued bonus shares of the Company (through the increase in capital). The delivery of bonus shares issued within the context of the increase in capital is thus configured as one of the alternatives that a shareholder can choose when receiving their remuneration, pursuant to the provisions of the Common Terms.

Pursuant to the provisions of section 297.1.a) of the Companies Act, to delegate to the Board of Directors the power to set the date on which the increase in capital is to be carried out, if at all, and to set the terms and conditions applicable to all matters not included in this resolution.

Pursuant to the provisions of section 249.2 of the Companies Act, to expressly authorise the Board of Directors to further delegate the powers referred to in this resolution.

This increase in capital is expected to be implemented together with the Interim Dividend payment during the month of December 2019 or January 2020.

COMMON TERMS AND CONDITIONS OF THE DIVIDEND DISTRIBUTION AND INCREASE IN CAPITAL RESOLUTIONS PROPOSED UNDER ITEMS NUMBER SEVEN, EIGHT AND NINE ON THE AGENDA, BY VIRTUE OF WHICH THE "IBERDROLA FLEXIBLE REMUNERATION" OPTIONAL DIVIDEND SYSTEM IS IMPLEMENTED

1. Main Characteristics of the "Iberdrola Flexible Remuneration" Optional Dividend System

The purpose of the resolutions for the allocation of profits/losses and dividend distribution and increase in capital resolutions proposed under items number seven, eight and nine on the agenda is to implement the "Iberdrola Flexible Remuneration" optional dividend system pursuant to which the shareholders of IBERDROLA, S.A. (the "**Company**" or "**Iberdrola**") are offered the ability to receive their remuneration in cash or in newly-issued bonus shares.

For this purpose, there shall be two implementations of the "Iberdrola Flexible Remuneration" system in each of which one dividend payment shall be made (each, a "**Dividend Payment**", and collectively, the "**Dividend Payments**") along with the implementations of the increases in capital (the "**Increases in Capital**" and each of them, an "**Increase in Capital**") submitted for approval of the shareholders at the General Shareholders' Meeting under items number eight and nine on the agenda:

- (i) The first implementation of the "Iberdrola Flexible Remuneration" system, which is expected to take place during the month of July 2019 (the "**First Implementation**"), shall be carried out through the supplementary payment of the dividend for financial year 2018 contemplated in item number seven on the agenda (the "**Supplementary Dividend**") together with the implementation of the Increase in Capital submitted for approval of the shareholders at the General Shareholders' Meeting under item number eight on the agenda.
- (ii) The second implementation of the "Iberdrola Flexible Remuneration" system, which is expected to take place during the months of December 2019 or January 2020 (the "**Second Implementation**", and collectively with the First Implementation, the "**Implementations**" and each of the Implementations, individually, an "**Implementation**"), shall be carried out through the payment of an interim amount of the dividend for financial year 2019 (the "**Interim Dividend**") to be approved, if appropriate, by the Board of Directors pursuant to the provisions of section 2.2 below,



together with the implementation of the Increase in Capital submitted for approval of the shareholders at the General Shareholders' Meeting under item number nine on the agenda.

The Supplementary Dividend and the Interim Dividend shall hereinafter be referred to collectively as the "Dividends" and each of the Dividends individually as a "Dividend".

In each of the Implementations, the shareholders may choose from among the following options upon the terms and conditions established by the Board of Directors.

- (a) Receiving their remuneration in cash by collecting the Dividend in question (whether with respect to all of their shares or a portion thereof), for which purpose the shareholders shall be required to make an express election in this regard.
- (b) Receiving their remuneration in newly-issued bonus shares of the Company. To this end, shareholders must refrain from transferring their free-of-charge allocation rights on the market. In this case, at the end of the trading period for the free-of-charge allocation rights, the shareholders shall receive such number of new shares (as they are proportionately entitled to receive), entirely as bonus shares.
- (c) Transferring all or part of their free-of-charge allocation rights on the market during the trading period pursuant to the provisions of section 5 below.

The final amount of each of the Dividend Payments and of each of the Increases in Capital shall be determined by the Company's Board of Directors (or the body acting by delegation therefrom) within the context of each of the Implementations and pursuant to the provisions of the sections below.

Within the year following the date of approval of the resolutions included in items number seven, eight and nine on the agenda, each of the Implementations may be made by the Board of Directors, with express power of substitution, at its sole discretion, and therefore without having to once again obtain the approval of the shareholders at a General Shareholders' Meeting, and based on the legal and financial conditions existing at the time of each of the Implementations, in order to offer the Company's shareholders a flexible and efficient remuneration formula.

The shareholders may only elect remuneration option (a) above (i.e. receive the Dividend in question) during the "Common Election Period". The Common Election Period will begin on the same day as the trading period for the free-of-charge allocation rights, and the Board of Directors (with express power of substitution) must establish the specific term of the Common Election Period, which may in no event exceed the term of the period for trading the free-of-charge allocation rights.

Based on their preferences and needs, the Company's shareholders may combine any of the alternatives mentioned in paragraphs (a) through (c) above. In any event, the election of one of the remuneration options automatically excludes the ability to choose either of the other two options regarding the same shares.

As described below (see section 3 below), if the requirements of section 277 of the Companies Act to distribute the Interim Dividend are not met within the framework of the Second Implementation, the Company will make an irrevocable commitment to acquire the free-of-charge allocation rights arising from the second Increase in Capital at a guaranteed fixed price upon the terms and conditions described below (the "Purchase Commitment" and the "Fixed Purchase Price", respectively). In this case, the shareholders may monetise their free-of-charge allocation rights by transferring them to the Company at the Fixed Purchase Price and thus receive a cash amount equal to the one that the Company would have distributed as the Interim Dividend.

2. Amount of the Dividends.

2.1. Gross amount per share to be distributed to the shareholders as a Supplementary Dividend in the First Implementation

The gross amount to be distributed to the shareholders as a Supplementary Dividend for each share of Iberdrola with the right to receive it shall be determined within the context of the First Implementation by the Board of Directors, with express powers of substitution, subject to the terms and conditions set forth in item number seven on the agenda and in this section (the "Supplementary Dividend"). The amount of the Supplementary Dividend shall be calculated in accordance with the terms set forth in this section.

During the Common Election Period for the First Implementation, the Company's shareholders shall have the ability to expressly choose to receive the Supplementary Dividend with respect to all or part of the shares they own and that are outstanding on the relevant date upon the terms set by the Board of Directors, with express power of substitution, and pursuant to applicable securities clearing and settlement rules. If they choose to receive the



Supplementary Dividend with respect to all or part of their shares, the shareholders shall expressly, automatically and irrevocably waive the free-of-charge allocation rights corresponding to said shares.

After the Common Election Period for the First Implementation, the Board of Directors, with express power of substitution, shall determine the aggregate gross amount in euros corresponding to the Dividend Payment for the First Implementation (equal to the final amount of the Supplementary Dividend) and shall make payment thereof through the participants in "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR), the Board of Directors being hereby authorised for such purpose, with express power of substitution, to establish the specific date on which the Dividend Payment should occur, to designate the entity that is to act as paying agent, and to take such other steps as may be required or appropriate for the successful completion of the Dividend Payment. Furthermore, after calculating said aggregate gross amount corresponding to the Dividend Payment for the First Implementation, the Board of Directors (with express power of substitution) shall, if applicable, rescind the resolution on distribution of the Supplementary Dividend with respect to the amounts that were not distributed to those shareholders who elected (expressly or implicitly) to receive newly-issued bonus shares of the Company or who have sold their free-of-charge allocation rights on the market.

The free-of-charge allocation rights acquired on the market during the trading period established for this purpose by the Board of Directors shall not give the acquiring parties the right to choose to receive the Supplementary Dividend. Therefore, the new holders of these rights may only monetise their investment through the sale thereof on the market during said trading period that has been activated for this purpose. Alternatively, they may receive the newly-issued bonus shares to which they are entitled.

Section 4.1 below includes the formula for calculating the gross amount per share corresponding to the Supplementary Dividend.

2.2. Gross amount per share to be distributed to the shareholders as an Interim Dividend in the Second Implementation

The gross amount to be distributed as an Interim Dividend, if any, for each share of Iberdrola with the right to receive it shall be as determined by the Board of Directors pursuant to the corresponding resolution to be adopted prior to 31 December 2019 and pursuant to the provisions of section 277 of the Companies Act (the "Interim Dividend").

During the Common Election Period for the Second Implementation, the Company's shareholders shall have the ability to expressly choose to receive the Interim Dividend with respect to all or part of the shares they own and that are outstanding on the relevant date upon the terms set by the Board of Directors and pursuant to applicable securities clearing and settlement rules. If they choose to receive the Interim Dividend with respect to all or part of their shares, the shareholders shall expressly, automatically and irrevocably waive the free-of-charge allocation rights corresponding to said shares.

After the Common Election Period for the Second Implementation, the Board of Directors, with the express power of substitution, shall determine the aggregate gross amount in euros corresponding to the Dividend Payment for the Second Implementation and shall make payment thereof through the participants in "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR). To this end, the Board of Directors (with express power of substitution) shall establish the specific date on which the Dividend Payment should occur, shall designate the entity that is to act as paying agent, and shall take such other steps as may be required or appropriate for the successful completion of the Dividend Payment. Furthermore, after calculating said aggregate gross amount corresponding to the Dividend Payment for the Second Implementation, the Board of Directors (with express power of substitution) shall, if applicable, rescind the resolution on distribution of the Interim Dividend with respect to the amounts that were not distributed to those shareholders who elected (expressly or implicitly) to receive newly-issued bonus shares of the Company or who have sold their free-of-charge allocation rights on the market.

The free-of-charge allocation rights acquired on the market during the trading period established for this purpose by the Board of Directors shall not give the acquiring parties the right to choose to receive the Interim Dividend. Therefore, the new holders of these rights may only monetise their investment through the sale thereof on the market during said trading period that has been activated for this purpose. Alternatively, they may choose to receive the newly-issued bonus shares to which they are entitled at the end of the aforementioned trading period.

Without prejudice to the foregoing, if the requirements of section 277 of the Companies Act are not met within the framework of the Second Implementation in order to distribute the Interim Dividend, the Company will make the Purchase Commitment in order for the shareholders to be able to monetise their free-of-charge allocation rights by transferring them to the Company at the Fixed Purchase Price upon the terms and conditions described in section 3 below.



Section 4.1 below includes the formula for calculating the gross amount per share corresponding to the Interim Dividend.

3. Purchase Commitment within the Framework of the Second Implementation.

If the requirements of section 277 of the Companies Act are not met to distribute the Interim Dividend within the framework of the Second Implementation, the Company will make the Purchase Commitment upon the terms described in this section in order to ensure that the shareholders can receive all or part of their remuneration in cash.

As soon as the Company verifies that the requirements of section 277 of the Companies Act are not met, it shall communicate this circumstance to the market.

The Fixed Purchase Price shall be calculated by applying the formula used to determine the Interim Dividend (see section 4.1 below), such that the amount that would be received by shareholders choosing this option would be equal to the amount they would have received if it had been possible to distribute the Interim Dividend. The Fixed Purchase Price shall be calculated prior to the commencement of the trading period for the free-of-charge allocation rights of the second Increase in Capital and shall be published as soon as it is determined.

The Purchase Commitment assumed by the Company shall cover the free-of-charge allocation rights received by those who are registered as being entitled thereto in the book-entry records of "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR) on the relevant date pursuant to the securities clearing and settlement rules from time to time in effect. The free-of-charge allocation rights acquired on the market during the trading period established for this purpose by the Board of Directors shall not give the acquiring parties the right to exercise the Purchase Commitment or, therefore, to receive the Fixed Purchase Price. Therefore, the new holders of these rights may only monetise their investment through the sale thereof on the market during said trading period that has been activated for this purpose. Alternatively, they may choose to receive the newly-issued bonus shares to which they are entitled at the end of the aforementioned trading period.

The Purchase Commitment shall be in effect and may be accepted during such term as is established for these purposes by the Board of Directors (with express power of substitution), and which must in any case be included within the trading period for the free-of-charge allocation rights.

For these purposes, the Company is authorised to acquire said free-of-charge allocation rights, with a maximum limit of all rights issued in relation to the second Increase in Capital, but must in any case comply with applicable legal restrictions from time to time in effect.

The acquisition by the Company of the free-of-charge allocation rights as a result of the Purchase Commitment shall be carried out with a charge to the reserves contemplated in section 303.1 of the Companies Act.

The Company shall waive the new shares corresponding to the free-of-charge allocation rights that it has acquired by application of the Purchase Commitment. In such an event, pursuant to the provisions of section 311 of the Companies Act, there will be an incomplete allocation of the Increase in Capital corresponding to the Second Implementation, and share capital shall be increased solely by the amount corresponding to the free-of-charge allocation rights that have not been waived.

4. Common Characteristics of the Increases in Capital.

The amount of each of the Increases in Capital shall be the amount resulting from multiplying: (a) the nominal value of each share of the Company, equal to seventy-five euro cents, by (b) the total determinable number of new shares of the Company to be issued, in accordance with the formula set forth in section 4.1 below, on the date of each of the Implementations (the new shares of the Company issued by way of implementation of each of the Increases in Capital shall be collectively referred to as the "New Shares", and each one, individually, as a "New Share").

Both Increases in Capital shall be carried out, if at all, by means of the issuance and flotation, on their respective dates of implementation, of the New Shares, which shall be ordinary shares having a nominal value of seventy-five euro cents each, of the same class and series as those currently outstanding, represented by book entries.

The Increases in Capital shall be entirely carried out with a charge to the reserves contemplated in section 303.1 of the Companies Act. When implementing each of the Increases in Capital, the Board of Directors, with express power of substitution, shall determine the reserve(s) to be used and the amount of such reserve(s) in accordance with the balance sheet used as a basis for the transaction.



The New Shares shall be issued at par, i.e. at their nominal value of seventy-five euro cents, without a share premium, and shall be allocated without charge to the shareholders of the Company who have opted for this remuneration alternative.

Pursuant to the provisions of section 311 of the Companies Act, the possibility of an incomplete allocation of the Increases in Capital is contemplated in the event that the Company, a company within its group, a shareholder or a third party waives all or part of the free-of-charge allocation rights to which they are entitled at the time of implementation of each of the Increases in Capital, for which reason, in the event of such waiver, the share capital shall be increased by the corresponding amount. For these purposes, it shall be deemed that those who have chosen to receive their remuneration in cash by means of collecting the Dividend in question with respect to all or part of their shares expressly, automatically and irrevocably waive the free-of-charge allocation rights corresponding to said shares, upon the terms and conditions set forth herein.

4.1 New Shares to Be Issued in each of the Increases in Capital.

The maximum number of New Shares to be issued in each of the Increases in Capital shall be the number resulting from the application of the following formula, with the resulting number being rounded to the next lower integer:

$$NNS = TNShrs. / Num. rights$$

where:

NNS = Number of New Shares to be issued within the framework of the relevant Increase in Capital;

TNShrs. = Number of shares of the Company outstanding on the date that the Board of Directors, with express power of substitution, resolves to implement the relevant Increase in Capital; and

Num. rights = Number of free-of-charge allocation rights required for the allocation of one New Share within the framework of the relevant Increase in Capital, which number will result from the application of the following formula, with the result being rounded to the next higher integer:

$$Num. rights = TNShrs. / Provisional number of shares$$

where:

Provisional number of shares = Amount of the Option / ListPri.

For these purposes, "**Amount of the Option**" shall mean the maximum reference market value of the relevant Increase in Capital to be set by the Board of Directors, with express power of substitution, and which shall not be greater than the amount referred to in the proposed increase in capital resolutions submitted for the approval of the shareholders at the General Shareholders' Meeting under items number eight and nine on the agenda (i.e. 1,520 and 1,235 million euros, respectively).

For its part, "**ListPri**" shall be the arithmetic mean of the average weighted listing prices of the Company's shares on the Bilbao, Madrid, Barcelona and Valencia Stock Exchanges through the Automated Quotation System (Sistema de Interconexión Bursátil) (Continuous Market) during the five trading sessions prior to the relevant resolution adopted by the Board of Directors (with express power of substitution) which determines the number of free-of-charge allocation rights needed for the allocation of one New Share in the relevant Increase in Capital, rounded to the closest one-thousandth part of one euro.

Furthermore, the gross amount per share of the Dividend in question, or if compliance with the requirements of section 277 of the Companies Act is not verified in Second Implementation, the Fixed Purchase Price per free-of-charge allocation right will be that which results from the application of the following formula:

$$Dividend (or, if applicable, Fixed Purchase Price) = ListPri / (Num. rights + 1)$$

4.2 Free-of-charge Allocation Rights.

In each of the Increases in Capital, each outstanding share of the Company on the date of implementation of the corresponding Increase in Capital (TNShrs.) shall grant its holder one free-of-charge allocation right.

The number of free-of-charge allocation rights required to receive one New Share in each of the Increases in Capital shall be automatically determined according to the ratio existing between the number of outstanding shares



of the Company on the date of implementation of the relevant Increase in Capital (TNShrs.) and the provisional number of New Shares, calculated by using the formula contained in section 4.1 above. Specifically, the holders of free-of-charge allocation rights shall be entitled to receive one New Share for the number of free-of-charge allocation rights held by them, which shall be determined as provided in section 4.1 above (Num. rights).

In the event that the number of free-of-charge allocation rights required for the allocation of one New Share (Num. rights) multiplied by the number of New Shares to be issued (NNS) results in a number that is lower than the number of outstanding shares of the Company on the date of implementation of the corresponding Increase in Capital (TNShrs.), the Company (or such entity within its group, if any, as holds shares of the Company) shall waive a number of free-of-charge allocation rights equal to the difference between both figures for the sole purpose that the number of New Shares be a whole number and not a fraction.

The free-of-charge allocation rights shall be allocated to those who are registered as being entitled thereto in the book-entry records of "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR) on the relevant date pursuant to the securities clearing and settlement rules from time to time in effect.

The free-of-charge allocation rights shall be transferable upon the same terms as the shares from which they derive. The free-of-charge allocation rights may be traded on the market during such term as is established by the Board of Directors (with express power of substitution) in implementing the relevant Increase in Capital, which term shall not be less than fifteen calendar days. During such term, a sufficient number of free-of-charge allocation rights may be acquired on the market in the proportion required to receive New Shares. Notwithstanding the foregoing, the free-of-charge allocation rights acquired on the market during the trading period established for this purpose shall not give the acquiring party the right to choose to receive the corresponding Dividend (or, if applicable, to exercise the Purchase Commitment and receive the Fixed Purchase Price). Therefore, the new holders of these free-of-charge allocation rights may only monetise their investment through the sale thereof on the market during said trading period that has been activated for this purpose. Alternatively, they may choose to receive the newly-issued bonus shares to which they are entitled at the end of the aforementioned trading period.

Therefore, during the trading period for the free-of-charge allocation rights, subject to any other terms and conditions established by the Board of Directors, with express power of substitution, the holders of the free-of-charge allocation rights may choose between:

- (a) receiving their remuneration in New Shares, in which case, at the end of the trading period they shall be allocated the New Shares to which they are entitled pursuant to the terms and conditions of the implementation of the Increase in Capital in question;
- (b) transferring all or part of their free-of-charge allocation rights on the market, in which case the consideration that the holders of the free-of-charge allocation rights will receive for the sale thereof will depend on the listing price of said rights; or
- (c) only during the Common Election Period determined by the Board of Directors (with express power of substitution), receiving their remuneration in cash by collecting the corresponding Dividend (or, if applicable, by collecting the Fixed Purchase Price), for which purpose the shareholders shall be required to make an express election in this regard. The shareholders may choose to receive their cash remuneration with respect to all or part of their shares.

In this case, it shall be deemed that those choosing to receive their remuneration in cash with respect to all or part of their shares expressly, automatically and irrevocably waive the free-of-charge allocation rights corresponding to said shares and the ability to transfer them on the market. To this end, the participants in "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR) will block said free-of-charge allocation rights, which may not be transferred on the market and which shall automatically expire at the end of the trading period, without the holders thereof being entitled to receive New Shares.

As mentioned above, the free-of-charge allocation rights acquired on the market during the trading period established for this purpose shall not give the acquiring parties the right to choose to receive the Dividend (nor, if applicable, the Fixed Purchase Price). Therefore, the new holders of these rights may only monetise their investment through the sale thereof on the market during said trading period that has been activated for this purpose. Alternatively, they may choose to receive the newly-issued bonus shares to which they are entitled at the end of the aforementioned trading period.

Based on their preferences and needs, the Company's shareholders may combine any of the alternatives mentioned in paragraphs (a) through (c) above with respect to different groups of shares that each of them own.



4.3 Balance Sheet for the Transaction and Reserve with a Charge to which the Increases in Capital are Carried Out.

The balance sheet used as a basis for the two Increases in Capital is the one for the financial year ended 31 December 2018, duly audited and submitted to the shareholders for approval at this General Shareholders' Meeting under item number one on the agenda.

The Increases in Capital shall be entirely carried out with a charge to the reserves contemplated in section 303.1 of the Companies Act. When implementing each of the Increases in Capital, the Board of Directors, with express power of substitution, shall determine the reserve(s) to be used and the amount of such reserve(s) in accordance with the balance sheet used as a basis for the transaction.

4.4 Representation of the New Shares.

The New Shares shall be represented by book entries, the book-entry registration of which is entrusted to "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR) and its participants.

4.5 Rights Attaching to the New Shares.

As from the date on which the relevant Increase in Capital is declared to be subscribed and paid up, the New Shares shall grant the holders thereof the same financial, voting and like rights as the ordinary shares of the Company then outstanding.

4.6 Shares on Deposit.

Once the period for trading the free-of-charge allocation rights during each of the Increases in Capital has ended, the New Shares that could not be allocated for reasons not attributable to the Company shall be kept on deposit for those who provide evidence that they are the lawful holders of the corresponding free-of-charge allocation rights. Once three years have passed from the end of each of the periods for trading the free-of-charge allocation rights, the New Shares issued by virtue of the relevant Increase in Capital that are still pending allocation may be sold in accordance with the provisions of section 117 of the Companies Act, at the expense and peril of the interested parties. The cash amount from such sale shall be deposited with Banco de España or with Caja General de Depósitos at the disposal of the interested parties.

4.7 Application for Admission to Trading.

The Company shall make application for trading the New Shares to be issued as a consequence of each of the Increases in Capital on the Bilbao, Madrid, Barcelona and Valencia Stock Exchanges, through the Automated Quotation System (Sistema de Interconexión Bursátil) (Continuous Market), and shall carry out such acts and formalities as are required and submit the documents needed to the appropriate bodies for admission to trading of the New Shares issued as a result of each of the approved Increases in Capital, with an express statement for the record of the Company's submission to the rules that may now or hereafter exist with respect to Stock Exchange matters, and especially regarding trading, continued trading and removal from trading on official markets.

A subsequent request for removal from trading of the shares of the Company shall be adopted with the same formalities as those that apply to the application for trading and, in such event, the interests of the shareholders opposing or not voting on the resolution to remove shall be safeguarded, in compliance with the requirements set out in applicable law at such time.

5. Implementation of the "Iberdrola Flexible Remuneration" System. Implementations.

Within a period of one year from the date of approval of this resolution, the Board of Directors, with express power of substitution, may set the date on which each of the Implementations must be carried out and set the terms and conditions thereof as to all matters not provided for in this resolution (including, in particular, the Amount of the Option corresponding to each of the Implementations and the Supplementary Dividend).

Furthermore, it is expected that prior to 31 December 2019, the Board of Directors will determine the Interim Dividend to be paid for purposes of the Second Implementation as well as the other conditions applicable to the Interim Dividend, pursuant to the provisions of section 277 of the Companies Act. To this end, and in accordance with the provisions of section 161 of the Companies Act, the shareholders acting at this General Shareholders' Meeting hereby instruct the Board of Directors, if the requirements established in section 277 of the Companies Act are met, to approve the distribution of the Interim Dividend and set the terms and conditions applicable to the corresponding Dividend Payment, all in order to carry out the Second Implementation.



Notwithstanding the foregoing, if the Board of Directors, with express power of substitution, does not deem it advisable to carry out one or both Implementations, in whole or in part, within the aforementioned period, it may refrain from doing so, with the duty to inform the shareholders thereof at the next General Shareholders' Meeting.

Specifically, the Board of Directors, with express power of substitution, shall analyse and take into account the market conditions, the circumstances of the Company itself or those deriving from an event that has social or financial significance for the Company, and if these or other factors make it inadvisable, in its opinion, to carry out one or both Implementations, it may refrain from doing so. In addition, the resolutions of the shareholders at this General Shareholders' Meeting relating to the Supplementary Dividend and to the Increases in Capital shall be deprived of any and all effect in the event that the Board of Directors does not exercise the powers delegated thereto, or in the case of the Second Implementation, does not approve the distribution of the Interim Dividend or honour the Purchase Commitment (if the requirements of section 277 of the Companies Act are not met) within a period of one year from approval of the resolutions.

Once the period for trading the free-of-charge allocation rights corresponding to each of the Increases in Capital has ended, the following shall apply:

- (a) The New Shares shall be allocated to those who, according to the book-entry records maintained by "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR) and its participants, are the holders of free-of-charge allocation rights in the proportion resulting from section 4 above due to not having waived them upon the terms set forth above.*
- (b) The period for trading the free-of-charge allocation rights shall be declared to have ended and the appropriation of the account(s) with a charge to which the relevant Increase in Capital will be implemented shall be formalised on the books in the respective amount, with which appropriation the Increase in Capital will be paid up.*
- (c) The Company shall pay the Supplementary Dividend or the Interim Dividend (or, if the requirements of section 277 of the Companies Act are not met within the framework of the Second Implementation, the Fixed Purchase Price), as applicable, to the shareholders that have expressly chosen to receive it within the period and subject to the terms and conditions determined for these purposes by the Board of Directors, pursuant to the provisions of section 2 above.*

Likewise, once each of the periods for trading the free-of-charge allocation rights has ended, the Board of Directors, with express power of substitution, shall adopt the resolutions required to amend the By-Laws so that they reflect the new amount of the share capital and the number of shares resulting from the implementation of the relevant Increase in Capital, and to make application for trading of the resulting New Shares on the Bilbao, Madrid, Barcelona and Valencia Stock Exchanges, through the Automated Quotation System (Continuous Market).

6. Delegation to Carry Out Each of the Implementations.

In particular, and by way of example only, the following powers are delegated to the Board of Directors, with express power of substitution:

- (a) To set the date on which each of the Implementations must be carried out, which shall in any case be within a period of one year from the approval of this resolution, and to determine the specific schedule for each of the Implementations.*
- (b) As regards each of the Implementations, to set the Amount of the Option, the amount of the Supplementary Dividend (in the case of the First Implementation), the number of New Shares and the number of free-of-charge allocation rights necessary for the allocation of one New Share, applying the rules established by this resolution for such purpose.*
- (c) To determine the reserve(s), among those contemplated in this resolution, with a charge to which each of the Increases in Capital will be implemented.*
- (d) To designate the company or companies that will assume the duties of agent and/or financial adviser in connection with each of the Implementations, and sign all required contracts and documents for such purpose. In particular, to appoint the entity that must act as paying agent in each of the Dividend Payments.*
- (e) To set the duration of the periods for trading the free-of-charge allocation rights corresponding to each of the Increases in Capital.*



- (f) As regards each of the Implementations, to set the specific duration of the Common Election Period and the terms and conditions under which the shareholders may state their preferences regarding the receipt of their remuneration (in cash or in New Shares).
- (g) After the Common Election Period for each Implementation, to determine the aggregate gross amount in euros corresponding to the Dividend Payment in question and to make payment thereof through the participants in "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR).
- (h) To declare the Increases in Capital to be closed and implemented, for such purpose setting the number of New Shares actually allocated in each of them, and therefore the amount by which the Company's share capital must be increased in accordance with the rules established by the shareholders at this General Shareholders' Meeting, as well as declare, if applicable, the existence of an incomplete allocation of each of the Increases in Capital.
- (i) To rescind the resolution on distribution of the corresponding Dividend with respect to the amounts that were not distributed to those shareholders who elected (expressly or implicitly) to receive New Shares.
- (j) In the case of the First Implementation, to determine the aggregate total amount to be distributed as a dividend with a charge to the results for the financial year ended 31 December 2018 pursuant to the provisions of item number seven on the agenda (i.e. the final amount of the Supplementary Dividend), to specify, in view of said amount, the amount of the total basis for distribution established in said item on the agenda to be allocated to remainder, and to complete the resulting proposed application of profits/losses and distribution of the dividend for financial year 2018.
- (k) In the case of the First Implementation and if the Board of Directors, with express power of substitution, does not deem it appropriate to implement the First Implementation, in whole or in part, during said period, to determine the aggregate total amount to be distributed as a dividend with a charge to the results for the financial year ended 31 December 2018 pursuant to the provisions of item number seven on the agenda, to specify the amount of the total basis for distribution established in said item on the agenda to be allocated to remainder, and to complete the resulting proposed application of profits/losses and distribution of the dividend for financial year 2018.
- (l) To amend the article of the By-Laws setting the share capital such that it reflects the amount of share capital and the number of outstanding shares resulting from the implementation of the relevant Increase in Capital.
- (m) To waive any free-of-charge allocation rights to subscribe for New Shares in each of the Increases in Capital, for the sole purpose of facilitating that the number of New Shares be a whole number and not a fraction.
- (n) If the Purchase Commitment must be honoured within the framework of the Second Implementation due to the requirements of section 277 of the Companies Act for the distribution of the Interim Dividend not having been met, to determine the acquisition by the Company of the corresponding free-of-charge allocation rights, set the period of time during which the Purchase Commitment will be in effect (within the limits established in these resolutions), honour the Purchase Commitment by paying the corresponding amounts to the shareholders who have accepted said commitment, waive the free-of-charge allocation rights owned by the company at the end of the trading period of the Second Implementation as a result of the Purchase Commitment, and thus the New Shares corresponding to such rights, and take any other measures or actions needed to fully honour the Purchase Commitment.
- (o) To take all steps required for the New Shares to be included in the book-entry records of "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR) and admitted to trading on the Bilbao, Madrid, Barcelona and Valencia Stock Exchanges through the Automated Quotation System (Continuous Market) after each of the Increases in Capital.
- (p) To take any actions that are necessary or appropriate to implement and formalise each of the Increases in Capital before any Spanish or foreign public or private entities or agencies, including acts for purposes of representation, supplementation, or correction of defects or omissions that might prevent or hinder the full effectiveness of the foregoing resolutions.

7. Sample Calculation relating to the First Implementation.

Set out below, solely for purposes of facilitating an understanding of the application hereof, is a sample calculation, in the case of the First Implementation, of the maximum number of new shares to be issued in the increase in capital submitted for the approval of the shareholders at the General Shareholders' Meeting under item number eight on the agenda, of the maximum nominal value of such increase, of the number of free-of-charge allocation rights required for the allocation of one new share and of the Dividend (which in this First Implementation would be equal to the Supplementary Dividend).



The results of these calculations are not representative of those that might be obtained, which, in the case of the First Implementation, will depend on the different variables used in the formulas (basically, the listing price of Iberdrola shares at that time (ListPri) and the Amount of the Option, as determined by the Board of Directors (with express power of substitution) in exercise of the power delegated by the shareholders at the General Shareholders' Meeting).

Solely for the purposes of this example:

- The Amount of the Option is 1,281million euros.
- The TNShrs is 6,240,000,000³.
- A ListPri of 7.182 euros is assumed (solely for the purposes of this example, the listing price of the Iberdrola shares at the closing of the trading session of 8 February 2019 has been used as a reference).

Therefore:

Provisional number of shares = Amount of the Option / ListPri	$1,281,000,000 / 7.182 = 178,362,573.0994150 = 178,362,573$ shares (rounded downwards)
Num. rights = TNShrs. / Provisional number of shares	$6,240,000,000 / 178,362,573 = 34.98491805228670 = 35$ rights (rounded upwards)
NNS = TNShrs. / Num. rights	$6,240,000,000 / 35 = 178,285,714.2857140 = 178,285,714$ shares (rounded downwards)
Dividend = ListPri / (Num. rights +1)	$7.182 / (35+ 1) = 0.19950 = 0.200$ euros (rounded to the closest thousandth of one euro)

Therefore:

- (i) The maximum number of shares to be issued in the First Implementation would be 178,285,714.
- (ii) The maximum nominal amount of the increase in capital submitted for approval of the shareholders at the General Shareholders' Meeting under item number eight on the agenda would be 133,714,285.50 euros (178,285,714 x 0.75).
- (iii) 35 free-of-charge allocation rights (or old shares) would be necessary for the allocation of one new share.⁴

In this example, the Supplementary Dividend would be equal to 0.200 euros (gross) per share."

In Bilbao, on 19 February 2019.

³ For purposes of this example, it is assumed that this would be the total number of shares of the Company outstanding after the implementation of the reduction in capital provided for in the resolution corresponding to item number ten on the agenda if it is implemented in the total maximum amount thereof (i.e. 280,457,000 shares).

⁴ In this example, the Company (or an entity of its group that holds shares of the Company) would be required to waive 10 free-of-charge allocation rights corresponding to 10 own shares in order for the number of shares to be issued to be an integer.



**General Shareholders'
Meeting
/ 2019**

**Report of the Board of
Directors
Proposed Reduction in
Share Capital**



REPORT SUBMITTED BY THE BOARD OF DIRECTORS OF IBERDROLA, S.A. REGARDING THE PROPOSED REDUCTION IN SHARE CAPITAL BY MEANS OF THE RETIREMENT OF SHARES OF IBERDROLA, S.A. INCLUDED IN ITEM NUMBER TEN ON THE AGENDA FOR THE 2019 GENERAL SHAREHOLDERS' MEETING

1. Object of the Report

This report has been prepared by the Board of Directors of IBERDROLA, S.A. ("**Iberdrola**" or the "**Company**") pursuant to the provisions of sections 286 and 318 of the *Companies Act (Ley de Sociedades de Capital)*, in order to provide a rationale for the proposed reduction in share capital by means of the retirement of own shares (the "**Reduction in Capital**") submitted to the shareholders for approval at the General Shareholders' Meeting under item number ten on the agenda.

Pursuant to such sections, the Board of Directors must prepare a report setting forth the rationale for the proposal being submitted to the shareholders at the General Shareholders' Meeting, to the extent that the approval of the Reduction in Capital necessarily entails the amendment of the article of the *By-Laws* setting the share capital.

2. Rationale for the Proposal

Pursuant to the provisions of the *Shareholder Remuneration Policy*, the Company maintains a strategy for growth in such remuneration in line with the increase in results, with a pay-out of between 65% and 75% of net profits attributed to the Company in its consolidated annual accounts, which since last year has been implemented through the "Iberdrola Flexible Remuneration" optional dividend system, and which consists of the implementation of increases in capital by means of scrip issues, combined with the ability of the shareholders to decide to receive all or part of their remuneration in cash, choosing in this case to receive a dividend instead of receiving shares.

The issue of new shares as a result of said increases in capital by means of scrip issues is offset with reductions in capital –such as the one now proposed, and such as those that the Company has implemented each year since 2013– in order to maintain the number of outstanding shares of the Company at approximately 6,240 million.

This avoids dilution of the shareholders and contributes to maintaining the profit per share of the Company, all of which benefits the shareholders.

Therefore, the Board of Directors has resolved to propose to the shareholders at the General Shareholders' Meeting a reduction in capital that offsets the effects of the increases in share capital by means of scrip issues approved by the shareholders at the General Shareholders' Meeting held on 13 April 2018 under items number seven and eight on the agenda¹ and which were implemented in July 2018 and January 2019, respectively. If the Reduction in Capital is ultimately approved, it is provided that the Company's own shares in treasury will be retired, with a corresponding reduction in share capital by an amount equal to the nominal value of such shares, and that the number of outstanding shares will be established at the target figure of 6,240 million.

A portion of the own shares are held in treasury as at 18 February 2019, while the rest of the shares to be retired will be acquired as a result of the settlement of the derivatives acquired by the Company prior to 19 February 2019, as well as within the framework of a share buy-back programme approved by the Board of Directors at its meeting of 19 February 2019 under the provisions of (a) *Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse and Commission Delegated Regulation (EU) No 2016/1052 of 8 March 2016 supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council on market abuse with regard to regulatory technical standards for the conditions applicable to buy-back programmes and stabilisation measures* and (b) in reliance on the authorisation granted by the shareholders at the General Shareholders' Meeting held on 13 April 2018 under item twelve on the agenda.

¹ And under the section entitled "*Common terms and conditions of the dividend distribution and increase in capital resolutions proposed under items six, seven and eight on the agenda, pursuant to which the new "Iberdrola Flexible Remuneration" optional dividend system is implemented*".



3. Main Terms and Conditions of the Reduction in Capital

It is proposed to reduce the share capital by the amount resulting from the sum of:

- (i) 109,070,542.50 euros, through the retirement of 145,427,390 currently existing own shares in treasury as at 18 February 2019, each with a nominal value of seventy-five euro cents, acquired under the authorisation granted by the shareholders at the General Shareholders' Meeting held on 13 April 2018 under item twelve on the agenda and within the limits established by section 146 and related provisions and section 509 of the *Companies Act* (the "**Existing Treasury Shares**"); and
- (ii) the aggregate nominal value, up to the maximum amount of 101,272,207.50 euros, of the own shares of the Company, each with a nominal value of seventy-five euro cents, up to a limit of 135,029,610 own shares (the "**Overall Limit**"), that are acquired for their retirement both through the settlement, no later than 14 June 2019, of the derivatives acquired by the Company prior to 19 February 2019 as well as under the programme for the buy-back of up to 135,029,610 own shares that will be in effect until no later than 14 June 2019, approved by the Board of Directors today, 19 February 2019 (the "**Buy-back Programme**"), under (a) the provisions of *Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse and of Commission Delegated Regulation (EU) No 2016/1052 of 8 March 2016 supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council on market abuse with regard to regulatory technical standards for the conditions applicable to buy-back programmes and stabilisation measures*, and (b) the authorisation granted by the shareholders at the General Shareholders' Meeting held on 13 April 2018 under item twelve on the agenda.

Consequently, the maximum amount of the Reduction in Capital would be 210,342,750 euros, through the retirement of a maximum of 280,457,000 own shares, each with a nominal value of seventy-five euro cents, representing not more than 4.30% of the share capital at the time of approval of the proposed resolution submitted at the General Shareholders' Meeting. If the resolution regarding the Reduction in Capital covered by this report is adopted, the final amount of the reduction would be set by the Company's Board of Directors (with express power of substitution) depending upon the final number of shares acquired both by virtue of the settlement of the derivatives acquired by the Company prior to 19 February 2019 and within the framework of the Buy-back Programme, provided they do not exceed the aforementioned Overall Limit. Otherwise, there will be a retirement of all of the shares acquired pursuant to the Buy-back Programme as well as of the number of shares acquired as a result of the settlement of the derivatives acquired by the Company prior to 19 February 2019 equal to the difference between the Overall Limit and the shares acquired in implementation of the Buy-back Programme, and the remaining treasury shares will not be retired.

In addition, if the aforementioned resolution regarding the Reduction in Capital is approved, the article of the *By-Laws* setting the share capital would be amended such that it reflects the new amount of share capital and the new number of outstanding shares (after the number of own shares proposed to be retired has been deducted).

The Reduction in Capital would not entail a return of contributions because the Company itself is the holder of the retired shares and it would be carried out with a charge to unrestricted reserves by funding a retired capital reserve in an amount equal to the nominal value of the retired shares; such reserve could only be used by complying with the same requirements as those applicable to a reduction in share capital, as provided by section 335 c) of the *Companies Act*.

Therefore, in order to make the implementation as simple as possible, and under the provisions of section 335 c) of the *Companies Act*, creditors would not be entitled to assert the right of objection contemplated by section 334 of the *Companies Act*.

It is also proposed that the shareholders at the General Shareholders' Meeting ratify the acts performed to date by the Board of Directors in connection with the Buy-back Programme approved on 19 February 2019 and that they authorise the Board of Directors to implement the Reduction in Capital resolution (with the express power of substitution, under the provisions of section 249.2 of the *Companies Act*) within a period not to exceed one month following the expiration of the Buy-back Programme, with authority to establish any terms that are not expressly set forth in the resolution approving the reduction or that are a consequence thereof and to approve the resolutions, publish the announcements, take the steps, and execute the public or private documents that may be required or appropriate for the successful implementation of the Reduction in Capital.

Specifically, it is proposed to authorise the Board of Directors to take the steps and carry out the formalities required to cause the exclusion from trading of the retired shares from the Spanish Stock Exchanges and the removal thereof from the book-entry registers once the resolution regarding the Reduction in Capital has been implemented.



4. **Proposed Resolution Submitted to the Shareholders at the General Shareholders' Meeting**

The proposed resolution submitted to the shareholders for approval at the General Shareholders' Meeting reads as follows:

"ITEM NUMBER TEN ON THE AGENDA

Approval of a reduction in capital by means of the retirement of a maximum of 280,457,000 own shares (4.30% of the share capital).

RESOLUTION

1. Reduction in Capital by means of the Retirement of Both Currently Existing Own Shares in Treasury and of Own Shares to Be Acquired through the Settlement of Derivatives Acquired prior to the Formulation of this Proposed Resolution through a Buy-back Programme for the Retirement thereof.

To reduce the share capital of IBERDROLA, S.A. (the "**Company**") by the amount resulting from the sum of:

- i. 109,070,542.50 euros, through the retirement of 145,427,390 currently existing own shares in treasury as at 18 February 2019, each with a nominal value of seventy-five euro cents, acquired under the authorisation granted by the shareholders at the General Shareholders' Meeting held on 13 April 2018 under item twelve on the agenda and within the limits established by section 146 and related provisions and section 509 of the Companies Act (the "**Existing Treasury Shares**"); and
- ii. the aggregate nominal value, up to the maximum amount of 101,272,207.50 euros, of the own shares of the Company, each with a nominal value of seventy-five euro cents, up to a limit of 135,029,610 own shares (the "**Overall Limit**"), that are acquired for their retirement both through the settlement, no later than 14 June 2019, of the derivatives acquired by the Company prior to 19 February 2019 as well as under the programme for the buy-back of up to 135,029,610 own shares that will be in effect until no later than 14 June 2019, approved by the Board of Directors on 19 February 2019 (the "**Buy-back Programme**"), under (a) the provisions of Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse and of Commission Delegated Regulation (EU) No 2016/1052 of 8 March 2016 supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council on market abuse with regard to regulatory technical standards for the conditions applicable to buy-back programmes and stabilisation measures, and (b) the authorisation granted by the shareholders at the General Shareholders' Meeting held on 13 April 2018 under item twelve on the agenda.

Consequently, the maximum amount of the reduction in capital (the "**Reduction in Capital**") shall be 210,342,750 euros, through the retirement of a maximum of 280,457,000 own shares, each with a nominal value of seventy-five euro cents, representing not more than 4.30% of the share capital at the time this resolution is approved.

As set out below, the final amount of the Reduction in Capital will be set by the Company's Board of Directors (with express power of substitution) depending upon the final number of shares acquired as a result of both the settlement of the derivatives acquired by the Company prior to 19 February 2019 and within the framework of the Buy-back Programme, provided they do not exceed the Overall Limit. Otherwise, there will be a retirement of all of the shares acquired pursuant to the Buy-back Programme as well as of the number of shares acquired as a result of the settlement of the derivatives acquired by the Company prior to 19 February 2019 equal to the difference between the Overall Limit and the shares acquired in implementation of the Buy-back Programme, and the remaining treasury shares will not be retired.

2. Procedure for Acquisition of the Shares that Will Be Retired under the Buy-back Programme.

Without prejudice to the Existing Treasury Shares, and in accordance with the resolution approved by the Board of Directors at its meeting of 19 February 2019, the Company may acquire a maximum number of 135,029,610 own shares by way of implementation of the Buy-back Programme for all of the shareholders and for their retirement, each of such own shares having a nominal value of seventy-five euro cents and representing a maximum of 2.07% of the share capital of the Company on the date of approval of this resolution, which number is within the legal limit and the limit provided for in the authorisation for the acquisition of own shares granted by the shareholders at the General Shareholders' Meeting held on 13 April 2018 under item twelve on the agenda.

As provided in the aforementioned resolution of the Board of Directors, the own shares shall be acquired subject to such terms as to price and volume as are established in article 5 of Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse and in Commission Delegated Regulation (EU) No 2016/1052 of 8 March 2016 supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the conditions applicable to buy-back programmes and stabilisation measures.



In accordance with the foregoing, pursuant to section 340.3 of the Companies Act, if the Company fails to acquire the maximum number of 135,029,610 own shares, each with a nominal value of seventy-five euro cents, both through the settlement, no later than 14 June 2019, of the derivatives acquired by the Company prior to 19 February 2019 and under the Buy-back Programme, it shall be understood that the share capital is reduced by the sum of (i) the amount corresponding to the Existing Treasury Shares, and (ii) the amount corresponding to the sum of the shares effectively acquired pursuant to the settlement, no later than 14 June 2019, of the derivatives acquired by the Company prior to 19 February 2019 and within the framework of the Buy-back Programme.

3. Procedure for the Reduction and Reserves with a Charge to which It Is Carried Out.

Pursuant to the provisions of section 342 of the Companies Act, the Reduction in Capital must be implemented within one month following the expiration of the Buy-back Programme.

The Reduction in Capital does not entail a return of contributions to the shareholders because the Company itself is the holder of the shares being retired, and it shall be carried out with a charge to unrestricted reserves by funding a retired capital reserve in an amount equal to the nominal value of the retired shares; such reserve may only be used by complying with the same requirements as those applicable to a reduction in share capital, as provided by section 335 c) of the Companies Act.

Therefore, in accordance with the provisions of such section, creditors of the Company will not be entitled to assert the right of objection contemplated by section 334 of the Companies Act in connection with the Reduction in Capital.

4. Ratification of Resolutions of the Board of Directors.

To ratify the resolutions of the Board of Directors regarding the approval of the Buy-back Programme and the establishment of the terms and conditions thereof, including the determination of the maximum number of shares to be acquired within the framework and the effective period thereof, as well as to ratify the acts, statements and formalities carried out through the date hereof in connection with the public communication of the Buy-back Programme.

5. Delegation of Powers.

To delegate to the Board of Directors, with express power of substitution, the powers necessary to implement this resolution within a period not to exceed one month following the expiration of the Buy-back Programme, with authority to establish any terms that are not expressly set forth in this resolution or that are a consequence hereof. In particular, and by way of example only, the following powers are delegated to the Board of Directors, with express power of substitution:

- (a) To modify the maximum number of shares that may be bought back by the Company, within the limits set in this resolution and by law, as well as any other terms and conditions of the Buy-back Programme, all in accordance with the provisions of Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse and in Commission Delegated Regulation (EU) No 2016/1052 of 8 March 2016 supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council on market abuse with regard to regulatory technical standards for the conditions applicable to buy-back programmes and stabilisation measures.*
- (b) To perform any acts, make any statements or take any steps that may be required in connection with the public communication of the Buy-back Programme and with the formalities, if any, that must be carried out at Spanish regulatory agencies and Stock Exchanges; negotiate, agree to and sign all contracts, agreements, commitments or instructions that may be necessary or appropriate for the successful completion of the Buy-back Programme.*
- (c) To cause all announcements required by law to be published, acquire the shares under the Buy-back Programme and retire them within one month following the expiration of the Buy-back Programme, in accordance with the terms approved herein.*
- (d) To declare the approved Reduction in Capital to be completed and implemented, establishing, for such purpose, the final number of shares that must be retired and, as a result, the amount by which the share capital of the Company must be reduced in accordance with the rules specified in this resolution.*
- (e) To set the final amount of the Reduction in Capital based on the provisions of this resolution and establish any other terms that may be required to implement it, all in accordance with the terms and conditions set forth above.*
- (f) To amend the article of the By-Laws setting the share capital such that it reflects the amount of share capital and the number of outstanding shares resulting from the implementation of the Reduction in Capital.*



- (g) *To take such steps and carry out such formalities as may be required and submit such documents as may be necessary to the competent bodies such that, once the shares of the Company have been retired and the notarial instrument for the Reduction in Capital has been executed and registered with the Commercial Registry, the retired shares are delisted from the Bilbao, Madrid, Barcelona and Valencia Stock Exchanges, through the Automated Quotation System (Continuous Market), and they are removed from the corresponding book-entry registers of "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR).*
- (h) *To perform all acts that may be necessary or appropriate to implement and formalise the Reduction in Capital before any Spanish or foreign public or private entities and agencies, including acts for purposes of representation, supplementation or correction of defects or omissions that might prevent or hinder the full effectiveness of the foregoing resolutions.*

Pursuant to the provisions of section 249.2 of the Companies Act, the Board of Directors is expressly authorised to further delegate the powers referred to in this resolution."

In Bilbao, on 19 February 2019.



**General Shareholders'
Meeting
/ 2019**

**Report of the Board of
Directors**
Proposed appointments,
ratifications and re-
elections of directors



MASTER REPORT SUBMITTED BY THE BOARD OF DIRECTORS OF IBERDROLA, S.A. REGARDING THE PROPOSED APPOINTMENT, RATIFICATION AND RE-ELECTION OF DIRECTORS INCLUDED IN ITEMS NUMBER TWELVE, THIRTEEN, FOURTEEN, FIFTEEN, SIXTEEN, SEVENTEEN AND EIGHTEEN ON THE AGENDA FOR THE 2019 GENERAL SHAREHOLDERS' MEETING

1. Object of the Report

This report is submitted by the Board of Directors of IBERDROLA, S.A. (“Iberdrola” or the “Company”) pursuant to the provisions of section 529 *decies* of the *Companies Act (Ley de Sociedades de Capital)* regarding the proposed re-election of Mr Ignacio Sánchez Galán as executive director of Iberdrola, as well regarding the proposed appointment of Ms Sara de la Rica Goiricelaya as new independent director, ratification of the interim appointment and re-election of Mr Xabier Sagredo Ormaza as independent director, and re-election of Ms María Helena Antolín Raybaud, Mr José W. Fernández, Ms Denise Holt and Mr Manuel Moreu Munaiz as independent directors.

The Board of Directors shares the conclusions set out in the reports of PwC and the Appointments Committee reproduced below, which are in favour of the re-election of Mr Ignacio Sánchez Galán as executive director of the Company, as he is the best positioned for the Company to continue along its successful path, in favour of all of the stakeholders, including the shareholders. In general terms, the proposal is based on the following arguments:

- The positive evaluation of the performance of Mr Ignacio Sánchez Galán throughout his term, his strategic vision and his management ability, as demonstrated by the financial and non-financial results of the Company.
- The 2018-2022 Strategic Plan: Mr Ignacio Sánchez Galán has played a decisive role in the preparation of Iberdrola's 2018-2022 Strategic Plan, which is supported by the shareholders and is already generating results in its second year of application.
- The decentralised corporate structure of the Iberdrola group, which allows the global integration of the businesses, maximising operational efficiency and ensuring the effective implementation and supervision of the general strategy, the basic management guidelines and best practices.
- The existence of efficient governance bodies that have strong and sufficient checks-and-balances mechanisms, all of which are clearly defined and set out in the Company's Corporate Governance System. In particular:
 - A high level of independence of the Board of Directors and its committees compared to similar entities both globally and locally.
 - The continuous refreshment of the composition of the Board of Directors with highly qualified members, each of whom contributes the skills required to drive Iberdrola's long-term strategy.
 - The permanent commitment of Iberdrola's Board of Directors to maintain an active and constructive dialogue with all stakeholders (and shareholders) and to explain its strategy and activities.
 - The existence of a vice-chair and a lead independent director with clear and strengthened powers, including participation in the planning of the schedule and the agendas of meetings of the Board of Directors, maintenance of ongoing contacts with the Company's shareholders, and leading the evaluation of the performance of and process of succession for Mr Ignacio Sánchez Galán.

In the proposed refreshment of the Board of Directors with respect to the appointment of Ms Sara de la Rica Goiricelaya as new independent director, the ratification of the interim appointment and re-election of Mr Xabier Sagredo Ormaza as independent director, and the re-election of four independent directors, the Board of Directors started with the proposals of the Appointments Committee attached as an annex to this report and which contain the information required by article 14.2.d) of the Company's *Regulations for the General Shareholders' Meeting*.

The Board of Directors finds that these proposals, as a whole, strengthens and consolidates the diversity of skills, knowledge, experience, origin, nationality, age and gender within the Board of Directors required for the best performance of the duties entrusted thereto.

2. Governance, Executive Chairmanship and Checks-and-Balances Model

The Iberdrola group has a corporate and governance structure that is clearly defined in its *By-Laws*, which differentiates and separates the duties of supervision and coordination, which are entrusted to Iberdrola at the group level and to the country subholding companies in relation to the subsidiaries, from those of management, which are given to the head of business companies, and specifically to their boards of directors and management teams.



This model seeks a balance between maximisation of the synergies arising from the existence of the Iberdrola group, ensuring coordinated action of all of the companies belonging thereto, and decentralised management, which favours an agile decision-making process based on the principle of “subsidiarity”.

Within the context of this corporate and governance structure, which structurally regulates the powers of the chairman & CEO of the Company, circumscribed to leading the functions attributed to Iberdrola as a holding company, the Board of Directors believes that the existence of an executive chairman is (at this time) the most appropriate and effective alternative to successfully carry out the businesses of the Company and of its group. Due to the particular complexity thereof, where profound engagement and dedication to high-level strategic decision-making is a key factor, the demonstrated leadership abilities of Mr Ignacio Sánchez Galán and the particularities of Iberdrola's Corporate Governance System causes the Board of Directors to find it appropriate for the chairman to be vested with executive duties.

The current model has the unequivocal advantage of identifying clear leadership within a complex and decentralised corporate and governance structure, based on the principle of “subsidiarity”, which attempts to bring the decision-making centre closer to the business, which provides agility in the decision-making process and favours dialogue with the stakeholders.

In any case, this is an issue that, like the rest of Iberdrola's Corporate Governance System, is subject to a process of on-going review by the Board of Directors, which endeavours to ensure that the corporate and governance structure contributes to the long-term, sustainable creation of value, becoming a competitive advantage.

Along these lines, one should note the effective operation of the checks-and-balances system within Iberdrola's Corporate Governance System, which ensures the co-existence of strong leadership and the effective coordination of all of the group's businesses in all of the territories in which it operates with a number of mechanisms and controls that avoid the concentration of power within a single person, the fundamental pillar of which is the Company's Board of Directors, which is responsible for defining the Company's strategy and supervising the implementation thereof, as well as the corporate and governance structure of the group.

This system of checks-and-balances, which is based on a Board of Directors having a large majority of independent directors (64%, at the level of the leading international companies and above all of its comparable European companies and the average of 44% of the IBEX-35 companies), with a lead independent director who has strengthened powers (i.e. chairing meetings of the Board of Directors in the absence of the chairman and of the vice-chairs; participating with the chairman in the planning of the annual schedule of meetings and in the preparation of the agenda for each meeting; reflecting the concerns of the non-executive directors; maintaining contacts with investors and shareholders and leading the succession process for the chairman of the Board of Directors; in addition to the duties assigned thereto by law) and a decentralised corporate and governance structure, has been strengthened during the last four years with measures including:

- The appointment of a non-executive vice chair and of a Business CEO, who supplement the positions on the Board of Directors, which, together with the lead independent director (with strengthened powers beyond those required by law), avoids the concentration of powers in a single director.
- The drive towards decentralised management by appointing CEOs at Iberdrola Spain, S.A. (Sociedad Unipersonal), Scottish Power Ltd., Neoenergia, S.A., Iberdrola Mexico, S.A. de C.V. and Avangrid, Inc.
- The development and strengthening of the corporate and governance structure with the creation of a new subholding company for the energy businesses in countries other than Spain, the United Kingdom, Brazil, Mexico and the United States of America (Iberdrola Energía Internacional, S.L. (Sociedad Unipersonal)).

The diverse and balanced composition of the Board of Directors should also be noted, with members of various nationalities and 36% female directors (versus the average of 17% for IBEX-35 companies), in which practically all of the directors have experience on other boards and significant knowledge of the industry and the group.

Iberdrola's Board of Directors believes that this system of checks-and-balances effectively separates the duties of supervision and management. Maintenance of the executive chairman model continues along the path of success and excellence, which the Board of Directors considers to be the one most conducive to meeting the 2018-2022 Strategic Plan, based on the current strategy of the Iberdrola group, the process of digital transformation, the challenges raised by the macro-economic environment of the territories in which the group does business, including the fight against climate change and the transitional of the world energy model, as well as the competence, skills and experience of Mr Ignacio Sánchez Galán.

The effectiveness of the model has also been validated by the shareholders of the Company, who have approved by Board of Directors' management by an immense majority at the latest general shareholders' meetings, receiving only 2.44% (2018), 0.38% (2017), 0.12% (2016) and 0.19% (2015) votes against, all within a context of extremely high



participation, which is the result of a continuing policy to engage the shareholders in the Company's corporate governance and in its social responsibility strategy, which is made explicit in the *Shareholder Engagement Policy*.

3. Process followed and rationale for the re-election of Mr Ignacio Sánchez Galán as executive director

The following procedure has been followed to prepare the proposal for re-election of Mr Ignacio Sánchez Galán as the Company's executive director:

- At the meeting held on 21 November 2018, the Appointments Committee found that the proposed re-election of the chairman of the Board of Directors was a question of maximum strategic significance for the Company, which required an external and independent examination, for which reason it resolved to request a report for these purposes from PwC.
- For his part, the Company's lead independent director, Mr Juan Manuel González Serna, in the performance of his duties of channelling the opinions and reflecting the proposals of the independent directors, collected the opinions of the independent directors regarding the potential re-election of Mr Ignacio Sánchez Galán as executive director of the Company.
- All of the independent directors agreed on the suitability, in the best interests of the Company, of the continuation of the chairman & CEO, and asked the lead independent director to submit to the Board of Directors, on behalf of each and every one of them, the proposed re-election of Mr Ignacio Sánchez Galán as executive director.
- The opinion of the independent directors regarding the potential re-election of Mr Ignacio Sánchez Galán as executive director of Iberdrola, prior to the expiration of his bylaw-mandated term at the 2019 General Shareholders' Meeting, was the following:
 - All of the independent directors agreed on the fact that the performance of the chairman of the Board of Directors of Iberdrola has been evaluated as outstanding at all of the annual evaluations, noting his leadership, his vision and his dedication to the Company, and also considering that he has provided excellent management within the economic environment of the countries in which the group does business and has adopted the strategic measures that are most suitable to the corporate interest at all times.

The directors stressed the vision and strategic leadership shown by the chairman & CEO during his term in focusing the Iberdrola group on a model of sustainable development, firmly committed to ethical principles, promoting a culture of "zero tolerance" towards corruption, and with the contribution to the Sustainable Development Goals (SDGs) approved by the United Nations, in which financial success and shareholder remuneration (implemented through flexible and innovative formulas) have been accompanied by growth in the social dividend generated by the group's activities and businesses.

The directors particularly pointed out as merits of Mr Ignacio Sánchez Galán his having successfully directed the transformation of the Iberdrola group into one of the leading energy groups in the world, internationally recognised for its leadership in the fight against climate change and its commitment to environmental protection and the decarbonisation of the economy.

All while preserving the independence of the Company and its historical, social and economic link to the communities in which it does business.

They also note the continuing efforts to make Iberdrola a world leader in corporate good governance, the engagement of its shareholders and dialogue with all of its stakeholders, with a Corporate Governance System under continuous improvement and regularly modified to include the best and most advanced corporate governance and sustainable development practices at the international level.

They also noted the success of Mr Ignacio Sánchez Galán's work as chairman of the Board of Directors, thanks to which the Board of Directors operates in an orderly and efficient manner as the body responsible for defining the strategy of the Iberdrola group and for supervising the implementation thereof by the management team, in which all the directors provide an informed contribution in the deliberations of the collective decision-making body, achieving a debate that enriches the decision-making process, with the participation of profiles having very diverse origins, knowledge and experience.

Specifically, all of the directors quite positively valued the quality and timeliness of the information made available to them to prepare for the meetings, noting the usefulness and accessibility of the directors' website, as well as other elements that significantly contribute to the directors being able to effectively carry out their work, like orientation programmes for new directors, annual planning and the training programme for directors.

- The independent directors agreed on stressing the effectiveness of Iberdrola's governance model, the dedication of the chairman to ensuring the independent and effective operation of the committees of the Board,



and particularly the system of checks-and-balances configured within the Company's Corporate Governance System, which prevents management power from being centralised within a single governance body or a single person.

In particular, the directors found that the existence of an executive chairman is currently the most suitable and effective alternative for the success of the Iberdrola group's businesses, due to the particular complexity thereof, where profound engagement and dedication to high-level strategic decision-making is a key factor, and they noted the demonstrated leadership abilities of Mr Ignacio Sánchez Galán.

They noted that the practical application of Iberdrola's governance model vouched for the validity thereof, reflecting better economic/financial performance than comparable companies, with this model being historically supported by the shareholders at the general shareholders' meetings and by the capital markets.

- The independent directors agreed on pointing to the executive director meeting the requirements of respectability, capability, expertise, competence, availability and commitment to the duties of chairman of the Board of Directors and CEO.

The independent directors also noted the activities of the chairman & CEO during his current bylaw-mandated term concluding in 2019, the suitability of his professional profile to the particularities of the businesses of the Iberdrola group, his knowledge of the industries in which it operates and the highly international nature thereof, appropriately combining the abilities and skills needed to lead the function of supervision that the corporate and governance structure configured within Iberdrola's Corporate Governance System vests in the Board of Directors.

Specifically, all of the independent directors stated that they were convinced that the profile of Mr Ignacio Sánchez Galán, one of the most prestigious executives in the energy industry worldwide, as shown by his numerous awards and recognitions, is the one most appropriate to successfully lead the implementation of the Strategic Plan 2018-2022 of the Iberdrola group, based on organic growth, meeting the group's investment plan, and financial strength.

- Based on all of the foregoing, all of the Company's independent directors –Mr Juan Manuel González Serna, Ms Samantha Barber, Ms María Helena Antolín Raybaud, Mr Ángel Acebes Paniagua, Ms Georgina Kessel Martínez, Ms Denise Holt, Mr José W. Fernández, Mr Manuel Moreu Munaiz and Mr Anthony L. Gardner– unanimously asked the lead independent director to propose to the Board of Directors a resolution to re-elect Mr Ignacio Sánchez Galán as executive director of Iberdrola, so that the Board of Directors may in turn, if appropriate, submit it for approval at the next General Shareholders' Meeting, as well as his continuation as chairman & CEO of the Board of Directors.
- The Board of Directors acknowledged said proposal at its meeting held on 18 December 2018.
- In response to the request of the Appointments Committee, PwC issued a report on 14 February 2019 regarding the following items, among others:
 - The Company's performance since 2001 in relation to comparable companies, and the market's valuation of its management.
 - The level of support that the Board of Directors, chaired by Mr Ignacio Sánchez Galán, has received from the shareholders at general meetings and by the market in recent years.
 - The strategic moment of the Iberdrola group.

In addition, the report has analysed the corporate and governance structure of the Iberdrola group, the main lines of which have been approved by the shareholders at a General Shareholders' Meeting with a broad majority of votes in favour, to verify that it ensures the effective separation of the duties of supervision and management, and that there are checks-and-balances that avoid potential risks associated with an accumulation of powers within the executive chairman, as well as the potential implications of a change in the governance model.

- In sum, the report, which can be viewed on the Company's corporate website, concludes as follows:
 - a) Iberdrola has performed better than comparable companies and the EUROSTOXX Utilities index during the 2001-2017 period. The company's management has also been supported by the market, with a valuation multiple (in terms of Enterprise Value/EBITDA) above that of comparable companies.
 - b) Iberdrola's Board of Directors has received majority support from the shareholders at the General Meetings. The levels of dissent in voting are less than those of comparable companies. Iberdrola has also been recognised by the market with various awards for its management and for the quality of its corporate governance. The chairman's management has also received the continuous support of the non-executive directors in the annual evaluations.



- c) Iberdrola is in the second year of implementation of its 2018-2022 Strategic Plan, presented in February 2018 to the international financial community, and which has been broadly supported by the market. The company's evolution during this new period until now reflects a high level of compliance with the defined objectives.
- d) Iberdrola's governance and organisation model, approved by the shareholders at a General Meeting, provides different tools to ensure the separation of supervision (exercised independently) from management, and avoid the concentration of power in the executive chairman. Specifically, the report affirms that no empirical evidence has been found of better performance in other alternative models and that have in fact identified risks arising from a hypothetical change in the model that would require Iberdrola to transform its entire corporate governance model.

Based on such conclusions, and particularly given the performance of the Company, the support received from the market and the strategic moment of the Iberdrola group, the report confirms the coherence of the proposed re-election of Mr Ignacio Sánchez Galán as executive director.

- Considering all of the foregoing, the Appointments Committee, pursuant to the provisions of sections 518 and 529 *decies* of the Companies Act and articles 5.d) and e) of the *Regulations of the Appointments Committee*, favourable reported on the proposed re-election of Mr Ignacio Sánchez Galán as executive director of the Company at its meeting held on 15 February 2019.
- The Company's Board of Directors, in view of the proposal of the independent directors, considering the conclusions of the report prepared by PwC at the request of the Appointments Committee as well as the report issued by said committee, has resolved to submit to the shareholders for approval at the General Shareholders' Meeting the re-election of Mr Ignacio Sánchez Galán as executive director.

4. Competence, Experience and Merits of Mr Ignacio Sánchez Galán

4.1 Competence: results of annual evaluations

The activities of the chairman of the Board of Directors have been evaluated as outstanding each year, following a demanded pre-established process within the Corporate Governance System performed with the help of a prestigious, independent, external advisor.

These evaluations, led by the lead independent director, have highlighted the management performed within a difficult economic environment, which has translated into the quite noteworthy stock market performance of the Company's shares.

In particular, the report of the lead independent director regarding the evaluation by the directors of the work of the chairman of Iberdrola's Board of Directors during financial year 2018 emphasised his leadership, his vision and his dedication to the Company, also considering that he has provided good management within the economic environment of the countries in which the group does business and has adopted the strategic measures that are most suitable to the corporate interest at all times.

4.2 Experience and merits

The group's economic indicators objectively demonstrate the good performance of Iberdrola's business model under the leadership of Mr Ignacio Sánchez Galán.

As described in the report prepared by PwC, since his appointment in 2001, the chairman of the Board of Directors has led Iberdrola to obtain annual growth above that of comparable companies in terms of net profit (+3 p.p.), EBITDA (+2 p.p.), asset base (+4 p.p.), FFO/Net debt (+5 p.p.) and capitalisation (+6 p.p.). The listing price of Iberdrola's shares has also performed better than the EUROSTOXX Utilities index.

The results show the success of the strategy defined by the Board of Directors as driven and managed by Mr Ignacio Sánchez Galán based on the five strategic pillars that illustrate the commitment to long-term sustainable development for the benefit of all of the Company's stakeholders: (i) investment in projects with profitable growth over the long term; (ii) operational excellence; (iii) the customer at the centre of the business model; (iv) optimisation of invested capital; and (v) innovation and digitisation to optimise costs and create new opportunities within all the businesses.

This economic success has cemented Iberdrola's place as a world leader in the application of the most advanced corporate governance practices, as shown by the inclusion of the Sustainable Development Goals (SDGs) approved by the United Nations into the corporate policies of the Company, which are constantly being updated and improved, and the new *Purpose and Values of the Iberdrola group*.

From this viewpoint, the strategy led by the chairman of Iberdrola's Board of Directors has achieved not only success in business management in terms of shareholder remuneration and sustainable growth, but has also been able to extend the success of its business model to all of the stakeholders.



As evidence thereof, thanks to its social strategy, Iberdrola has been recognised by the *Ethisphere Institute* as one of the most ethical companies in the world in 2018.

Iberdrola has become a leader in renewable energy and has positioned itself at the head of the fight against climate change, committing to biodiversity and the protection of the environment and favouring the refocusing of its innovation activities towards sources of energy generation that are sustainable and not aggressive towards the environment, which allow for a reduction in emissions and excellent management of strategic resources like water, committing to the Sustainable Development Goals (SDGs) approved by the United Nations.

In the human resources area, the chairman of the Board of Directors has achieved a good labour climate and has promoted a human resources policy focused on the recruiting, retention and promotion of talent and the development of equal opportunities, regardless of gender or any other personal, social or cultural circumstances, establishing the health and safety of employees and of all people forming part of Iberdrola's value chain, from suppliers to the end customer, as a priority. As a result of this effort, Iberdrola was the only electric utility in Europe included in the "Bloomberg Gender-Equality" index in 2018.

He has promoted work/life reconciliation and the maintenance of high quality working conditions, consistently placing the Company among the most highly valued companies to work for according to the main surveys and professional ratings in this area.

An ethical culture has been strengthened based on respect for human rights, regulatory compliance and the adoption of the most stringent internationally recognised practices, driving the approval of a Code of Ethics, the establishment of a decentralised, autonomous compliance structure that can supervise the entire group, and leading-edge risk management systems, which allow Iberdrola's Board of Directors to define the group's risk guidelines and to supervise the application thereof.

In the area of transparency, there has been a determined drive towards the quality of public information, using international standards, and pioneering initiatives like the publication of the Integrated Report and strengthening the credibility of information in all areas by means of external assurance.

Finally, under the chairmanship of Mr Ignacio Sánchez Galán, in developing the corporate social responsibility strategy of the Iberdrola group, a number of non-profit foundations and organisations linked to the companies of the Group have been created in the main territories in which it operates and through which the Company's social responsibility strategy is implemented and coordinated, strengthening the group's relations with the communities in which it does business.

4.3 Conclusion

Based on all of the foregoing, and particularly considering the interest of Iberdrola, the Company's Board of Directors supports the re-election of Mr Ignacio Sánchez Galán as a director of Iberdrola and his continuation as chief executive. Therefore, it submits his proposed re-election to the shareholders at the General Shareholders' Meeting.

5. **Competence, Experience and Merits of the Independent Directors whose Appointment, Ratification and/or Re-election is Submitted to the Shareholders at the General Shareholders' Meeting**

The competence, experience and merits of the six independent directors whose appointment, ratification and/or re-election is submitted to the shareholders at the General Shareholders' Meeting (Ms Sara de la Rica Goiricelaya, Mr Xabier Sagredo Ormaza, Ms María Helena Antolín Raybaud, Mr José W. Fernández, Ms Denise Holt and Mr Manuel Moreu Munaiz) is described in detail in the six proposals issued by the Appointments Committee and attached to this report.

Based on the information set out in the proposals made by the Appointments Committee, the Board of Directors has been able to verify that the six candidates have the competence, experience and merits required to continue holding the position of director.

On the one hand, the professional and background and training in business management and administration of Ms Antolín Raybaud adds experience in the area of business management.

Likewise, the knowledge of the financial sector and in the area of corporate social responsibility generally, and of the banking sector and of the social work of banking foundations in particular, will allow Mr Xabier Sagredo Ormaza to continue contributing a complete view of this key sector for Iberdrola.

The Board of Directors also favourably values his knowledge and experience in the areas of accounting, auditing and risk management, which can contribute quite positively to the good performance of the Audit and Risk Supervision Committee, while acting as the chair of said committee.



On the other hand, the knowledge of Mr José W. Fernández and Ms Denise Holt in the regulatory area of the energy sector, and particularly their experience in very significant markets for the group like the United States of America, Latin America and the United Kingdom, contribute to strengthening the necessarily international perspective that the Board of Directors must have in its analysis and deliberations.

These profiles are suitably supplemented by the technical experience of Mr Manuel Moreu Munaiz and his broad knowledge in the areas of industrial engineering and new technologies in the energy sector, as well as the academic perspective of the new candidate for director, Ms Sara de la Rica Goiricelaya, an internationally recognised professor of economics.

The Board of Directors has also taken into account the good results obtained by all of the candidates in the regular evaluations of their performance (as directors of Iberdrola in the case of the proposed ratifications and/or re-elections, and in the case of the new candidate for director Ms de la Rica Goiricelaya during the period in which she has been a director of Iberdrola España, S.A. (Sociedad Unipersonal)) in which an independent expert has participated and which corroborates this conclusion.

In all cases, the Board of Directors has quite favourably assessed the experience and in-depth knowledge of the businesses of the group and of the operation thereof obtained during their prior terms at Iberdrola and/or at companies of its group.

The six candidates have been proposed based on their personal and professional conditions. In particular, the Appointments Committee has verified that all of them can perform their duties without being constrained by relationships with the Company, its significant shareholders or its directors and officers, thus making them deserving of the classification of independent directors.

The Board of Directors believes that the appointment of Ms Sara de la Rica Goiricelaya, the ratification and re-election of Mr Xabier Sagredo Ormazá and the re-election of Ms María Helena Antolín Raybaud, Mr José W. Fernández, Ms Denise Holt and Mr Manuel Moreu Munaiz as independent directors of Iberdrola will contribute to strengthening the high level of independence of its management body, thus strengthening the effectiveness of the functions that the Corporate Governance System vests therein, and particularly those relating to defining the strategy of the Iberdrola group and supervision of the implementation and coordination thereof by the executive directors and the management team.

6. Contribution of the Proposed Candidates to the Diversity of Knowledge, Experience, Origin, Nationality and Gender within the Board of Directors

Together, the six candidates contribute to bolstering the high percentage of independent directors within the Company's Board of Directors and to achieving the diversity of knowledge, experience, origin, nationality and gender in its composition that is required for the better performance of its duties.

As described in the proposals of the Appointments Committee, the six candidates have knowledge and experience in the main countries and sectors in which the group does or will do business, and they are respectable and qualified persons, widely recognised for their expertise, competence, experience, qualifications, training, availability and commitment to their duties. All of them are irreproachable professionals, whose professional conduct and background is aligned with the principles set forth in the *Code of Ethics* and with the *Purpose and Values of the Iberdrola group*.

Specifically, the various professional profiles and backgrounds of the candidates for re-election ensure plural viewpoints and guarantee an enriching debate and a decision-making process without implicit biases.

The proposed appointment of Ms Sara de la Rica Goiricelaya and re-elections of Ms María Helena Antolín Raybaud and Ms Denise Holt also contribute to increasing the diversity of gender with the Board of Directors, exceeding the objective assumed by the Company that the number of female directors represent at least thirty per cent of all members of the Board of Directors by 2020, as well as goal five of the Sustainable Development Goals (SDGs) approved by the United Nations, regarding the empowerment of women. Specifically, with the proposed appointment of the three female directors referred to above, half of the non-executive directors will be women.

Finally, the re-election and appointment of the six directors, with four distinct nationalities (Spanish, French, English and U.S.), contribute to strengthening the diversity of origins and nationalities. All of the candidates have sufficient knowledge of the Spanish and English languages to be able to perform their duties.

7. Proposed Resolutions

The proposed resolutions submitted to the shareholders for approval at the General Shareholders' Meeting read as follows:



“ITEM NUMBER TWELVE ON THE AGENDA

Appointment of Ms Sara de la Rica Goiricelaya as independent director.

RESOLUTION

To appoint Ms Sara de la Rica Goiricelaya as director, upon the proposal of the Appointments Committee, for the by-law mandated four-year term, with the classification of independent director.

ITEM NUMBER THIRTEEN ON THE AGENDA

Ratification of the interim appointment (co-option) and re-election of Mr Xabier Sagredo Ormaza as independent director.

RESOLUTION

To ratify the appointment of Mr Xabier Sagredo Ormaza as independent director appointed on an interim basis by resolution of the Board of Directors adopted at the meeting held on 19 February 2019 and to re-elect him upon a proposal of the Appointments Committee for the bylaw-mandated four-year term, with the classification of independent director.

ITEM NUMBER FOURTEEN ON THE AGENDA

Re-election of Ms María Helena Antolín Raybaud as independent director.

RESOLUTION

To re-elect Ms María Helena Antolín Raybaud as director, upon the proposal of the Appointments Committee, for the by-law mandated four-year term, with the classification of independent director.

ITEM NUMBER FIFTEEN ON THE AGENDA

Re-election of Mr José W. Fernández as independent director.

RESOLUTION

To re-elect Mr José Walfredo Fernández as director, upon the proposal of the Appointments Committee, for the by-law mandated four-year term, with the classification of independent director.

ITEM NUMBER SIXTEEN ON THE AGENDA

Re-election of Ms Denise Holt as independent director.

RESOLUTION

To re-elect Ms Denise Mary Holt as director, upon the proposal of the Appointments Committee, for the by-law mandated four-year term, with the classification of independent director.

ITEM NUMBER SEVENTEEN ON THE AGENDA

Re-election of Mr Manuel Moreu Munaiz as independent director.

RESOLUTION

To re-elect Mr Manuel Moreu Munaiz as director, upon the proposal of the Appointments Committee, for the by-law mandated four-year term, with the classification of independent director.

ITEM NUMBER EIGHTEEN ON THE AGENDA

Re-election of Mr Ignacio Sánchez Galán as executive director.



RESOLUTION

To re-elect Mr Ignacio Sánchez Galán as director, after a report from the Appointments Committee, for the by-law mandated four-year term, with the classification of executive director."

* * *

Bilbao, 19 February 2019.



ANNEX

REPORT OF THE APPOINTMENTS COMMITTEE REGARDING THE RE-ELECTION OF MR IGNACIO SÁNCHEZ GALÁN AS EXECUTIVE DIRECTOR OF IBERDROLA, S.A.

1. Introduction

Pursuant to the provisions of article 5, sections d) and e), of the *Regulations of the Appointments Committee* of IBERDROLA, S.A. ("**Iberdrola**" or the "**Company**"), the Appointments Committee (the "**Committee**") is responsible for reporting on proposed re-elections of executive directors that the Board of Directors resolves to submit for the approval of the shareholders at a General Shareholders' Meeting.

Mr Ignacio Sánchez Galán was last re-elected as a director of Iberdrola for the bylaw-mandated four-year term at the General Shareholders' Meeting held on 27 March 2015. Based on the fact that the term for which Mr Sánchez Galán was appointed a director of Iberdrola ends during this financial year 2019, the proposal signed by all of the Company's independent directors on 18 December 2018, and the contents of the report prepared by PricewaterhouseCoopers Asesores de Negocios, S.L. ("**PwC**"), the Committee has examined the advisability of his re-election. This report sets out the results of the work performed by the Committee relating to said examination.

2. Professional Profile and Biographical Data of the Candidate

Married and with four children, Ignacio Galán graduated as an Industrial Engineer from the Engineering School (ICAI) of Universidad Pontificia Comillas (Madrid). He also graduated in Business Administration and Foreign Trade from ICADE at Universidad Pontificia Comillas (Madrid) and in General Business Administration and Foreign Trade from the School of Industrial Organisation (EOI) in Madrid.

He has received honorary doctorate degrees from the universities of Salamanca, Edinburgh, and Strathclyde (Glasgow). He has been on the faculty of Escuela Técnica Superior de Ingeniería (ICAI), and is currently a visiting professor at the University of Strathclyde, chairman of the Social Council of the University of Salamanca and a member of the Dean's Advisory Council of the Massachusetts Institute of Technology (MIT).

In 2017 he was named Best Chief Executive Officer (CEO) within the utilities category (for the eleventh time) according to the prestigious Institutional Investor Research Group; in 2011 he was named Best CEO of European utilities and of Spanish listed companies in investors relations, according to the Thomson Extel Survey; and he has received the Award for Best CEO in Investor Relations by IR Magazine on three successive occasions (2003-2005). Furthermore, in 2017 he received the Vocento Award for Business Leadership; in 2014, he received the international Responsible Capitalism award in London; in 2008, he was named Business Leader of the Year by the Spain-United States Chamber of Commerce and was awarded the 2008 International Economy Prize by Fundación Cristóbal Gabarrón; and in 2006 he received the Best CEO of the Year Award as part of the Platts Global Energy Awards.

He speaks English, French, Italian and Portuguese.

Noteworthy experience in the energy and industrial engineering sector

In the industrial engineering sector, he has served as chief operating officer of Industria de Turbo Propulsores, S.A. (ITP) and as chairman of the European aerospace consortium Eurojet, headquartered in Germany. He has also held various management positions at Sociedad Española del Acumulador Tudor, S.A. (now, Exide Group), engaged in the manufacture and sale of batteries. He is a member of the utilities group of the World Economic Forum (Davos), which he has chaired between 2014 and 2016, and of the Steering Committee of the European Round Table of Industrialists and of the J.P. Morgan International Council.

Noteworthy experience in other industries

He has been chief executive officer of Airtel Móvil, S.A. (now, Vodafone España, S.A.U.) and a member of the Supervisory Board of Nutreco Holding N.V., a listed company in The Netherlands, active in the food industry. He was a founding partner and director of the Matarromera group, dedicated to viticulture and the production of wine and oil.

Other information:

In addition to the awards mentioned above, in 2018 he was designated Universal Spaniard 2018 by Fundación Independiente; in 2018 he was made an Honorary Member of the Spanish Institute of Engineering and was awarded the Silver Cross of Merit of the Guardia Civil; in 2016 he received the Medal of Honour of the Royal National Academy of Medicine; in 2014 he was distinguished by Queen Elizabeth II with the title Commander of the Most Excellent Order of the British Empire for his work to promote the British energy sector and trade and investment relations between the United Kingdom and Spain; in 2013 he was awarded the Gold Medal of the City of Salamanca; in 2011 he received the title of Lagun Onari (Friend of the Basques) bestowed by the Basque Government; in 2010 he was appointed as a



member of GlobalScot, an international Scottish government network of business leaders who are most keenly committed to the economic development of Scotland; in 2009 he was awarded the Gold Medal of the Province of Salamanca and was named Consul of Bilbao by the Bilbao Chamber of Commerce, Industry and Shipping; and in 2007 he was awarded the Police Merit medal.

3. Membership on Other Boards of Directors

Mr Ignacio Sánchez Galán is chairman of the boards of directors of Scottish Power Limited, Avangrid, Inc. and Neoenergia, S.A., the country subholding companies performing the function of organisation and strategic coordination of the businesses of the Iberdrola group in the United Kingdom, the United States of America and Brazil, respectively.

4. Category to Which the Director Candidate Should Belong

Mr Ignacio Sánchez Galán should be assigned to the category of executive director, as he is the chief executive of the Company.

5. Availability

The effective availability of the candidate for director to provide the dedication required to hold the position has been verified with the candidate.

6. Shares of the Company and Derivative Financial Instruments whose Underlying Assets are Shares of the Company of Which the Director Candidate is a Holder

As at the date of this report, Mr Ignacio Sánchez Galán is the holder of 9,991,715 shares of the Company, which represents 0.153% of the share capital.

7. Verification of Compliance with the Requirements to Be a Director of the Company

The Committee very favourably values the profile, skills and experience of the candidate for director and, specifically, such director's respectability, capability, expertise, competence, experience, qualifications, availability and ability to commit to the duties of the position, which were verified in each of the annual reports on the individual performance thereof, in which the Committee had the assistance of an independent expert (PwC).

In addition, the Committee has verified that the conduct and professional track record of the candidate for director are fully aligned with the principles contained in the *Code of Ethics* and that the candidate has not directly or indirectly incurred any grounds for disqualification from or impediment to the holding of the position.

Therefore, it is deemed to have been verified that the candidate for director meets the general requirements for all directors of the Company as provided by law and the Corporate Governance System.

8. Verification of the Suitability of the Candidate to Continue Performing the Executive Duties thereof

The Committee has analysed the report prepared by PwC, the conclusions of which it shares, and which show the suitability of Mr Ignacio Sánchez Galán to continue performing his duties as chief executive of Iberdrola.

In this regard, the Committee notes his activities during the term now ending, the suitability of his professional profile to the particularities of the businesses of the Iberdrola group, his knowledge of the industries in which it operates and the international nature thereof, appropriately combining the abilities and skills needed to lead the function of supervision that Iberdrola's governance model vests in the Board of Directors.

9. Conclusion

The Committee has unanimously concluded to favourably report on the re-election of Mr Ignacio Sánchez Galán as director of the Company, with the classification of executive director.



ANNEX

PROPOSED APPOINTMENT OF MS SARA DE LA RICA GOIRICELAYA AS INDEPENDENT DIRECTOR OF IBERDROLA, S.A., FORMULATED BY THE APPOINTMENTS COMMITTEE

1. Introduction

Pursuant to the provisions of article 4 of the *Regulations of the Appointments Committee* of IBERDROLA, S.A. ("**Iberdrola**" or the "**Company**"), the Appointments Committee (the "**Committee**") is responsible for submitting to the Board of Directors proposed appointments of independent directors for submission to a decision by the shareholders at a General Shareholders' Meeting, as well as for verifying compliance with the specific requirements for independent directors provided by law and the Corporate Governance System, and for gathering adequate information regarding their personal qualities, experience, knowledge and effective availability.

For these purposes, the purpose of this document is to gather the results of the work performed by the Committee relating to the selection of Ms de la Rica Goiricelaya as a candidate for director, as well as to propose the appointment thereof to the Board of Directors with the classification of independent director.

Said proposal was prepared to fill the vacancy that will occur at the next General Shareholders' Meeting, after the end of the by-law mandated term as a director of Iberdrola of Mr Ángel Acebes Paniagua, who has stated that he does not wish to be proposed for re-election, on 27 March 2019.

2. Professional Profile and Biographical Data of the Candidate

Born in Bilbao, Spain, in 1963.

With a PhD in Economics from the University of the Basque Country and Professor at this institution, she has dedicated a large portion of her professional life to the study of and search for solutions on issues such as immigration, the labour market, gender equality and poverty. She is known for her work leading the Global Labour Report of the Basque Country, which fleshes out the reality and evolution of the Basque labour market.

She regularly publishes academic articles in domestic and international magazines, dealing with economic subjects, mainly related to labour, and participates in conferences and seminars and supervises graduate students in their dissertations.

She has been a director of Fundación ISEAK since 1 January 2019. The mission of the foundation is to contribute to the improvement of decision-making on public policies, mainly of a social nature, as well as the enrichment of public debate. Issues with a socio/economic profile, as well as the labour market, poverty and inequality, education, urban policy and gender inequality are analysed. She is also a member of the Scientific Advisory Board of Fundación Gadea, of the Advisory Board of the National Quality Assessment and Certification Agency (*Agencia Nacional de Evaluación de la Calidad y Acreditación*) (ANECA), of the Scientific Committee of the Basque Institute responsible for the Evaluation of the Educational System (IVEI-ISEI) and an Honorary Member of the Spanish Economics Association.

She is also an associate researcher at international bodies like CreAM (Centre for Research and Analysis of Migration - London) and IZA (Institute for the Study of the Labour Market - Bonn).

She is also a member of the Board of Directors of Basquetour, Turismoaren Euskal Agentzia, Agencia Vasca de Turismo, S.A., the government-owned company of the Department of Tourism, Trade and Consumption of the Basque Government, created to lead the promotion and implementation of the competitiveness strategy of Basque tourism.

Noteworthy experience for holding the positions thereof at Iberdrola:

Energy and industrial engineering sectors

Ms de la Rica Goiricelaya has held the position of independent director of Iberdrola España, S.A. (Sociedad Unipersonal), the country subholding company of the energy businesses in Spain. During this period, she has been able to obtain a first-hand understanding of the operation of the Iberdrola group and the main challenges and opportunities of the energy sector.



Other information:

She is the former President of the European Society for Population Economics and a member of its Executive Committee, Chairwoman of the Committee on the Situation of Women in Economics (COSME), and member of the Economic and Social Council (CES). She has also been the Secretary of the Spanish Economics Association (AEE).

She has worked in editorial boards and/or research project review boards.

In 2018 she was given the "2018 Basque Economist" (Economistak Saria 2018) Award by the Basque Association of Economists (*Colegio Vasco de Economistas*).

3. Membership on Other Boards of Directors

She is a member of the Board of Directors of Basquetour, Turismoaren Euskal Agentzia, Agencia Vasca de Turismo, S.A.

4. Category to Which the Director Candidate Should Belong

Ms Sara de la Rica Goiricelaya has been proposed based on her personal and professional qualities, after verifying that she can discharge her duties without being constrained by relationships with the Company, its significant shareholders or its directors and officers, thus meriting the classification of independent director.

5. Availability

The effective availability of the candidate to provide the dedication required to hold the position has been verified with the candidate.

6. Shares of the Company and Derivative Financial Instruments whose Underlying Assets are Shares of the Company of Which the Director Candidate is a Holder

As at the date of this report, Ms Sara de la Rica Goiricelaya is the holder of 7,631 shares of the Company, which represents 0.0% of the share capital.

7. Compliance with the Provisions of the Board of Directors Diversity and Director Candidate Selection Policy

Pursuant to the provisions of the *Board of Directors Diversity and Director Candidate Selection Policy*, in order to determine the appropriateness of appointing Ms de la Rica Goiricelaya to the position of director, the Committee has evaluated the needs of the Company and of the Iberdrola group, taking into consideration the specific particularities of the businesses thereof and of the territories in which it does business, comparing them to the profile of the candidate for director.

Based on the experience acquired by the candidate as a director of Iberdrola España, S.A. (Sociedad Unipersonal), the country subholding company that groups together the energy businesses of the Iberdrola group in Spain, and the proven performance shown in the holding of such position, as well as her knowledge in the area of economics, particularly in issues that are quite significant to the group, like the result of her works regarding the labour market and gender equality, the Committee finds that her profile is appropriate to fill the needs identified in relation to the composition of the Board of Directors.

His appointment will also contribute to maintaining the current high percentage of independent directors and will strengthen the diversity of gender within the Board of Directors.

8. Verification of Compliance with the Requirements to Be a Director of the Company

The Committee very favourably values the profile, skills and experience of the candidate for director and, specifically, such director's respectability, capability, expertise, competence, experience, qualifications, availability and ability to commit to the duties of the position.

In addition, the Committee has verified that the conduct and professional track record of the candidate for director are fully aligned with the principles contained in the *Code of Ethics* and that the candidate has not directly or indirectly incurred any grounds for disqualification from or impediment to the holding of the position.

Therefore, it is deemed to have been verified that the candidate for director meets the general requirements for all directors of the Company as provided by law and the Corporate Governance System.



9. Conclusion

The Committee has unanimously decided to propose the appointment of Ms Sara de la Rica Goiricelaya as a director of the Company, with the classification of independent director, to fill the vacancy that will occur at the next General Shareholders' Meeting, after the end of the by-law mandated term as a director of Iberdrola of Mr Ángel Acebes Paniagua on 27 March 2019.



ANNEX

PROPOSED RATIFICATION AND RE-ELECTION OF MR XABIER SAGREDO ORMAZA AS INDEPENDENT DIRECTOR OF IBERDROLA, S.A., FORMULATED BY THE APPOINTMENTS COMMITTEE

1. Introduction

Pursuant to the provisions of article 5, sections d) and e), of the *Regulations of the Appointments Committee* of IBERDROLA, S.A. ("**Iberdrola**" or the "**Company**"), the Appointments Committee (the "**Committee**") is responsible for submitting to the Board of Directors proposed ratifications and re-elections of independent directors for submission to a decision by the shareholders at a General Shareholders' Meeting, as well as for verifying compliance with the specific requirements for independent directors provided by law and the Corporate Governance System, and for gathering adequate information regarding their personal qualities, experience, knowledge and effective availability.

Ms Xabier Sagredo Ormaza was appointed as "other external" director for the bylaw-mandated four-year term at the General Shareholders' Meeting held on 8 April 2016. Mr Sagredo was then classified as an "other external" director for not meeting the requirements set forth in law and in the Corporate Governance System to be classified as an independent director or a proprietary director. Specifically, Mr Sagredo was not classified as an independent director due to his connection to Kutxabank, S.A., a shareholder of Iberdrola owning an interest legally deemed to be significant. However, in April 2017 this entity reduced its shareholder to below 3%, and thus its participation in the shares of the Company ceased to be deemed significant pursuant to the provisions of law.

Within the framework of the annual review of the classification of all directors in February 2019, as more than a year had passed since the shareholder with which Mr Sagredo was linked, Kutxabank, S.A., ceased to be the holder of a shareholding in Iberdrola deemed to be significant under the law, the Appointments Committee proposed to the Board of Directors that he be reclassified as an independent director.

In order to allow for such reclassification, which requires that the Appointments Committee propose the appointment of the director classified as independent, it is expected that Mr Sagredo will submit his resignation at the meeting of the Board of Directors to be held on 19 February 2019 so that immediately afterwards, at the same meeting, he can be appointed on an interim basis as an independent director upon a proposal of this Committee. Pursuant to the provisions of law, the shareholders acting at the first General Shareholders' Meeting held after the appointment are to ratify him in the position and, if appropriate, re-elect him.

In this regard, the purpose of this document is to gather the results of the work performed by the Committee relating to the potential ratification and re-election of Mr Sagredo, as well as to propose the ratification and re-election thereof to the Board of Directors with the classification of independent director.

2. Professional Profile and Biographical Data of the Candidate

Born in Portugalete, in 1972.

He has a degree in Economics and Business from Universidad del País Vasco, with a major in Finance, and holder of postgraduate degrees in various areas.

He is chair of the Board of Trustees of Bilbao Bizkaia Kutxa Fundación Bancaria-Bilbao Bizkaia Kutxa Banku Fundazioa, of BBK Fundazioa and of Fundación Eragintza. He is also a trustee of Biocruces Sanitary Research Institute, of the Bilbao Museum of Fines Arts and of the Guggenheim Foundation, at which he also serves as member of the Executive Committee. In addition, he is a member of the Orkestra Basque Institute of Competitiveness and of the Board of Directors of the Management Council of Universidad de Deusto, and is a visiting professor at various institutions.

Noteworthy experience for holding this position within Iberdrola:

Energy and industrial engineering sector

He has been a director of Iberdrola Generación, S.A. and a member of its Audit and Compliance Committee. He has also been a director of Iberdrola Distribución Eléctrica, S.A., at which he has held the position of chair of the Audit and Compliance Committee.



Other sectors

He has been the director of the Expansion and Assets area of the credit institution Ipar Kutxa, managing director of the concessionaire Transitia, and a member of the Board of the Bilbao Port Authority.

In addition, he has been chair and vice-chair of the Board of Directors of Caja de Ahorros Bilbao Bizkaia Kutxa, Aurrezki Kutxa eta Bahitetxea (BBK), and chair of its Audit Committee.

3. Membership on Other Boards of Directors

Mr Xabier Sagredo Ormaza is chair of the Board of Trustees of Bilbao Bizkaia Kutxa Fundación Bancaria.

4. Category to Which the Director Candidate Should Belong

Mr Xabier Sagredo Ormaza has been proposed in view of his personal and professional qualities and can perform his duties without being constrained by relationships with the Company, its significant shareholders or its directors and officers, thus meriting the classification of independent director.

5. Availability

The effective availability of the candidate for director to provide the dedication required to hold the position has been verified with the candidate.

6. Shares of the Company and Derivative Financial Instruments whose Underlying Assets are Shares of the Company of Which the Director Candidate is a Holder

As of the date of this report, Mr Xabier Sagredo Ormaza does not directly or indirectly hold any shares of the Company.

7. Compliance with the Provisions of the Board of Directors Diversity and Director Candidate Selection Policy

Pursuant to the provisions of the *Board of Directors Diversity and Director Candidate Selection Policy*, in order to determine the appropriateness of ratifying and re-electing Mr Sagredo Ormaza to the position of director, the Committee has evaluated the needs of the Company and of the Iberdrola group, taking into consideration the specific particularities of the businesses thereof and of the territories in which it does business, comparing them to the profile of the candidate for re-election.

The Committee has concluded that the technical knowledge and the experience of Mr Xabier Sagredo Ormaza in new energy generation technologies, as well as his career as a businessman and board member of listed companies, justify his re-election as a director.

The ratification and re-election thereof will also contribute to maintaining the current high percentage of independent directors and will encourage diversity of origin and nationality within the Board of Directors.

8. Verification of Compliance with the Requirements to Be a Director of the Company

The Committee very favourably values the profile, skills and experience of the candidate for director and, specifically, such director's respectability, capability, expertise, competence, experience, qualifications, availability and ability to commit to the duties of the position, which were verified in each of the annual reports on the individual performance thereof, in which the Committee had the assistance of an independent expert.

In addition, the Committee has verified that the conduct and professional track record of the candidate for director are fully aligned with the principles contained in the *Code of Ethics* and that the candidate has not directly or indirectly incurred any grounds for disqualification from or impediment to the holding of the position.

Therefore, it is deemed to have been verified that the candidate for director meets the general requirements for all directors of the Company as provided by law and the Corporate Governance System.

9. Conclusion

The Committee has unanimously decided to propose the re-election of Mr Xabier Sagredo Ormaza as a director of the Company, with the classification of independent director.



ANNEX

PROPOSED RE-ELECTION OF MS MARÍA HELENA ANTOLÍN RAYBAUD AS INDEPENDENT DIRECTOR OF IBERDROLA, S.A., FORMULATED BY THE APPOINTMENTS COMMITTEE

1. Introduction

Pursuant to the provisions of article 5, sections d) and e), of the *Regulations of the Appointments Committee* of IBERDROLA, S.A. ("**Iberdrola**" or the "**Company**"), the Appointments Committee (the "**Committee**") is responsible for submitting to the Board of Directors proposed re-elections of independent directors for submission to a decision by the shareholders at a General Shareholders' Meeting, as well as for verifying compliance with the specific requirements for independent directors provided by law and the Corporate Governance System, and for gathering adequate information regarding their personal qualities, experience, knowledge and effective availability.

Ms María Helena Antolín Raybaud was last re-elected as a director of Iberdrola for the bylaw-mandated four-year term at the General Shareholders' Meeting held on 27 March 2015. Given that the term for which Ms Antolín Raybaud was appointed a director of Iberdrola ends during this financial year 2019, the Committee has examined the advisability of her re-election and has performed the verifications and evaluations referred to in the aforementioned article of the regulations.

For these purposes, the purpose of this document is to gather the results of the work performed by the Committee relating to the potential re-election of Ms Antolín Raybaud, as well as to propose the re-election thereof to the Board of Directors with the classification of independent director.

2. Professional Profile and Biographical Data of the Candidate

Born in Toulon, France, in 1966.

Degree in International Business and Business Administration from Eckerd College, St. Petersburg, Florida (United States of America), and holds a Master of Business Administration from Anglia University, Cambridge (United Kingdom) and from Escuela Politécnica de Valencia (Spain).

She has spent her professional career in the industrial sector, and is currently a Board member, vice chair and member of the Management Committee of Grupo Antolin Irausa, S.A.

Noteworthy experience for holding the positions thereof at Iberdrola:

Energy and industrial engineering sectors

She has experience as a member of the board of companies in the energy and industrial sectors, including as independent external director of Iberdrola Renovables, S.A. and as a member of its Related-Party Transactions Committee between 2007 and 2010. She is also a member of the Management Board of the Spanish Association of Automotive Equipment and Component Manufacturers (*Asociación Española de Fabricantes de Equipos y Componentes para Automoción*) (Sernauto) since 2011.

She has been in charge of the corporate Industrial, Strategy and Marketing, Communication and Institutional Relations divisions of Grupo Antolin Irausa, S.A., where she is currently vice chair of the Board of Directors and member of the Executive Committee.

Prior experience in relation to the committee of which the candidate is a member

She has domestic and international experience in areas related to her position as member of the Appointments Committee. At Grupo Antolin Irausa, S.A., she has held the positions of director of Human Resources and head of Total Quality.

As corporate director, she has performed duties at the global level within the group, where she began her career holding successive positions of responsibility at subsidiaries located in Germany, France and Italy.

Other information:

She is the president of the Spanish Association of Automotive Equipment and Component Manufacturers (*Asociación Española de Fabricantes de Equipos y Componentes para Automoción*) (Sernauto), vice president of the Excellence in Management Club (*Club de Excelencia en la Gestión*), a member of the Advisory Committee of Sabadell Urquijo Banca



Privada, and a board member of France Foreign Trade (*Comercio Exterior de Francia*), Spain section and a member of the Plenary Committee of the Chamber of Commerce of Spain.

3. Membership on Other Boards of Directors

She is vice chair of the Board of Directors of Grupo Antolin Irausa, S.A.

4. Category to Which the Director Candidate Should Belong

Ms María Helena Antolín Raybaud has been proposed based on her personal and professional qualities and can discharge her duties without being constrained by relationships with the Company, its significant shareholders or its directors and officers, thus meriting the classification of independent director.

5. Availability

The effective availability of the candidate for re-election to provide the dedication required to hold the position has been verified with the candidate.

6. Shares of the Company and Derivative Financial Instruments whose Underlying Assets are Shares of the Company of Which the Director Candidate is a Holder

As at the date of this report, Ms María Helena Antolín Raybaud is the holder of 3,413 shares of the Company, which represents 0.0% of the share capital.

7. Compliance with the Provisions of the Board of Directors Diversity and Director Candidate Selection Policy

Pursuant to the provisions of the *Board of Directors Diversity and Director Candidate Selection Policy*, in order to determine the appropriateness of re-electing Ms Antolín Raybaud to the position of director, the Committee has evaluated the needs of the Company and of the Iberdrola group, taking into consideration the specific particularities of the businesses thereof and of the territories in which it does business, comparing them to the profile of the candidate for re-election.

The Committee has concluded that her business career within Grupo Antolin and her training in the area of business management and administration give Ms Antolín Raybaud extensive knowledge in the areas of business management, at both the domestic and international level, and allow her to contribute her practical knowledge and personal experience as a businesswoman in the decision-making process of the Company's Board of Directors.

The re-election thereof will also contribute to maintaining the current high percentage of independent directors and will encourage diversity of gender, origin and nationality within the Board of Directors.

8. Verification of Compliance with the Requirements to Be a Director of the Company

The Committee very favourably values the profile, skills and experience of the candidate for director and, specifically, such director's respectability, capability, expertise, competence, experience, qualifications, availability and ability to commit to the duties of the position, which were verified in each of the annual reports on the individual performance thereof, in which the Committee had the assistance of an independent expert.

In addition, the Committee has verified that the conduct and professional track record of the candidate for director are fully aligned with the principles contained in the *Code of Ethics* and that the candidate has not directly or indirectly incurred any grounds for disqualification from or impediment to the holding of the position.

Therefore, it is deemed to have been verified that the candidate for director meets the general requirements for all directors of the Company as provided by law and the Corporate Governance System.

9. Conclusion

The Committee has unanimously (except for the candidate for re-election, who has abstained) decided to propose the re-election of Ms María Helena Antolín Raybaud as a director of the Company, with the classification of independent director.



ANNEX

PROPOSED RE-ELECTION OF MR JOSÉ W. FERNÁNDEZ AS INDEPENDENT DIRECTOR OF IBERDROLA, S.A., FORMULATED BY THE APPOINTMENTS COMMITTEE

1. Introduction

Pursuant to the provisions of article 5, sections d) and e), of the *Regulations of the Appointments Committee* of IBERDROLA, S.A. ("**Iberdrola**" or the "**Company**"), the Appointments Committee (the "**Committee**") is responsible for submitting to the Board of Directors proposed re-elections of independent directors for submission to a decision by the shareholders at a General Shareholders' Meeting, as well as for verifying compliance with the specific requirements for independent directors provided by law and the Corporate Governance System, and for gathering adequate information regarding their personal qualities, experience, knowledge and effective availability.

Mr José W. Fernández was last re-elected as a director of Iberdrola for the bylaw-mandated four-year term at the General Shareholders' Meeting held on 27 March 2015. Given that the term for which Mr Fernández was appointed a director of Iberdrola ends during this financial year 2019, the Committee has examined the advisability of his re-election and has performed the verifications and evaluations referred to in the aforementioned article of the regulations.

For these purposes, the purpose of this document is to gather the results of the work performed by the Committee relating to the potential re-election of Mr José W. Fernández, as well as to propose the re-election thereof to the Board of Directors with the classification of independent director.

2. Professional Profile and Biographical Data of the Candidate

Born in Cienfuegos, Cuba in 1955, he is a U.S. citizen.

Degree in History from Dartmouth University (New Hampshire, United States of America), and Juris Doctor from Columbia University (New York, United States of America). He spent a large portion of his career as an attorney specialising in international commercial matters. He has also had a significant career in the institutional area, serving as Assistant Secretary of State for Economic, Energy and Business Affairs for the United States of America.

He divides his time between his position at Iberdrola and his work as a partner of Gibson, Dunn & Crutcher.

Noteworthy experience for holding the positions thereof at Iberdrola:

Energy sector

He was Assistant Secretary of State for Economic, Energy and Business Affairs for the United States of America (2009-2013), where he led the department responsible for supervising the energy security policy of the country, in addition to other policies such as international investment and trade and development and debt policy. He has also been an independent director at Iberdrola USA, Inc. (now Avangrid, Inc.), the country subholding company of Iberdrola that carries out the organisation and strategic coordination of the group's businesses in the United States of America.

Other sectors

He is a partner in the New York office of Gibson, Dunn & Crutcher, specialising in international mergers and acquisitions and finance in the emerging markets of Latin America, the Middle East, Africa and Asia. He has served on the boards of Dartmouth College, NPR Station WBGO-FM, the Middle East Institute, and Ballet Hispanico of New York and of non-governmental institutions such as Acción International. He is currently a member of the board of directors of the Council of the Americas and the Center for American Progress, among others.

Other information:

He has been the State Department's representative on the Committee on Foreign Investment in the United States. Among other acknowledgements, he was named one of the "World's Leading Lawyers" by Chambers Global for his M&A work, an "Expert" by the International Financial Law Review and one of the "World's Leading Privatization Lawyers" by Euromoney. In 2013 he was named "Embajador de la Marca España" (Ambassador of the Spain Brand) by a company made up of various agencies of the Spanish government and noteworthy Spanish companies, due to his work promoting commercial relations between the United States of America and Spain.



3. Membership on Other Boards of Directors

Mr José W. Fernández does not belong to other boards of directors of listed or unlisted companies.

4. Category to Which the Director Candidate Should Belong

Mr José W. Fernández has been proposed in view of his personal and professional qualities and can perform his duties without being constrained by relationships with the Company, its significant shareholders or its directors and officers, thus meriting the classification of independent director.

5. Availability

The effective availability of the candidate for director to provide the dedication required to hold the position has been verified with the candidate.

6. Shares of the Company and Derivative Financial Instruments whose Underlying Assets are Shares of the Company of Which the Director Candidate is a Holder

As of the date of this report, Mr José W. Fernández does not directly or indirectly hold any shares of the Company.

7. Compliance with the Provisions of the Board of Directors Diversity and Director Candidate Selection Policy

Pursuant to the provisions of the *Board of Directors Diversity and Director Candidate Selection Policy*, in order to determine the appropriateness of re-electing Mr José W. Fernández to the position of director, the Committee has evaluated the needs of the Company and of the Iberdrola group, taking into consideration the specific particularities of the businesses thereof and of the territories in which it does business, comparing them to the profile of the candidate for re-election.

The Committee has concluded that the knowledge of the operation of U.S. government administrations, and particularly of the U.S. market, generally allows Mr José W. Fernández to contribute a complete view of this key market for Iberdrola.

The re-election thereof will also contribute to maintaining the current high percentage of independent directors and will encourage diversity of origin and nationality within the Board of Directors.

8. Verification of Compliance with the Requirements to Be a Director of the Company

The Committee very favourably values the profile, skills and experience of the candidate for director and, specifically, such director's respectability, capability, expertise, competence, experience, qualifications, availability and ability to commit to the duties of the position, which were verified in each of the annual reports on the individual performance thereof, in which the Committee had the assistance of an independent expert.

In addition, the Committee has verified that the conduct and professional track record of the candidate for director are fully aligned with the principles contained in the *Code of Ethics* and that the candidate has not directly or indirectly incurred any grounds for disqualification from or impediment to the holding of the position.

Therefore, it is deemed to have been verified that the candidate for director meets the general requirements for all directors of the Company as provided by law and the Corporate Governance System.

9. Conclusion

The Committee has unanimously decided to propose the re-election of Mr José W. Fernández as a director of the Company, with the classification of independent director.



ANNEX

PROPOSED RE-ELECTION OF MS DENISE HOLT AS INDEPENDENT DIRECTOR OF IBERDROLA, S.A., FORMULATED BY THE APPOINTMENTS COMMITTEE

1. Introduction

Pursuant to the provisions of article 5, sections d) and e), of the *Regulations of the Appointments Committee* of IBERDROLA, S.A. ("**Iberdrola**" or the "**Company**"), the Appointments Committee (the "**Committee**") is responsible for submitting to the Board of Directors proposed re-elections of independent directors for submission to a decision by the shareholders at a General Shareholders' Meeting, as well as for verifying compliance with the specific requirements for independent directors provided by law and the Corporate Governance System, and for gathering adequate information regarding their personal qualities, experience, knowledge and effective availability.

Ms Denise Holt was last re-elected as a director of Iberdrola for the bylaw-mandated four-year term at the General Shareholders' Meeting held on 27 March 2015. Given that the term for which Ms Holt was appointed a director of Iberdrola ends during this financial year 2019, the Committee has examined the advisability of her re-election and has performed the verifications and evaluations referred to in the aforementioned article of the regulations.

For these purposes, the purpose of this document is to gather the results of the work performed by the Committee relating to the potential re-election of Ms Holt, as well as to propose the re-election thereof to the Board of Directors with the classification of independent director.

2. Professional Profile and Biographical Data of the Candidate

Born in Vienna, Austria, in 1949.

Degrees in Spanish Philology, French Philology, and Political Sciences from the University of Bristol and Doctor of Laws from the same university (England, United Kingdom).

A career diplomat, a large part of her professional life has been linked to the diplomatic service of the United Kingdom, which has given her broad international experience in territories like Brazil, Mexico and Spain.

In the business area, she has developed her experience in the finance, health and energy sectors. She divides her time between her role as director at Iberdrola and her activities at international bodies, academic institutions and her position of director at HSBC Bank plc.

Noteworthy experience for holding the positions thereof at Iberdrola:

Energy sector.

She has knowledge and experience in the energy sector from serving as a director at Scottish Power Renewable Energy Ltd. between 2011 and 2012, and at Scottish Power Networks Holdings Ltd. between 2012 and 2014.

Other sectors

She also has experience as a member of boards of directors of international companies and institutions in other sectors, including finance and health.

In the financial area, she has been an independent director and member of the Audit Committee of HSBC Bank UK plc., and chair and independent director of M&S Financial Services Ltd.; and in the health area, she has been an independent director of Nuffield Health and a member of the Quality and Safety and Compensation Committees of the Board of Directors of this entity.

Her broad experience as a manager thanks to her extensive diplomatic career should be noted. She has been first secretary of the Embassy of the United Kingdom in Brazil (1990-1993), director of Human Resources (1999-2002), of Migration (2005-2007) and of the Overseas Territories (2005-2007) at the UK Foreign and Commonwealth Office, and British ambassador of the United Kingdom to Mexico (2002-2005), and to Spain and Andorra (2007-2009).

Other information:

The former president of the Anglo-Spanish Society and of the Institute of Latin American Studies at the University of London, Ms Holt currently presides over the Cañada Blanch Centre for Contemporary Spanish Studies of the London



School of Economics and Political Science and is a member of the Board of the University of Sussex. She has also been chair of the Nominations Committee of the British Alzheimer's Society. For her contribution to the British diplomatic service, she was elevated to Dame Commander of the Order of St Michael and St George (DCMG).

3. Membership on Other Boards of Directors

Ms Denise Holt is an independent director of HSBC Bank UK plc. and of M&S Financial Services Ltd..

4. Category to Which the Director Candidate Should Belong

Ms Denise Holt has been proposed based on her personal and professional qualities and can discharge her duties without being constrained by relationships with the Company, its significant shareholders or its directors and officers, thus meriting the classification of independent director.

5. Availability

The effective availability of the candidate for re-election to provide the dedication required to hold the position has been verified with the candidate.

6. Shares of the Company and Derivative Financial Instruments whose Underlying Assets are Shares of the Company of Which the Director Candidate is a Holder

As at the date of this report, Ms Denise Holt is the holder of 568 shares of the Company, which represents 0.0% of the share capital.

7. Compliance with the Provisions of the Board of Directors Diversity and Director Candidate Selection Policy

Pursuant to the provisions of the *Board of Directors Diversity and Director Candidate Selection Policy*, in order to determine the appropriateness of re-electing Ms Holt to the position of director, the Committee has evaluated the needs of the Company and of the Iberdrola group, taking into consideration the specific particularities of the businesses thereof and of the territories in which it does business, comparing them to the profile of the candidate for re-election.

The Committee has concluded that the in-depth knowledge of Ms Denise Holt of the UK market and of the businesses carried out by the Iberdrola group in that territory, her extensive experience in the area of international relations thanks to her preparation, extensive diplomatic career and ability to contribute to debates with her knowledge of the financial sector, together with her performance as a director through the date hereof, make her ideal to continue holding the position of director.

The re-election thereof will also contribute to maintaining the current high percentage of independent directors and will encourage diversity of gender, origin and nationality within the Board of Directors.

8. Verification of Compliance with the Requirements to Be a Director of the Company

The Committee very favourably values the profile, skills and experience of the candidate for director and, specifically, such director's respectability, capability, expertise, competence, experience, qualifications, availability and ability to commit to the duties of the position, which were verified in each of the annual reports on the individual performance thereof, in which the Committee had the assistance of an independent expert.

In addition, the Committee has verified that the conduct and professional track record of the candidate for director are fully aligned with the principles contained in the *Code of Ethics* and that the candidate has not directly or indirectly incurred any grounds for disqualification from or impediment to the holding of the position.

Therefore, it is deemed to have been verified that the candidate for director meets the general requirements for all directors of the Company as provided by law and the Corporate Governance System.

9. Conclusion

The Committee has unanimously decided to propose the re-election of Ms Denise Holt as a director of the Company, with the classification of independent director.



ANNEX

PROPOSED RE-ELECTION OF MR MANUEL MOREU MUNAIZ AS INDEPENDENT DIRECTOR OF IBERDROLA, S.A., FORMULATED BY THE APPOINTMENTS COMMITTEE

1. Introduction

Pursuant to the provisions of article 5, sections d) and e), of the *Regulations of the Appointments Committee* of IBERDROLA, S.A. ("**Iberdrola**" or the "**Company**"), the Appointments Committee (the "**Committee**") is responsible for submitting to the Board of Directors proposed re-elections of independent directors for submission to a decision by the shareholders at a General Shareholders' Meeting, as well as for verifying compliance with the specific requirements for independent directors provided by law and the Corporate Governance System, and for gathering adequate information regarding their personal qualities, experience, knowledge and effective availability.

Mr Manuel Moreu Munaiz was last re-elected as a director of Iberdrola for the bylaw-mandated four-year term at the General Shareholders' Meeting held on 27 March 2015. Given that the term for which Mr Moreu Munaiz was appointed a director of Iberdrola ends during this financial year 2019, the Committee has examined the advisability of his re-election and has performed the verifications and evaluations referred to in the aforementioned article of the regulations.

For these purposes, the purpose of this document is to gather the results of the work performed by the Committee relating to the potential re-election of Mr Moreu Munaiz, as well as to propose the re-election thereof to the Board of Directors with the classification of independent director.

2. Professional Profile and Biographical Data of the Candidate

Born in Pontevedra, in 1953.

He has a Doctorate in naval engineering from Escuela Técnica Superior de Ingenieros Navales (ETSIN) of the Universidad Politécnica de Madrid, and has a Master's degree in Oceanic Engineering from the Massachusetts Institute of Technology (MIT).

During his career, he has combined his work as a director of companies in various sectors (especially offshore engineering) with intensive teaching and publishing. He has been a member of the board of Gamesa Corporación Tecnológica, S.A., Iberdrola Renovables, S.A., Metalships and Docks, S.A., Rodman Polyships, S.A. and Neumáticas de Vigo, S.A. (NEUVISA).

Noteworthy experience for holding this position within Iberdrola:

Energy and industrial engineering sector

He has been a member of the Board of Directors of Iberdrola Renovables, S.A. (2007-2011), and a board member and member of the Audit and Compliance Committee of Gamesa Corporación Tecnológica, S.A. (2013-2015).

In 1981 he founded Seaplace, S.L., an engineering firm specialising in the design and calculation of fixed and floating offshore structures for the petroleum, energy and aquaculture industries, among other activities.

Other sectors

He is also a director of Tubacex, S.A., a member of the Spanish Committee of Lloyd's Register EMEA and the sole director of HI Iberia Ingeniería y Proyectos, S.L. (a consulting firm dedicated to the development of software, simulations and business models) and Howard Ingeniería y Desarrollo, S.L. (technology and communications sector). He has also served as head of the Technical Department of Sociedad Española de Clasificación y Registro de Buques, Artefactos Flotantes e Ingenios Oceánicos, S.A. (Fidenavis), a company dedicated to maritime transport activities.

Other information:

He has been an associate professor of the Escuela Técnica Superior de Ingenieros Navales of the Universidad Politécnica de Madrid (ETSIN) and for the Repsol's Masters programme in oil.

He has been chairman of the Engineering Institute of Spain (*Instituto de Ingeniería de España*) since 2012 and dean of the Colegio Oficial de Ingenieros Navales y Oceánicos de Madrid y de España.



3. Membership on Other Boards of Directors

Mr Manuel Moreu Munaiz is a member of the board of Tubacex, S.A., chairman of Seaplace, S.L. and sole director of HI Iberia Ingeniería y Proyectos, S.L. and Howard Ingeniería y Desarrollo, S.L.

4. Category to Which the Director Candidate Should Belong

Mr Manuel Moreu Munaiz has been proposed in view of his personal and professional qualities and can perform his duties without being constrained by relationships with the Company, its significant shareholders or its directors and officers, thus meriting the classification of independent director.

5. Availability

The effective availability of the candidate for director to provide the dedication required to hold the position has been verified with the candidate.

6. Shares of the Company and Derivative Financial Instruments whose Underlying Assets are Shares of the Company of Which the Director Candidate is a Holder

As at the date of this report, Mr Manuel Moreu Munaiz is the holder of 49,826 shares of the Company, which represents 0.0% of the share capital.

7. Compliance with the Provisions of the Board of Directors Diversity and Director Candidate Selection Policy

Pursuant to the provisions of the *Board of Directors Diversity and Director Candidate Selection Policy*, in order to determine the appropriateness of re-electing Mr Moreu Munaiz to the position of director, the Committee has evaluated the needs of the Company and of the Iberdrola group, taking into consideration the specific particularities of the businesses thereof and of the territories in which it does business, comparing them to the profile of the candidate for re-election.

The Committee has concluded that the technical knowledge and the experience of Mr Manuel Moreu Munaiz in new energy generation technologies, as well as his career as a businessman and board member of listed companies, justify his re-election as a director.

The re-election thereof will also contribute to maintaining the current high percentage of independent directors and will encourage diversity of origin and nationality within the Board of Directors.

8. Verification of Compliance with the Requirements to Be a Director of the Company

The Committee very favourably values the profile, skills and experience of the candidate for director and, specifically, such director's respectability, capability, expertise, competence, experience, qualifications, availability and ability to commit to the duties of the position, which were verified in each of the annual reports on the individual performance thereof, in which the Committee had the assistance of an independent expert.

In addition, the Committee has verified that the conduct and professional track record of the candidate for director are fully aligned with the principles contained in the *Code of Ethics* and that the candidate has not directly or indirectly incurred any grounds for disqualification from or impediment to the holding of the position.

Therefore, it is deemed to have been verified that the candidate for director meets the general requirements for all directors of the Company as provided by law and the Corporate Governance System.

9. Conclusion

The Committee has unanimously decided to propose the re-election of Mr Manuel Moreu Munaiz as a director of the Company, with the classification of independent director.