

Bilbao, February 23, 2018

To the National Securities Market Commission

Subject: Publication of notice of call of the General Shareholders' Meeting 2018 and documentation made available to shareholders

Dear Sirs,

Pursuant to article 17 of Regulation (EU) No. 596/2014 on market abuse and article 228 of the restated text of the Securities Market Law approved by the Royal Legislative Decree 4/2015, of 23 October (*texto refundido de la Ley del Mercado de Valores aprobado por el Real Decreto Legislativo 4/2015, de 23 de octubre*) and related provisions, and further to our communication of a relevant fact dated February 20, 2018 (registration no. 261,746), we hereby inform you that on today's date the notice of call of the General Shareholders' Meeting to be presumably held on April 13, 2018 on first call, with the agenda notified in the abovementioned relevant fact will be published in the Official Commercial Registry Gazette (*Boletín Oficial del Registro Mercantil*) and in Iberdrola, S.A. (the "**Company**") corporate website (www.iberdrola.com). It is attached hereto the aforementioned notice of call, which will be accessible without interruption on the Company's corporate website 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





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

IBERDROLA, S.A. Domicilio social – Plaza Euskadi, 5 48009 Bilbao (Bizkaia)
Registro Mercantil de Bizkaia, tomo 17 del Libro de Sociedades, folio 114, hoja 901 (hoy BI-167-A), insc. 1ª. – NIF A-48010615



Cuida del medio ambiente.
Imprime en blanco y negro y solo si es necesario.



General Shareholders' Meeting

Announcement / 2018
of the Call to Meeting



Take care of the environment. Print only if necessary

General Shareholders' Meeting / 2018

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 13 April 2018, at 11:30**, or if the required quorum is not met, on the next day at the same place and time. The meeting is expected to be held on **first call**, this 13 April.

Agenda

Annual accounts and company management	<ol style="list-style-type: none">1. Approval of the annual accounts for financial year 2017.2. Approval of the management reports for financial year 2017.3. Approval of the management and activities of the Board of Directors during financial year 2017.
Board of Directors	<ol style="list-style-type: none">4. Appointment of Mr Anthony L. Gardner as independent director.5. Re-election of Ms Georgina Kessel Martínez as independent director.
Remuneration	<ol style="list-style-type: none">6. Approval of the proposed allocation of profits/losses and distribution of dividends for financial year 2017, the supplementary payment of which will be made within the framework of the "Iberdrola Flexible Remuneration" system.7. Approval of a first increase in capital by means of a scrip issue at a maximum reference market value of 1,310 million euros in order to implement the "Iberdrola Flexible Remuneration" system.8. Approval of a second increase in capital by means of a scrip issue at a maximum reference market value of 1,140 million euros in order to implement the "Iberdrola Flexible Remuneration" system.9. Approval of a reduction in share capital by means of the retirement of a maximum of 198,374,000 own shares (3.08% of the share capital).10. Consultative vote regarding the <i>Annual Director Remuneration Report</i> for financial year 2017.11. Approval of a new <i>Director Remuneration Policy</i>.
Treasury shares	<ol style="list-style-type: none">12. Approval for the Board of Directors to acquire own shares.
Formalisation of resolutions	<ol style="list-style-type: none">13. Delegation of powers for the formalisation and conversion into a public instrument of the resolutions adopted.

Attendance Bonus

€0.005/share	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.
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Participation

Unrestricted attendance

All shareholders may attend the **General Shareholders' Meeting**, vote and take part in the deliberations thereof, provided that the shares are registered in their name **prior to 9 April 2018** if, as expected, the General Shareholders' Meeting is held on first call (or prior to the next day if held on second call).

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

Remote participation

- **Shareholder Information Desks** as provided for on the corporate website (www.iberdrola.com).

- **Electronically**, through the application available on said website.

- **By mail**, sending the attendance, proxy and absentee voting card to the Company (apartado de correos número 1.113, 48080 Bilbao).

- **By telephone**, calling 900100019.

Proxies and absentee votes must, as a general rule, be received by the Company **before 13 April 2018** if, as expected, the General Shareholders' Meeting is held on first call (or prior to the next day if held on second call).

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 there will be interpreting to follow the meeting in Euskera (Basque), English and Brazilian Portuguese, as well for shareholders to be able to make presentations in any of these languages.

Playroom

The Company will provide a playroom supervised by qualified professionals so that **shareholders with children under their care can attend the General Shareholders' Meeting**.

Information

All documents at 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 31 March 2017.

Immediate free shipping of information

The **shareholders may 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 2017, together with the respective audit reports, the proposed resolutions and the reports of the Board of Directors, including the proposed *Director Remuneration Policy* and the corresponding report of the Remuneration Committee.

Questions and clarifications

Until 8 April 2018, 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 individual and consolidated annual accounts and management reports of the Company for financial year 2017.

Digital channels and Office of the Shareholder

Shareholders may obtain additional information within the **Investor Relations App**, in the **On-Line Shareholders (OLS) system**, which is continuously available on the **corporate website** (www.iberdrola.com), or at the **Office of the Shareholder** (phone: 900100019, hours: Monday to Friday, from 09:00 to 19:00 / e-mail: accionistas@iberdrola.com).

Other Rights

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 1 March 2018.

More information regarding the exercise of shareholder rights

Detailed information regarding the exercise of the rights to receive information, to attend, to proxy representation, to absentee voting, to request the publication of a supplement to the call to meeting and to submit well-founded proposed resolutions can be obtained on the **corporate website** (www.iberdrola.com).

Bilbao, 20 February 2018.

The secretary of the Board of Directors.

Personal data protection: the personal data that shareholders provide to the Company (upon the exercise or delegation of their rights to receive information, to attend, to proxy representation and to vote) or that are provided by the financial institutions and by the investment services companies that are depositaries or custodians of the shares held by such shareholders, as well as by the entities in charge of the book-entry registers pursuant to law, will be processed by the Company in order to manage the shareholding relationship (including, but not limited to, the call to and holding of the Shareholder Day and the General Shareholders' Meeting and the dissemination thereof). To such end, the data will be kept in computer files for which the Company is responsible. Such data will be provided to the notary public solely in connection with the drawing-up of the notarial minutes of the General Shareholders' Meeting.

The data subject will be entitled to exercise the rights of access, rectification, objection or erasure of the data collected by the Company. Such rights may be exercised in accordance with the provisions of law by means of a letter addressed to IBERDROLA, S.A. (address: Plaza Euskadi número 5, 48009 Bilbao).

If the shareholder includes personal data of other individuals on the attendance, proxy and absentee voting card, such shareholder must advise them of the details set forth in the preceding paragraphs and comply with any other requirements that may apply for the provision of the personal data to the Company, without the Company having to take any additional action.

All or part of the proceedings of the General Shareholders' Meeting will be subject to audiovisual recording and broadcast and will be available to the public through the Company's corporate website (www.iberdrola.com).



General Shareholders' Meeting

Proposed Resolutions / 2018



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ITEM NUMBER ONE ON THE AGENDA

Approval of the annual accounts for financial year 2017.

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 2017, which were formulated by the Board of Directors at its meeting held on 20 February 2018.

ITEM NUMBER TWO ON THE AGENDA

Approval of the management reports for financial year 2017.

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 2017, which were formulated by the Board of Directors at its meeting held on 20 February 2018.

ITEM NUMBER THREE ON THE AGENDA

Approval of the management and activities of the Board of Directors during financial year 2017.

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 2017.

ITEM NUMBER FOUR ON THE AGENDA

RESOLUTION

Appointment of Mr Anthony L. Gardner as independent director.

To appoint Mr Anthony Luzzatto Gardner 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 FIVE ON THE AGENDA

Re-election of Ms Georgina Kessel Martínez as independent director.

RESOLUTION

To re-elect Ms Georgina Kessel Martínez as director, upon the proposal of the Appointments Committee, for the by-law mandated four-year term, with the status of independent director.

ITEM NUMBER SIX ON THE AGENDA

Approval of the proposed allocation of profits/losses and distribution of dividends for financial year 2017, the supplementary payment of which will be made within the framework of the "Iberdrola Flexible Remuneration" system.

RESOLUTION

To approve the proposed allocation of profits/losses and distribution of dividends for financial year 2017 formulated by the Board of Directors at its meeting held on 20 February 2018, which is described below:

To distribute, with a charge to the results of the financial year ended 31 December 2017, a dividend in the aggregate gross amount that will be equal to the sum of the following amounts (the "Dividend"):

- a) 8,220,427.60 euros, which were paid on account of the dividend for financial year 2017 on 29 January 2018 to the holders of 58,717,340 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 Dividend” system for financial year 2017 by collecting an amount of 0.140 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 within the framework of the first implementation of the “Iberdrola Flexible Remuneration” system for financial year 2018 (the “**Supplementary Dividend**”), and which will be equal to the Cash Remuneration (as this term is defined in the section “*Common Terms and conditions of the dividend distribution and increase in capital resolutions proposed under items number six, seven and eight on the agenda, by virtue of which the “Iberdrola Flexible Remuneration” 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 their remuneration in cash within the framework of said implementation.

The Cash Remuneration cannot be determined as of the date of formulation of this proposed resolution, for which reason the amount of the Supplementary Dividend and therefore the amount of the Dividend cannot be determined.

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 seven 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 can choose when receiving their remuneration in the first implementation of the “Iberdrola Flexible Remuneration” system for financial year 2018. 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 the ability to transfer them on the market.

The distribution of the Supplementary Dividend, which is expected to take place during the month of July 2018, 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:	6,614,049,754
Profits for financial year 2017:	1,598,870,975

TOTAL: **8,212,920,729**

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 their remuneration in cash within the framework of
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the first implementation of the "Iberdrola Flexible Remuneration" 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:

8,212,920,729

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 seven on the agenda (and therefore, to commence the first implementation of the "Iberdrola Flexible Remuneration" system for financial year 2018), the minimum amount of the Cash Remuneration (which shall be equal to the minimum amount of the Supplementary Dividend) shall be announced. The final amount of the Cash Remuneration 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. Such final amount shall be equal to the Supplementary Dividend. Furthermore, once the first implementation of the "Iberdrola Flexible Remuneration" system for financial year 2018 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 Cash Remuneration (and thus 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 seven on the agenda.

ITEM NUMBER SEVEN ON THE AGENDA

Approval of a first increase in capital by means of a scrip issue at a maximum reference market value of 1,310 million euros in order to implement the "Iberdrola Flexible Remuneration" 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 six, seven and eight on the agenda, pursuant to which the "Iberdrola Flexible Remuneration" system is implemented*" (the "**Common Terms**"), at a maximum reference market value of 1,310 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 six 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 six on the agenda during the month of July 2018.

ITEM NUMBER EIGHT ON THE AGENDA

Approval of a second increase in capital by means of a scrip issue at a maximum reference market value of 1,140 million euros in order to implement the "Iberdrola Flexible Remuneration" 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 six, seven and eight on the agenda, pursuant to which the "Iberdrola Flexible Remuneration" system is implemented*" (the "**Common Terms**"), at a maximum reference market value of 1,140 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 2018, 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 can be expected to be implemented together with the Interim Dividend payment during the month of December 2018 or January 2019.

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

1. Main Characteristics of the new "Iberdrola Flexible Remuneration" Shareholder Remuneration System

The purpose of the dividend distribution and increase in capital resolutions proposed under items number six, seven and eight on the agenda is to implement the new "Iberdrola Flexible Remuneration" 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 through the delivery of newly-issued 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 seven and eight on the agenda:

- (i) The first implementation of the "Iberdrola Flexible Remuneration" system, which is expected to take place during the month of July 2018 (the "**First Implementation**"), shall be carried out through the supplementary payment of the dividend contemplated in item number six 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 seven on the agenda.
- (ii) The second implementation of the "Iberdrola Flexible Remuneration" system, which is expected to take place during the months of December 2018 or January 2019 (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 2018 (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 eight 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 shall be offered the ability to receive their remuneration in cash

(through the collection of the Supplementary Dividend or the Interim Dividend), in newly-issued bonus shares of the Company (through the Increases in Capital) or through a combination of both alternatives, without prejudice to the ability to transfer the free-of-charge allocation rights on the market in accordance with the provisions of these resolutions. The final amount of each of the Dividend Payments and of each of the Increases in Capital shall be determined 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 six, seven and eight 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.

In each of the Increases in Capital, 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 by delivery of newly-issued bonus shares. 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 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 shareholders may only elect remuneration option (a) 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. In any event, the election of remuneration option (a) automatically excludes the ability to choose option (c) regarding the same shares, and vice versa.

It is hereby stated that, as a new development, in the editions of the "Iberdrola Flexible Remuneration" system to be implemented by virtue of this resolution, the shareholders will not be offered the ability to transfer all or part of their free-of-charge allocation rights to Iberdrola at a guaranteed fixed price (which is different from what occurred under the traditional remuneration system called "Iberdrola Flexible Dividend" or "Scrip Dividend"). This is because the Company's shareholders will have the option to receive the Dividends as an alternative to the delivery of bonus shares of the Company or the transfer of the free-of-charge allocation rights on the market, thus having the ability to choose to receive their remuneration in cash if they so desire.

As the only exception to the foregoing, it is proposed that 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 traditional "Iberdrola Flexible Dividend" remuneration system will apply, with the Company making 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 the Supplementary Dividend in the First Implementation

The gross amount to be distributed as the 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 six on the agenda and in this section (the "**Supplementary Dividend per Share**"). In particular, the amount of the Supplementary Dividend per Share must be equal to the Cash Remuneration (as this term is defined below).

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 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 Supplementary Dividend per Share 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, the Board of Directors, with express power of substitution, shall determine the aggregate gross amount in euros corresponding to the Dividend Payment from the First 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), 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 new 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 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.

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

The gross amount to be distributed as the 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 2018 and pursuant to the provisions of section 277 of the *Companies Act* (the "Interim Dividend per Share").

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 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 and pursuant to applicable securities clearing and settlement rules. If they choose to receive the Interim Dividend per Share with respect to all or part of their shares, the shareholders shall waive the free-of-charge allocation rights corresponding to said shares.

After the Common Election Period, the Board of Directors shall determine the aggregate gross amount in euros corresponding to the Dividend Payment from 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 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 new shares of the Company or who have sold their free-of-charge allocation rights to third parties 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 per Share. Therefore, the new holders of these rights may only monetise their remuneration through the sale thereof on the market, or alternatively receive the new bonus shares to which they are entitled.

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, there will be a reversion to the traditional "Iberdrola Flexible Dividend" remuneration system, with the Company making a 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.

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, said Implementation shall return to the traditional "Iberdrola Flexible Dividend" system in order to ensure that the shareholders can receive all or part of their remuneration in cash. As a result of the foregoing, the Company assumes the Purchase Commitment if said circumstance occurs. 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 Cash Remuneration, 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 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, 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*.

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**" will 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 will 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 seven and eight on the agenda (i.e. 1,310 and 1,140 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, "**Cash Remuneration**" shall mean the gross amount per share resulting from the application of the following formula:

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

The Cash Remuneration shall be equal to: (a) the amount of the Supplementary Dividend per Share in the case of the First Implementation; (b) the amount of the Interim Dividend per Share in the case of the Second Implementation; or (c) if compliance with the requirements of section 277 of the *Companies Act* is not verified in the Second Implementation, the Fixed Purchase Price per free-of-charge allocation right.

4.2 Free-of-charge Allocation Rights

In each of the Increases in Capital, each outstanding share of the Company 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. 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.

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 bonus shares of the Company, 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, for which purpose the shareholders shall be required to make an express election in this regard. The shareholders may choose to receive the Dividend in question 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. 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.

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 2017, 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 New "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 amount of the Supplementary Dividend per Share).

Furthermore, it is expected that prior to 31 December 2018, the Board of Directors will determine the Interim Dividend per Share 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 per Share (in the case of the First Implementation), the number of New Shares, the number of free-of-charge allocation rights necessary for the allocation of one New Share and the Cash Remuneration, 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 2017 pursuant to the provisions of item number six on the agenda and, in view of said amount, specify the amount of the total basis for distribution established in said item on the agenda to be allocated to remainder.

- (k) 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.
- (l) 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.
- (m) 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.
- (n) 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.
- (o) 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 seven 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 Cash Remuneration (which is 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 1,179 million euros.
- The TNShrs. is 6,240,000,000¹.
- A ListPri of 6.046 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 15 February 2018 has been used as a reference).

Therefore:

Provisional number of shares = Amount of the Option / ListPri	$1,179,000,000 / 6.046 = 195,004,961.958320 = 195,004,961$ shares (rounded downwards)
Num. rights = TNShrs. / Provisional number of shares	$6,240,000,000 / 195,004,961 = 31.999185907890809 = 32$ rights (rounded upwards)
NNS = TNShrs. / Num. rights	$6,240,000,000 / 32 = 195,000,000$
Cash Remuneration = ListPri / (Num. rights + 1)	$6.046 / (32 + 1) = 0.183$ euros

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 8 on the agenda if it is implemented in the total maximum amount thereof (i.e. 198,374,000 shares).

	(rounded to the closest thousandth of one euro)
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Therefore:

- (i) The maximum number of shares to be issued in the First Implementation would be 195,000,000.
- (ii) The maximum nominal amount of the increase in capital submitted for approval of the shareholders at the General Shareholders' Meeting under item number seven on the agenda would be 146,250,000.00 euros (195,000,000 x 0.75).
- (iii) 32 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 0.183 euros (gross) per share (amount equal to the Cash Remuneration).

ITEM NUMBER NINE ON THE AGENDA

Approval of a reduction in share capital by means of the retirement of a maximum of 198,374,000 own shares (3.08% 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. 74,272,523.25 euros, through the retirement of 99,030,031 currently existing own shares in treasury as at 19 February 2018, 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 28 March 2014 under item nine 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 74,507,976.75 euros, of the own shares of the Company, each with a nominal value of seventy-five euro cents, up to a limit of 99,343,969 own shares (the "**Overall Limit**"), that are acquired for their retirement both through the settlement, no later than 15 June 2018, of the derivatives acquired by the Company prior to 20 February 2018 as well as under the programme for the buy-back of up to 99,343,969 own shares that will be in effect until no later than 15 June 2018, approved by the Board of Directors on 20 February 2018 under 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* (the "**Buy-back Programme**").

Consequently, the maximum amount of the reduction in capital (the "**Reduction in Capital**") shall be 148,780,500 euros, through the retirement of a maximum of 198,374,000 own shares, each with a nominal value of seventy-five euro cents, representing not more than 3.08% 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 20 February 2018 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 20 February 2018 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 In this example, the Company (or an entity of its group that holds shares of the Company) would not be required to waive any free-of-charge allocation rights corresponding to own shares in order for the number of shares to be issued to be an integer.

2. Procedure for the 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 20 February 2018, the Company may acquire a maximum number of 99,343,969 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 1.543 % 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 28 March 2014 under item nine on the agenda, and if approved, in the authorisation in replacement thereof approved by the shareholders at this General Shareholders' Meeting under item number 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 on market abuse 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 99,343,969 own shares, each with a nominal value of seventy-five euro cents, both through the settlement, no later than 15 June 2018, of the derivatives acquired by the Company prior to 20 February 2018 as well as 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 15 June 2018, of the derivatives acquired by the Company prior to 20 February 2018 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, within one month following the expiration of the Buy-back Programme, retire the shares 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 TEN ON THE AGENDA

Consultative vote regarding the *Annual Director Remuneration Report* for financial year 2017.

RESOLUTION

To approve, on a consultative basis, the *Annual Director Remuneration Report* for financial year 2017, 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 ELEVEN ON THE AGENDA

Approval of a new *Director Remuneration Policy*.

RESOLUTION

To approve the Director Remuneration Policy, the full text of which, together with the required report of the Remuneration Committee, are included in the report of the Board of Directors made available to the shareholders as part of the 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

Approval for the Board of Directors to acquire own shares.

RESOLUTION

To expressly authorise the Board of Directors, with express power of substitution, pursuant to the provisions of section 146 of the *Companies Act*, for the derivative acquisition of shares of IBERDROLA, S.A. (the "Company") under the following conditions:

- (a) The acquisitions may be made directly by the Company or indirectly through its subsidiaries upon the same terms as those provided for in this resolution. Subsidiaries that perform regulated activities pursuant to the provisions of *Law 24/2013 of 26 December on the Electricity Industry* and *Law 34/1988 of 7 October on the Hydrocarbon Industry* are excluded from this authorisation.
- (b) The acquisitions shall be made through purchase/sale, swap or any other transaction allowed by law.
- (c) The acquisitions may be made from time to time up to the maximum amount allowed by law.
- (d) The acquisitions may not be made at a price above the market price or below the par value of the shares.
- (e) This authorisation is granted for a period of five years from the adoption of this resolution.
- (f) As a result of the acquisition of shares, including those that the Company or person acting in their own name but on behalf of the Company has previously acquired and holds in treasury, the resulting shareholders' equity may not be reduced below the amount of share capital plus legal or bylaw-mandated restricted reserves, all pursuant to the provisions of letter b) of section 146.1 of the *Companies Act*.

It is expressly stated for the record that the shares acquired as a result of this authorisation may be used for sale or retirement as well as for application of the remuneration systems contemplated in the third paragraph of letter a) of section 146.1 of the *Companies Act*, and also to the development of programmes fostering participation in the capital of the Company, including dividend reinvestment plans, loyalty bonds or other similar instruments.

This resolution revokes and deprives of effect, to the extent of the unused amount, the authorisation for the derivative acquisition of own shares given to the Board of Directors by the shareholders at the General Shareholders' Meeting held on 28 March 2014.

ITEM NUMBER THIRTEEN 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 of the Board of Directors, such that any of them, to the fullest extent required under law, may formalise and convert into a public instrument the resolutions adopted by the shareholders acting at this General Shareholders' Meeting, for which purpose they may:

- (a) Elaborate on, clarify, make more specific, interpret, complete and correct them.
- (b) Carry out such acts or legal transactions as may be necessary or appropriate for the implementation of the resolutions, 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.
- (c) Delegate to one or more of the members of the Board of Directors all or part of the powers of the Board of Directors that they deem appropriate from among those vested in this body and those that have been expressly granted to them by the shareholders acting at this General Shareholders' Meeting, whether jointly or severally.
- (d) 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.



General Shareholders' Meeting

Report of the Board of Directors
Proposed Appointments and Re-Elections of Directors / 2018



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MASTER REPORT SUBMITTED BY THE BOARD OF DIRECTORS OF IBERDROLA, S.A. REGARDING THE PROPOSED APPOINTMENT AND RE-ELECTION OF DIRECTORS INCLUDED IN ITEMS NUMBER FOUR AND FIVE ON THE AGENDA FOR THE GENERAL SHAREHOLDERS' MEETING CALLED TO BE HELD ON 13 AND 14 APRIL 2018, ON FIRST AND SECOND CALL, RESPECTIVELY

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 appointment and re-election, respectively, of Mr Anthony L. Gardner and of Ms Georgina Kessel Martínez with the classification of independent directors. Both proposals are included within the succession plan for non-executive directors set forth in the *General Corporate Governance Policy*, which succession plan is promoted by the Appointments Committee and ensures an orderly succession of the Board of Directors.

The proposed appointment of Mr Anthony L. Gardner is intended to fill the vacancy that will occur due to the resignation of Mr Braulio Medel Cámara from his position as director for personal reasons and in compliance with the provisions of said succession plan, effective as of the next General Shareholders' Meeting, which is expected to be held on 13 April 2018, on first call.

In preparing the proposed renewal of the Board of Directors being submitted to the shareholders at the General Shareholders' Meeting, the Board of Directors has taken into account the proposals and reports that the Appointments Committee issued in relation to the appointment and re-election of both candidates, which are 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*, as well as those issued in relation to the continuity of Ms Inés Macho Stadler and Mr Íñigo Víctor de Oriol Ibarra as directors, who, like Mr Medel Cámara, tendered their resignation to the Board of Directors in compliance with the commitment announced at their prior election at the General Shareholders' Meeting held in 2016. In this regard, the Appointments Committee voted favourably on the continuity of Ms Macho Stadler and Mr de Oriol Ibarra, which ensures the maintenance of quite valuable profiles for the Board of Directors, with a broad understanding of the operation of the Company and its businesses.

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

2. Competence, Experience and Merits of Mr Anthony L. Gardner (independent)

Mr Anthony L. Gardner brings to the Board of Directors his broad experience in the business sector and in the area of international relations, and particularly in relations between the United States of America and the European Union.

The candidate has administration and senior management experience, having been general manager of private equity firms such as Palamon Capital Partners and executive director of the financial leverage and international acquisitions departments of financial institutions such as Bank of America and GE Capital. He has also sat on boards of directors of listed companies and is an independent director of the investment fund Brookfield Business Partners L.P. Moreover, he is senior counsel at the law firm Sidley Austin LLP, where he advises on regulatory aspects relating to cybersecurity, the digital economy, international trade and competition.

Mr Anthony L. Gardner has broad international experience and knowledge of key regions for the Group. He has held various positions of responsibility in Germany, France, the US, the UK, Italy and Belgium, among other countries.

In addition, Mr Anthony L. Gardner has prior experience in the Iberdrola group, as he has held the positions of independent director and member of the Audit and Compliance Committee of Scottish Power, Ltd.

Throughout his lengthy professional career, he has acquired expertise in matters that are key to the performance by the Board of Directors of the duties assigned thereto by the law and the Corporate Governance System, such as, for example, energy security policies, international trade, finance, cybersecurity and corporate social responsibility.

As shown by his curriculum vitae, Mr Gardner has studied at Harvard University (Public Administration), at Oxford University (International Relations), at Columbia University Law School (Doctor of Law) and at London Business School (Masters in Finance).

Lastly, Mr Anthony L. Gardner has also served as US ambassador to the European Union between 2014 and 2017, Director for European Affairs on the National Security Council and has worked closely with the US Diplomatic Mission to the European Union to launch the Transatlantic Free Trade Agreement.

Mr Anthony L. Gardner's professional training, the experience and expertise he has acquired during his career, with a strong international component, as well as his knowledge of the operations of the Iberdrola group and its businesses are proof of his competence to hold the position of director of the Company.

Mr Anthony L. Gardner 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.

3. Competence, Experience and Merits of Ms Georgina Kessel Martínez (independent)

Ms Georgina Kessel Martínez brings to the Board of Directors extensive experience in both the energy and financial sectors –particularly in accounting, audit and risk management matters– and a deep knowledge of Mexico, one of the most important markets for the Company.

As reflected in her curriculum vitae and her professional background, Ms Kessel Martínez is an economist, and among other positions has been chair of the Energy Regulatory Commission (*Comisión Reguladora de Energía*) of Mexico, general manager of the National Mint of Mexico (*Casa de Moneda de México*), Energy Secretary of State of the Government of Mexico and director of Banco Nacional de Obras y Servicios Públicos, S.N.C. (BANOBRAS), which shows her broad experience as a manager and her deep knowledge of the economic and regulatory fields, guaranteeing the contribution of plural viewpoints to the debate on issues within the Board of Directors.

The training of Ms Georgina Kessel Martínez in the area of economics and her professional experience in the management of institutions in the financial sector, together with her teaching experience and the predominance of executive roles in the economic/financial area in her professional career position her as a qualified member of the Company's Board of Directors. Particularly notable is her work as chairwoman of the Audit and Risk Supervision Committee, the functioning of which she has significantly advanced during her time in office, thanks to her knowledge, skills and experience in accounting, audit and risk management.

Ms Georgina Kessel Martínez 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.

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

Mr Anthony L. Gardner's extensive experience in sectors of great significance for the Company and, in particular, his professional career and proven knowledge of Euro-American relations acquired during more than twenty years of work – the United States of America being one of the most significant geographical areas in which the group is present and carries out its activities – position Mr Gardner as a qualified candidate for the position of director of the Company. In addition, the Board of Directors favourably views Mr Anthony L. Gardner's prior experience at the Iberdrola group, acquired while holding his position as independent director of Scottish Power, Ltd.

As to the proposed re-election of Ms Georgina Kessel Martínez, the Board of Directors quite favourably assesses her verified competence in business management, her extensive experience in sectors that are relevant to the Company and the Iberdrola group, including the energy and financial sectors, and her deep understanding of the internal operations of the Company and the group, especially acquired while holding her position as director of the Company since her appointment in 2013. The Board of Directors believes that the above aptitudes will allow Ms Kessel Martínez to continue contributing quite positively to the operation of the Board of Directors.

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

The proposed re-election of Ms Georgina Kessel Martínez also contributes to the Company's objective that female directors represent at least thirty per cent of all members of the Board of Directors by 2020.

5. Proposed Resolutions

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

"ITEM NUMBER FOUR ON THE AGENDA

Appointment of Mr Anthony L. Gardner as independent director.

RESOLUTION

To appoint Mr Anthony Luzzatto Gardner 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 FIVE ON THE AGENDA

Re-election of Ms Georgina Kessel Martínez as independent director

RESOLUTION

To re-elect Ms Georgina Kessel Martínez as director, upon the proposal of the Appointments Committee, for the by-law mandated four-year term, with the classification of independent director."

* * *

Bilbao, 20 February 2018.

ANNEX

REPORT PREPARED BY THE APPOINTMENTS COMMITTEE REGARDING THE PROPOSED APPOINTMENT OF MR ANTHONY L. GARDNER

1. Introduction

Pursuant to the provisions of articles 4.e) and f) 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 on an interim basis (co-option) or 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 Mr Anthony L. Gardner as a candidate for director, as well as to propose the appointment thereof to the Board of Directors with the classification of independent director.

2. Professional Profile and Biographical Data of the Candidate

Mr Anthony L. Gardner has a degree in Public Administration from Harvard University and in International Relations from Oxford University. He holds a Doctor of Law from Columbia University School of Law and a Masters in Finance from London Business School.

Mr Gardner possesses extensive knowledge of international relations, particularly Euro-American relations, as well as expertise in the areas of finance and corporate social responsibility.

In addition, Mr Anthony L. Gardner has prior experience at the Iberdrola group, as he has held the position of independent director of Scottish Power, Ltd.

Specifically, Mr Anthony L. Gardner has dedicated more than twenty years to working in the area of Euro-American relations, and especially noteworthy in his track record is his position as ambassador of the United States of America to the European Union between 2014 and 2017, from which position he quite actively participated in negotiations regarding energy security policies, among other issues.

Previously, Mr Gardner was Director for European Affairs on the National Security Council and worked closely with the Diplomatic Mission of the United States of America to the European Union to launch the New Transatlantic Agenda.

Among other positions, Mr Anthony L. Gardner was also managing director at Palamon Capital Partners for six years, director of one of the financial departments of Bank of America and of GE Capital, and director of International Acquisitions at GE International. He has also practiced as a lawyer at international law firms located in London, Paris, New York and Brussels.

Mr Anthony L. Gardner is currently a senior adviser at consulting firm Brunswick Group, LLP and at law firm Sidley Austin LLP, where he works in the International Trade and Privacy and Cybersecurity areas, is an adviser to the Bill and Melinda Gates Foundation and a member of the advisory boards of the Centre for European Reform, the German Marshall Fund and the European Policy Centre.

3. Membership on Other Boards of Directors

Mr Anthony L. Gardner is a director of Brookfield Business Partners, L.P.

4. Category to Which the Director Candidate Should Belong

Mr Anthony L. Gardner 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 Anthony L. Gardner does not hold any shares of the Company, directly nor indirectly.

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 advise the Board of Directors on the analysis of the needs of the Company to determine the appropriateness of appointing Mr Gardner in particular to the position of director of the Company, the Committee has taken into consideration his extensive experience in the area of international relations as well as in sectors relevant to the Company and the Iberdrola group, such as the financial sector, among other factors.

Especially noteworthy are his deep knowledge of energy security policies in the European Union and his understanding of relations between the United States of America and the European Union.

Mr Gardner also has broad experience in the area of corporate social responsibility, having cooperated with a large number of internationally recognised non-profit entities, including the Bill and Melinda Gates Foundation, the Centre for European Reform, the German Marshall Fund and the European Policy Centre.

The conclusion of this analysis is that Mr Anthony L. Gardner's extensive experience in sectors of great significance for the Company, including the financial sector, and particularly his proven knowledge of Euro-American relations acquired during more than twenty years of work – the United States of America being one of the most significant geographical areas in which the group is present and carries out its activities – position Mr Gardner as a qualified candidate for the position of director of the Company. In addition, the Board of Directors favourably views Mr Anthony L. Gardner's prior experience at the Iberdrola group, acquired while holding his position as independent director of Scottish Power, Ltd.

His appointment 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.

To complete its analysis of the proposed candidate, the Appointments Committee has requested an external expert, PricewaterhouseCoopers Asesores de Negocios, S.L. ("PwC"), not only to analyse the absence of disqualifications of the candidate, but also to evaluate: (i) potential conflicts of interest as well as other potential disqualifications that may exist; and (ii) the concordance between the candidate's professional experience and the standards that proxy advisors use to assess suitability for the position. In this regard, the suitability report of PwC concludes that:

- Mr Gardner does not have a conflict of interest with Iberdrola, nor is there any other disqualification from serving as director of the Company, in light of the positions he currently holds and has held in recent years.
- As to the director classification, there are no impediments under Iberdrola's Corporate Governance System to being considered an independent director.
- As to professional experience, Mr Anthony L. Gardner adequately complies with the standards required by the Corporate Governance System regarding the suitability of a candidate for director.

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 *Directors' Code of Ethics* and with the provisions of the *Mission, Vision and Values of the Iberdrola group* and that the candidate has not directly or indirectly incurred any grounds for disqualification from or impediment to the holding of the position.

The Committee has also verified that Mr Gardner can discharge 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, which contributes to the maintenance of a high percentage of independent directors within the Board of Directors.

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 Mr Anthony L. Gardner as a director of the Company, with the classification of independent director.

ANNEX

REPORT PREPARED BY THE APPOINTMENTS COMMITTEE REGARDING THE PROPOSED RE-ELECTION OF MS GEORGINA KESSEL MARTÍNEZ

1. Introduction

Pursuant to the provisions of articles 4.e) and f) 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 Georgina Kessel Martínez was last re-elected as a director of Iberdrola, for the by-law mandated four-year term, at the General Shareholders' Meeting held on 28 April 2014. Since the term for which Ms Kessel Martínez was appointed as director of Iberdrola expires in 2018, the Committee has analysed the appropriateness of her re-election and has carried out the checks and assessments referred to in the indicated articles 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 Kessel Martínez, 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

Holder of a degree in Economics from Instituto Tecnológico Autónomo de México and of a Master's and Doctor's degree in Economics from Columbia University (New York), Ms Georgina Kessel Martínez is an independent director of the Company since her interim appointment (co-option) at the meeting of the Board of Directors held on 23 April 2013, having been re-elected by the shareholders at the General Shareholders' Meeting held on 28 March 2014. Since 23 July 2013, she has also been a member of the Audit and Risk Supervision Committee, which she currently chairs.

Ms Georgina Kessel Martínez has broad experience in the energy sector, having been Energy Secretary for the Government of Mexico (Sener) between 2006 and 2011, years in which she also held the position of chair of the Board of Directors of two large corporations: Petróleos Mexicanos (PEMEX) and the Federal Electricity Commission (*Comisión Federal de Electricidad*) (CFE). She was the first female chair of the Energy Regulatory Commission (*Comisión Reguladora de Energía*) (CRE) of Mexico.

Ms Kessel Martínez also has knowledge and experience in other sectors, especially the financing of infrastructure investment, from both the institutional and executive perspectives. She is an independent director of Grupo Financiero Scotiabank Inverlat, S.A. de C.V. and has been head of Banco Nacional de Obras y Servicios Públicos, S.N.C. (BANOBRAS), a development bank principally dedicated to the financing of infrastructure projects; member of the governance bodies of Nacional Financiera, S.N.C. (NAFINSA) and Bancomext (Banco Nacional de Comercio Exterior); adviser to the chairman of the Federal Competition Committee (*Comisión Federal de Competencia Económica*); head of the Quasi-Autonomous Non-Governmental Organisations Investment and Divestment Unit (*Unidad de Inversiones y Desincorporación de Entidades Paraestatales*) of the Office of the Secretary of Finance and Public Credit of Mexico; and head of the National Mint of Mexico (*Casa de Moneda de México*). She has participated in the Energy Council of the World Economic Forum (WEF) and in the United Nations Secretary General's advisory group (Sustainable Energy for All), which gives her a broad understanding of international organisations.

In the academic field, she has been a professor in the Economics Department of Instituto Tecnológico Autónomo de México (ITAM), deputy chair of the course towards a Degree in Economics and deputy chair and chair of the Alumni Association. She was also holder of the Quintana Chair for Research in International Trade and is the author of many papers and specialised articles. She is currently a member of the Business Council of Universidad de las Américas Puebla (UDLAP).

3. Membership on Other Boards of Directors

Ms Georgina Kessel Martínez is an independent director and chair of the Audit Committee of Grupo Financiero Scotiabank Inverlat.

4. Category to Which the Director Candidate Should Belong

Ms Georgina Kessel Martínez has been proposed based on her personal and professional qualities, and can continue to discharge her duties, as she has been doing through the date hereof, 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 as director to continue providing 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 Georgina Kessel Martínez is the holder of 4,277 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 advise the Board of Directors on the analysis of the needs of the Company to determine the appropriateness of re-electing Ms Georgina Kessel Martínez to the position of director of the Company, the Committee has taken into consideration, among other things, her verified competence in business management, her extensive experience in sectors that are relevant to the Company and the Iberdrola group, such as the energy and finance sectors, and her deep understanding of the internal operations of the Company and of the group.

The conclusion of this analysis is that the Board of Directors must have members with broad experience in management, leadership and business strategy, and who also have a deep understanding of the businesses and internal operation of the Company and of the Iberdrola group as well as of the most significant markets thereof.

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.

To complete its analysis of the proposed candidate, the Appointments Committee has requested it be sent the evaluation reports on each director prepared by PricewaterhouseCoopers Asesores de Negocios, S.L. ("**PwC**"), in relation to 2017. In this regard, the PwC report concludes that the professional experience of Ms Georgina Kessel Martínez adequately complies with the standards required by the Corporate Governance System regarding the suitability of a candidate for director, and that her dedication to the Company in the discharge of her functions is excellent.

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 *Directors' Code of Ethics* and with the provisions of the *Mission, Vision and Values of the Iberdrola group* and that the candidate has not directly or indirectly incurred any grounds for disqualification from or impediment to the holding of the position.

The Committee has also verified that Ms Kessel Martínez 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, which contributes to the maintenance of a high percentage of independent directors within the Board of Directors.

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 Georgina Kessel Martínez as a director of the Company, with the classification of independent director.



General Shareholders' Meeting

Report of the Board of Directors
Proposed Increases in Capital by means of a Scrip Issue / 2018



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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" SYSTEM INCLUDED IN ITEMS NUMBER SEVEN AND EIGHT ON THE AGENDA FOR THE GENERAL SHAREHOLDERS' MEETING CALLED TO BE HELD ON 13 AND 14 APRIL 2018, ON FIRST AND SECOND CALL, RESPECTIVELY

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 seven and eight on the agenda and under the section "*Common terms and conditions of the dividend distribution and increase in capital resolutions proposed under items number six, seven and eight on the agenda, by virtue of which the "Iberdrola Flexible Remuneration" 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" system reflects Iberdrola's desire to make continuous improvements in its corporate governance practices, particularly in the area of its shareholder remuneration policy.

From 2010 to 2017, Iberdrola has been continuously implementing the "Iberdrola Flexible Dividend" (Scrip Dividend) system, which allows 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*, Iberdrola identified the possibility of improving the "Iberdrola Flexible Dividend" system, particularly the formula used to monetise the traditional dividend, which until now has been 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 has developed an alternative to monetise the traditional dividend that is more attractive for all shareholders, particularly including the international shareholders. The result is the remuneration system called "Iberdrola Flexible Remuneration", which now replaces the traditional "Iberdrola Flexible Dividend" system.

This new system, the approval of which is submitted to the shareholders at the General Shareholders' Meeting for the first time, is based on the same principle of offering the shareholders the ability to receive bonus shares or to monetise the amount of their remuneration, although it optimises the alternative remuneration 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 2018 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 six on the agenda (the **"Supplementary Dividend"**), it is expected that, prior to 31 December 2018, the Board of Directors will adopt a resolution approving the distribution of an amount on account of the dividend for financial year 2018 (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), there will be a reversion to the traditional "Iberdrola Flexible Dividend" system, with the Company making 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 seven and eight 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" 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 seven on the agenda, together with the payment of the Supplementary Dividend.
- (ii) The second implementation of the "Iberdrola Flexible Remuneration" 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 eight 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 2018, while the Second Implementation is expected to take place in the months of December 2018 or January 2019.

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 by delivery of newly-issued bonus shares. 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 remuneration option (a) will automatically exclude the ability to choose option (c) regarding the same shares, and vice versa.

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 1,310 million euros in the Increase in Capital submitted for the approval of the shareholders under item number seven on the agenda and of 1,140 million euros in the Increase in Capital submitted for the approval of the shareholders at the General Shareholders' Meeting under item number eight 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, “Cash Remuneration” shall mean the gross amount per share resulting from the application of the following formula:

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

The Cash Remuneration shall be equal to: (a) the amount of the Supplementary Dividend per share in the case of the First Implementation; (b) the amount of the Interim Dividend per share in the case of the Second Implementation; or (c) if the requirements of section 277 of the *Companies Act* to distribute the Interim Dividend are not met, the amount of the Fixed Purchase Price per free-of-charge allocation right.

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 seven 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 Cash Remuneration that, as mentioned above, will be equal to the amount 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 amount of the gross Dividend per share shall be equal to the Cash Remuneration.

As mentioned above, “**Cash Remuneration**” shall mean the gross amount per share resulting from the application of the following formula:

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

In the Second Implementation, the Board of Directors shall adopt the corresponding resolution on distribution of the Interim Dividend prior to 31 December 2018, subject in any case to the provisions of section 277 of the *Companies Act*.

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 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 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 described, 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, said Implementation shall return to the traditional “Iberdrola Flexible Dividend” system in order to ensure that the shareholders can receive all or part of their remuneration in cash. As a result of the foregoing, if said circumstance occurs, the Company assumes 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 following terms and conditions.

The Fixed Purchase Price shall be calculated by applying the formula used to determine the Cash Remuneration, 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*.

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 2017, 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 new "Iberdrola Flexible Remuneration" system, 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 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. Pursuant to Spanish tax regulations, both in the common regions and in the Historical Territories of the Basque Country and in the Chartered Community of Navarre, 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 no Residentes*) ("IRNR"),

whether or not they act through a permanent establishment in Spain, 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. In respect of these shareholders, such bonus shares will be deemed to have been held for as long as the shares from which they derive. Consequently, in the event of a subsequent transfer, the income subject to taxation that is obtained will be calculated by reference to such new value. In the event that the shareholders sell their free-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 signed by Spain for the avoidance of double taxation and for the prevention of tax evasion in the area of Income Tax and to which they might be entitled, and the exemptions established in the IRNR rules.

In addition, 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 applicable accounting regulations and, if applicable, pursuant to the special regimes of the aforementioned taxes. All of the foregoing is without prejudice to the rules determining the tax basis that may apply in these taxes.

Finally, if the shareholders choose to receive the Supplementary Dividend or the Interim Dividend, the amount obtained will be covered by the tax regime for financial results, 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. 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 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, as well as to any changes that may occur in the particular circumstances of each shareholder or holder of free-of-charge allocation rights.

The holders of American Depositary Receipts (ADRs) and CREST Depositary 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.

3.8 Delegation to Carry Out One 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*.

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 to receive it 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 a first increase in capital by means of a scrip issue at a maximum reference market value of 1,310 million euros in order to implement the “Iberdrola Flexible Remuneration” 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 six, seven and eight on the agenda, pursuant to which the “Iberdrola Flexible Remuneration” system is implemented” (the “Common Terms”), at a maximum reference market value of 1,310 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 six 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 six on the agenda during the month of July 2018.

ITEM NUMBER EIGHT ON THE AGENDA

Approval of a second increase in capital by means of a scrip issue at a maximum reference market value of 1,140 million euros in order to implement the "Iberdrola Flexible Remuneration" 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 six, seven and eight on the agenda, pursuant to which the "Iberdrola Flexible Remuneration" system is implemented" (the "**Common Terms**"), at a maximum reference market value of 1,140 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 an interim amount of the dividend for financial year 2018, 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 2018 or January 2019.

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

1. Main Characteristics of the New "Iberdrola Flexible Remuneration" Shareholder Remuneration System

The purpose of the dividend distribution and increase in capital resolutions proposed under items number six, seven and eight on the agenda is to implement the new "Iberdrola Flexible Remuneration" 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 through the delivery of newly-issued shares.

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

- (i) The first implementation of the "Iberdrola Flexible Remuneration" system, which is expected to take place during the month of July 2018 (the "**First Implementation**"), shall be carried out through the supplementary payment of the dividend contemplated in item number six 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 seven on the agenda.
- (ii) The second implementation of the "Iberdrola Flexible Remuneration" system, which is expected to take place during the months of December 2018 or January 2019 (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 2018 (the "**Interim Dividend**") to be approved 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 eight 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 shall be offered the ability to receive their remuneration in cash (through the collection of the Supplementary Dividend or the Interim Dividend), in newly-issued bonus shares of the Company (through the Increases in Capital) or through a combination of both alternatives, without prejudice to the ability to transfer the free-of-charge allocation rights on the market in accordance with the provisions of these resolutions. The final amount of each of the Dividend Payments and of each of the Increases in Capital shall be determined 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 six, seven and eight 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.

In each of the Increases in Capital, 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 by delivery of newly-issued bonus shares. 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 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 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. In any event, the election of remuneration option (a) automatically excludes the ability to choose option (c) regarding the same shares, and vice versa.

It is hereby stated that, as a new development, in the editions of the "Iberdrola Flexible Remuneration" system to be implemented by virtue of this resolution, the shareholders will not be offered the ability to offer all or part of their free-of-charge allocation rights to Iberdrola at a guaranteed fixed price (which is different from what occurred under the traditional remuneration system called the "Iberdrola Flexible Dividend" or "Scrip Dividend"). This is because the Company's shareholders will have the option to receive the Dividends as an alternative to the delivery of bonus shares of the Company or the transfer of the free-of-charge allocation rights on the market, thus having the ability to choose to receive their remuneration in cash if they so desire.

As the only exception to the foregoing, it is proposed that if the requirements of section 277 of the Companies Act are not met within the framework of the Second Implementation (as such term is defined below) in order to distribute the Interim Dividend, the traditional "Iberdrola Flexible Dividend" remuneration system will apply, with the Company making 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 the Supplementary Dividend in the First Implementation

The gross amount to be distributed as the 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 six on the agenda and in this section (the "**Supplementary Dividend per Share**"). In particular, the amount of the Supplementary Dividend per Share must be equal to the Cash Remuneration (as this term is defined below).

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 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 Supplementary Dividend per Share 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, the Board of Directors, with express power of substitution, shall determine the aggregate gross amount in euros corresponding to the Dividend Payment from the First 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), 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 new shares of the Company or who have sold their free-of-charge allocation rights to third parties 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 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.

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

The gross amount to be distributed as the 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 2018 and pursuant to the provisions of section 277 of the Companies Act (the "**Interim Dividend per Share**").

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 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 and pursuant to applicable securities clearing and settlement rules. If they choose to receive the Interim Dividend per Share with respect to all or part of their shares, the shareholders shall waive the free-of-charge allocation rights corresponding to said shares.

After the Common Election Period, the Board of Directors shall determine the aggregate gross amount in euros corresponding to the Dividend Payment from 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 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 from 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 new 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 per Share. Therefore, the new holders of these rights may only monetise their remuneration through the sale thereof on the market, or alternatively receive the new bonus shares to which they are entitled.

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, there will be a reversion to the traditional "Iberdrola Flexible Dividend" remuneration system, with the Company making a 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.

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, said Implementation shall return to the traditional "Iberdrola Flexible Dividend" system in order to ensure that the shareholders can receive all or part of their remuneration in cash. As a result of the foregoing, the Company assumes the Purchase Commitment if said circumstance occurs. 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 Cash Remuneration, 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 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, 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.

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**" will 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 will 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 seven and eight on the agenda (i.e. 1,310 and 1,140 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, "**Cash Remuneration**" shall mean the gross amount per share resulting from the application of the following formula:

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

The Cash Remuneration shall be equal to: (a) the amount of the Supplementary Dividend per Share in the case of the First Implementation; (b) the amount of the Interim Dividend per Share in the case of the Second Implementation; or (c) if compliance with the requirements of Section 277 of the Companies Act is not verified in the Second Implementation, the Fixed Purchase Price per free-of-charge allocation right.

4.2 Free-of-charge Allocation Rights

In each of the Increases in Capital, each outstanding share of the Company will 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. 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.

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 bonus shares of the Company, 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, for which purpose the shareholders shall be required to make an express election in this regard. The shareholders may choose to receive the Dividend in question 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. 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.

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 2017, 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 apply thereto 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 by applicable law at such time.

5. Implementation of the New "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 per Share).

Furthermore, it is expected that prior to 31 December 2018, the Board of Directors will determine the Interim Dividend per Share 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 per Share (in the case of the First Implementation), the number of New Shares, the number of free-of-charge allocation rights necessary for the allocation of one New Share and the Cash Remuneration, 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 each of 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 2017 pursuant to the provisions of item number six on the agenda and, in view of said amount, specify the amount of the basis for the total distribution established in said item on the agenda to be allocated to remainder.*
- (k) *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.*
- (l) *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.*
- (m) *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.*
- (n) *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.*
- (o) *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 or supplementation or to cure 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 seven 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 Cash Remuneration (which is equal to the Supplementary Dividend).

The results of these calculations are 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 1,179 million euros.*
- *The TNShrs. is 6,240,000,000¹.*
- *A ListPri of 6.046 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 15 February 2018 has been used as a reference).*

Therefore:

<i>Provisional number of shares = Amount of the Option / ListPri</i>	<i>1,179,000,000 / 6.046 = 195,004,961.958320 = 195,004,961 shares (rounded downwards)</i>
<i>Num. rights = TNShrs. / Provisional number of shares</i>	<i>6,240,000,000 / 195,004,961 = 31.999185907890809 = 32 rights</i>

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 8 on the agenda if it is implemented in the total maximum amount thereof (i.e. 198,374,000 shares).

	<i>(rounded upwards)</i>
<i>NNS = TNShrs. / Num. rights</i>	$6,240,000,000 / 32 = 195.000.000$
<i>Cash Remuneration = ListPri / (Num. rights + 1)</i>	$6.046 / (32 + 1) = 0.183$ euros <i>(rounded to the closest thousandth of one euro)</i>

Therefore:

- (i) *The maximum number of shares to be issued in the First Implementation would be 195,000,000.*
- (ii) *The maximum nominal amount of the increase in capital submitted for approval of the shareholders at the General Shareholders' Meeting under item number seven on the agenda would be 146,250,000.00 euros (195,000,000 x 0.75).*
- (iii) *32 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 0.183 euros (gross) per share (amount equal to the Cash Remuneration)."*

* * *

Bilbao, 20 February 2018.

² In this example, the Company (or an entity of its group that holds shares of the Company) would not be required to waive any free-of-charge allocation rights corresponding to own shares in order for the number of shares to be issued to be an integer.



General Shareholders' Meeting

Report of the Board of Directors Proposed Reduction in Share Capital / 2018



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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 NINE ON THE AGENDA FOR THE GENERAL SHAREHOLDERS' MEETING CALLED TO BE HELD ON 13 AND 14 APRIL 2018, ON FIRST AND SECOND CALL, RESPECTIVELY

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 nine 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 until now it has been implementing through successive editions of the "Iberdrola Flexible Dividend" system, which is carried out through the implementation of increases in capital by means of scrip issues. Subject to approval by the shareholders at the General Shareholders' Meeting, the system will be called "Iberdrola Flexible Remuneration" as from this year and will include certain improvements that have been described in the *Report of 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" system included in items number seven and eight of the agenda for the General Shareholders' Meeting called to be held on 13 and 14 April 2018, on first and second call, respectively.*

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 31 March 2017 under items number twelve and thirteen on the agenda and which were implemented in July 2017 and January 2018, respectively. If said proposal 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 19 February 2018, 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 20 February 2018, as well as within the framework of a share buy-back programme approved by the Board of Directors at its meeting of 20 February 2018 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 28 March 2014 under item nine on the agenda, and, if approved, the authorisation replacing it approved by the shareholders at the General Shareholders' Meeting called for 13 and 14 April 2018 on first and second call, respectively.

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) 74,272,523.25 euros, through the retirement of 99,030,031 currently existing own shares in treasury as at 19 February 2018, 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 28 March 2014 under item nine 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 74,507,976.75 euros, of the own shares of the Company, each with a nominal value of seventy-five euro cents, up to a limit of 99,343,969 own shares (the "**Overall Limit**"), that are acquired for their retirement both through the settlement, no later than 15 June 2018, of the derivatives acquired by the Company prior to 20 February 2018 as well as under the programme for the buy-back of up to 99,343,969 own shares that will be in effect until no later than 15 June 2018, approved by the Board of Directors today, 20 February 2018, under 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* (the "**Buy-back Programme**").

Consequently, the maximum amount of the Reduction in Capital would be 148,780,500 euros, through the retirement of a maximum of 198,374,000 own shares, each with a nominal value of seventy-five euro cents, representing not more than 3.08% of the share capital at the time the resolution is approved. 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 20 February 2018 and within the framework of the Buy-back Programme, provided they do not exceed said 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 20 February 2018 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 20 February 2018 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 NINE ON THE AGENDA

Approval of a reduction in share capital by means of the retirement of a maximum of 198,374,000 own shares (3.08% 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. 74,272,523.25 euros, through the retirement of 99,030,031 currently existing own shares in treasury as at 19 February 2018, 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 28 March 2014 under item nine 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 74,507,976.75 euros, of the own shares of the Company, each with a nominal value of seventy-five euro cents, up to a limit of 99,343,969 own shares (the "**Overall Limit**"), that are acquired for their retirement both through the settlement, no later than 15 June 2018, of the derivatives acquired by the Company prior to 20 February 2018 as well as under the programme for the buy-back of up to 99,343,969 own shares that will be in effect until no later than 15 June 2018, approved by the Board of Directors on 20 February 2018 under 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 (the "**Buy-back Programme**").

Consequently, the maximum amount of the reduction in capital (the "**Reduction in Capital**") shall be 148,780,500 euros, through the retirement of a maximum of 198,374,000 own shares, each with a nominal value of seventy-five euro cents, representing not more than 3.08% 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 20 February 2018 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 20 February 2018 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 the 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 20 February 2018, the Company may acquire a maximum number of 99,343,969 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 1.543 % 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 28 March 2014 under item nine on the agenda, and if approved, in the authorisation in replacement thereof approved by the shareholders at this General Shareholders' Meeting under item number 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 on market abuse 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 99,343,969 own shares, each with a nominal value of seventy-five euro cents, both through the settlement, no later than 15 June 2018, of the derivatives acquired by the Company prior to 20 February 2018 as well as 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 15 June 2018, of the derivatives acquired by the Company prior to 20 February 2018 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, within one month following the expiration of the Buy-back Programme, retire the shares 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."

Bilbao, 20 February 2018.



General Shareholders' Meeting

Report of the Board of Directors Proposed New Director Remuneration Policy / 2018



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REPORT SUBMITTED BY THE BOARD OF DIRECTORS OF IBERDROLA, S.A. REGARDING THE PROPOSED APPROVAL OF A NEW *DIRECTOR REMUNERATION POLICY* INCLUDED IN ITEM NUMBER ELEVEN ON THE AGENDA FOR THE GENERAL SHAREHOLDERS' MEETING CALLED TO BE HELD ON 13 AND 14 APRIL 2018, ON FIRST AND SECOND CALL, RESPECTIVELY.

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 529 *novodecies* of the *Companies Act*, in order to provide a rationale for the proposed approval of a new *Director Remuneration Policy*, and pursuant to such section, it includes the corresponding report of the Remuneration Committee and the text of the proposal.

2. Basic Principles of the New Director Remuneration Policy

Iberdrola's Board of Directors believes that talent, effort, creativity and leadership are the main elements capable of differentiating the performance of Iberdrola from the other companies in the electric industry.

The new *Director Remuneration Policy* proposed by the Remuneration Committee seeks to be a tool to ensure the presence of all of these elements within the Company's board of directors. It has been designed to attract and retain the best board members, incentivise their effort, encourage their creativity and leadership, and ensure that their interests are always aligned with those of Iberdrola's shareholders.

For this purpose, the policy being submitted for approval of the shareholders at the General Shareholders' Meeting is based on the following principles:

- a) **Market remuneration, which captures and retains talent:** it should provide appropriate remuneration for the dedication and responsibility assumed by the directors, in accordance with that paid in the market at comparable companies, for which purpose the company will perform regular comparative analyses.
- b) **Focused on maximising the creation of value, committed to the *Mission, Vision and Values of the Iberdrola group*:** it must constitute a lever to maximise shareholder return and Iberdrola's social dividend.
- c) **Focused on goals, aligned with the Company's strategy:** it should serve the strategic goals defined from time to time by the Board of Directors. For this purpose, the system of setting financial and non-financial goals linked to remuneration should be transparent, pre-determined, quantifiable, and with a proper balance between the weight of short-term variable remuneration and that of long-term remuneration.
- d) **That avoids potential conflicts of interest:** variable remuneration should be limited to the executive directors to avoid potential conflicts of interest that might affect non-executive directors.
- e) **Clear and transparent:** the Company's Board of Directors assumes the commitment to give effect to the principle of full transparency of all items of remuneration received by all of the directors, supplying transparent, individualised and adequate information issued sufficiently in advance and aligned with good governance recommendations that are generally accepted in the international markets regarding director remuneration.

3. General Description of the New Director Remuneration Policy

The outlines of the new *Director Remuneration Policy* are similar to those of the Policy currently in effect, although they include certain improvements, which are the result of Iberdrola's ongoing effort to strengthen its leadership in the area of corporate governance:

- a) **More information on the parameters of variable remuneration:** there is a description of the parameters to which the variable remuneration of the executive directors will be linked, which are different for each director, expressly establishing their link to the achievement of the objectives contemplated in the outlook approved by the Board of Directors and communicated to the financial community.
- b) **Specific objectives:** the proposal provides for the establishment of specific objectives for each financial year, the level of compliance with which will be regularly reported in the *Annual Director Remuneration Report*.
- c) **Non-financial parameters – social dividend:** the new policy includes the challenges in the fight against climate change and relations with Iberdrola's various stakeholders among the parameters on which variable remuneration will depend.

- d) **Long-term horizon:** the proposal contemplates the long-term system (six years) of variable remuneration in shares approved by the shareholders at the 2017 General Shareholders' Meeting (2017-2019 Strategic Bonus).
- e) **Holding period for shares delivered:** the executive directors may not transfer the shares received under the long-term variable remuneration systems for a period of three years, unless they are the direct or indirect owners of a number of shares equal to two times their annual fixed remuneration or the Board of Directors so approves under exceptional circumstances.
- f) **Malus and claw-back clauses:** the Board of Directors, upon a proposal of the Remuneration Committee, may cancel the payment of long-term variable remuneration (*malus* clauses) or demand the return of remuneration already paid (claw-back clauses) under special circumstances (fraud, serious violation of law, and in the event of a material restatement of the financial statements on which the evaluation of the performance level was based).

It also has the power to suspend the payment of short-term variable remuneration if the beneficiary has committed a serious breach of the *Code of Ethics* without having cured the results of such breach.

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 ELEVEN ON THE AGENDA

Approval of a new Director Remuneration Policy.

RESOLUTION

To approve the Director Remuneration Policy, the full text of which, together with the required report of the Remuneration Committee, are included in the report of the Board of Directors made available to the shareholders as part of the documentation relating to the General Shareholders' Meeting from the date of publication of the announcement of the call to meeting."

ANNEX

REPORT PREPARED BY THE REMUNERATION COMMITTEE ON THE PROPOSED NEW DIRECTOR REMUNERATION POLICY

Pursuant to the provisions of article 3.a) of the *Regulations of the Remuneration Committee* of IBERDROLA, S.A. (“**Iberdrola**” or the “**Company**”), the Remuneration Committee (the “**Committee**”) is to propose to the Board of Directors the director remuneration policy to be submitted for approval of the shareholders at a General Shareholders' Meeting.

In the exercise of this power, the Remuneration Committee has designed a proposed *Director Remuneration Policy*, which seeks to be an efficient tool to attract the best candidates for director and to retain them once appointed, to incentivise their efforts and their diligent activity, encouraging their creativity and leadership, and ensuring that their interests are aligned with the commitment of Iberdrola to its mission, its vision and its values, inasmuch as these elements are the ones that allow for Iberdrola's performance to be differentiated from other companies in the electric industry.

The Remuneration Committee finds that the proposed *Director Remuneration Policy* being submitted to the Board of Directors meets this function, as well as the recommendations of the *Good Governance Code of Listed Companies* approved by the National Securities Market Commission on remuneration, and with good governance recommendations that are generally accepted in the international markets regarding director remuneration

The text of the proposed new *Director Remuneration Policy* is as follows:

DIRECTOR REMUNERATION POLICY

In exercise of the powers vested therein, the Board of Directors of IBERDROLA, S.A. (“**Iberdrola**” or the “**Company**”), upon a proposal of the Remuneration Committee, hereby submits this *Director Remuneration Policy* for approval of the shareholders at the General Shareholders' Meeting of the Company.

1. Purpose and Basic Principles

1.1 Mission, Vision and Values of the Iberdrola group

The driving principle of the *Mission, Vision, and Values of the Iberdrola group* is its 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 other stakeholders.

This commitment governs the day-to-day activities of the Company, channels its leadership role in its various areas of activity, focuses its strategy of maximising social dividends and guides the ethical behaviour of all personnel participating in the daily construction of Iberdrola's business enterprise, starting with its management body.

In this regard, the ultimate goal of the *Director Remuneration Policy* is to help develop the *Mission, Vision and Values of the Iberdrola group* such that the remuneration of the Company's directors is commensurate with the dedication and responsibility assumed, taking into consideration the Company's desire to lead the energy sector. This desire is based on aspects like the provision of a high-quality service through the use of environmentally-friendly energy sources, innovation, digital transformation in its area of activity, the fight against climate change, and commitment to a social dividend and the generation of employment and wealth in its surroundings.

1.2 Basic Principles

The Board of Directors has found proper decision-making and a clear commitment to the corporate values are two of the main principles determining the performance of companies, particularly in the energy sector: all of them can choose similar businesses, markets and technologies, but their performance is different, based on the principal differentiating elements of talent, efforts, creativity, leadership and the ability to translate one's commitment into a mission, vision and values.

Within this context, the basic principles governing this *Director Remuneration Policy* are the following:

- a) Provide suitable remuneration for the dedication and responsibility assumed by the directors, in line with the market remuneration paid by companies with comparable capitalisation, size, ownership structure and international scope. This will be essential for recruiting and retaining the best candidates.

To this end, the Remuneration Committee periodically engages in a benchmark analysis of remuneration systems applicable to comparable companies at the international level.

- b) Align the remuneration policy of the Company as a whole with its values, with its commitment to maximise its social dividend and with shareholder return, as these terms are defined in the By-Laws, within the framework of the commitment of the Iberdrola group to all of its Stakeholders.
- c) Ensure that the remuneration helps to achieve the strategic goals of Iberdrola, which are periodically published.

1.3. Principles Governing the Remuneration of the Executive Directors

As regards the executive directors, the *Director Remuneration Policy* follows the same standards as the *Senior Officer Remuneration Policy* and shares the same principles and guidelines as the remuneration policy for all employees of the Company: a commitment to the *Mission, Vision and Values of the Iberdrola group*, personal and corporate ethics, excellence in hiring, continuous training, gender equality, meritocracy and recognition of talent, reconciliation, and relevancy of the variable component of the remuneration package.

In particular, the main principles governing the remuneration of the executive directors are the following:

- a) Ensure that the remuneration, in terms of structure and total amount, is in line with best practices, as well as competitive vis-à-vis that of comparable entities at the domestic and international level, taking into account the situation of the regions in which the Group operates.
- b) Establish the remuneration in accordance with objective standards based on individual performance and on the achievement of the business objectives of the Company and the Group.
- c) Include a significant annual variable component tied to performance and to the achievement of specific, pre-established, quantifiable objectives in line with the corporate interest, the *Mission, Vision and Values of the Iberdrola group* and the strategic goals of the Company. The application of this *Director Remuneration Policy* shall take into consideration economic/financial, operational/industrial and corporate social responsibility parameters for these purposes.
- d) Foster and encourage the attainment of the strategic goals of the Company through the inclusion of long-term incentives, strengthening continuity in the competitive development of the Group, of its directors and of its management team, and generating a motivating effect that acts as a driving force to ensure the loyalty and retention of the best professionals.
- e) Set appropriate maximum limits to any variable remuneration as well as suitable mechanisms in order for the Company to be able to obtain reimbursement of the variable components of remuneration if the payment has not conformed to the terms of performance or if such variable components have been paid based on information later shown to be inaccurate.

2. Overall By-Law Limitation on Director Remuneration

Pursuant to article 48.1 of the *By-Laws*, the amount that the Company allocates annually to the directors as remuneration is limited to a maximum amount equal to 2% of the consolidated group profits obtained during the financial year, after covering legal and other mandatory reserves and the issuance to the shareholders of a dividend of at least 4% of the share capital.

This limit includes the amount corresponding to the executive directors for the performance of executive duties, as well as the endowment of funds to meet the obligations of the Company regarding pensions, the payment of life and casualty insurance premiums, coverage for and payment of severance compensation in favour of current and former directors, and the operational costs of the Board of Directors and the committees thereof.

For the purpose of establishing such limit, the quoted price of shares or options thereon or remuneration indexed to the listing price of the shares shall not be calculated, which remuneration shall in all cases require the approval of the shareholders at a General Shareholders' Meeting.

3. Competent Bodies

Within the by-law framework referred to above, the shareholders acting at a General Shareholders' Meeting are vested with the power to approve this *Director Remuneration Policy*, which constitutes the Company's highest-level rules on remuneration after the *By-Laws*.

Within the overall limit established in the *By-Laws* and in accordance with the provisions of law and this *Director Remuneration Policy*, the Board of Directors, upon a proposal of the Remuneration Committee, is vested with the power to specify the remuneration of the directors, except for remuneration consisting of the delivery of shares of the Company or of options thereon, or remuneration indexed to the value of the shares of the Company, which must be approved by the shareholders acting at a General Shareholders' Meeting.

4. Structure of the Remuneration of Directors in their Capacity as Such

The remuneration to which directors are entitled in their capacity as such is structured in accordance with the following standards within the framework of legal and by-law provisions:

4.1. *Fixed Amount*

Directors receive a fixed annual amount that is commensurate with market standards, in keeping with the positions they hold on the Board of Directors and in the committees on which they sit, always taking into account the overall by-law limit on director remuneration set forth in section 2 above.

The fixed remuneration of the directors in their capacity as such is included within the limit reflected in section 2 of this Policy, which also includes the remuneration of the executive directors for the performance of their executive duties, as well as the funding of pensions, the payment of life and casualty insurance premiums, coverage for and payment of severance compensation, and the operational costs of the Board of Directors and the committees thereof. The maximum amount of the annual remuneration to be paid to all directors in their capacity as such is 7,000 thousand euros.

4.2. *Coverage of Risk and Civil Liability Benefits*

The Company pays the premiums under insurance policies that it has taken with certain insurance companies for the coverage of the death or disability of directors caused by accidents, and the Company itself assumes coverage of benefits for the death or disability of directors due to natural causes. Furthermore, the Company pays the premiums under insurance policies providing coverage against civil liability deriving from holding the office of director.

4.3. *Non-competition*

External non-proprietary directors who cease to hold office prior to the expiration of the term to which they were appointed, if such cessation is not the consequence of a breach attributable thereto or exclusively due to the director's own decision, may not hold office in management decision-making bodies of companies within the energy industry or of other competitor companies or participate in any other way in the management thereof or in the provision of advice thereto for the remaining term of their appointment (with a maximum of two years).

Non-executive directors who cease to hold office due to the provisions of the succession plan included in the *General Corporate Governance Policy* shall not be subject to any non-compete commitment, nor shall they have the right to receive any compensation for the cessation from office. This right shall also not be held by directors who cease to hold office voluntarily or as a result of a breach of their duties.

In other cases, the compensation to which external non-proprietary directors are entitled for the non-compete commitment shall be equal to 90% of the fixed amount that the director would have received for the remainder of the director's term (assuming that the annual fixed amount that the director receives at the time of cessation from office is maintained), with a maximum equal to two times 90% of such annual fixed amount.

5. Structure of Remuneration of Executive Directors for the Performance of Executive Duties

The remuneration that executive directors are entitled to receive for the performance of executive duties at the Company (i.e. other than the duties inherent in their status as members of the Board of Directors) is structured as follows:

5.1. Fixed Remuneration

This portion of the remuneration shall be in line with the remuneration paid in the market by companies with comparable capitalisation, size, ownership structure and international scope.

In 2018, the chairman & CEO will have the right to receive annual fixed remuneration of 2,250 thousand euros, and the Business CEO will have the right to receive 1,000 thousand euros.

The remuneration of the executive directors will change based on the specific responsibilities and nature of the functions performed and will be reviewed annually by the Board of Directors upon a proposal of the Remuneration Committee.

For these purpose, this Committee may rely on external advisors to perform the market studies and analyses that it deems appropriate.

5.2. Short-term Variable Remuneration

A portion of the remuneration of executive directors (and of that of officers and employees) is variable, in order to strengthen their commitment to the *Mission, Vision and Values of the Iberdrola group* and its strategic goals and to incentivise the best performance of their duties. The maximum variable remuneration for each year will be that which is stipulated in the *Annual Director Remuneration Report*.

The targets to which the remuneration of the chairman & CEO will be linked shall be those reflected in the *Annual Director Remuneration Report*, and will be related to parameters such as:

- Net Profit, Gross Operating Profit (EBITDA), cash flow, etc.
- Shareholder remuneration compared to other securities and indices.
- Development and application of the Stakeholder Relations Policy and commitment to the social dividend.
- Equality policies.
- Commitment and results in the fight against climate change in line with what was approved by the shareholders at the General Shareholders' Meeting 2017.
- Management of corporate reputation, measured by the Company's presence on sustainability and ethics indices.
- Promotion of good governance and best practices.

For other executive directors, the targets to which his variable remuneration will be linked will be those relating to parameters such as:

- Net Profit, Gross Operating Profit (EBITDA), cash flow, etc.
- Level of the Group's efficiency level measured by operating expenses over gross margin.
- Selection and implementation of profitable investments that create value.
- Levels of occupational safety and labour climate.

In each *Annual Director Remuneration Report*, the Company shall report on the implementation of this Policy and on the specific goals for each financial year and the level of achievement thereof.

The Remuneration Committee shall evaluate the performance of each of the executive directors, for which purposes it may rely on the advice of an independent expert, and shall submit a reasoned proposal to the Board of Directors for approval thereof.

The Board of Directors shall have a margin of discretion in evaluating compliance with the indicators, based on a proposal made by the Remuneration Committee, taking into account regulatory uncertainty, among other factors.

5.3. Long-term Variable Remuneration: Share Delivery Plans

The Company has a long-term incentive plan in effect directed towards employees who, due to their position or responsibility within the Group, are considered to contribute decisively to the creation of value, and towards the executive directors, consisting of the delivery of shares linked to the performance of the Group in relation to the development of the Outlook 2016-2020 and subsequent updates thereof approved by the Board of Directors.

Share delivery plans are subject to approval by the shareholders at a General Shareholders' Meeting, who also set the objective and quantifiable parameters determining the accrual thereof as well as their relative weighting. The shareholders at the General Shareholders' Meeting held on 31 March 2017 approved the 2017-2019 Strategic Bonus along these lines.

The parameters include economic/financial and comparative total shareholder return, operational/industrial and corporate social responsibility variables, and must in any case be consistent with the strategy of the Company determined by the Board of Directors, with a minimum level beyond which they are considered to be achieved and a target to reach the highest grade.

The Remuneration Committee evaluates performance and determines compliance with pre-established parameters. The committee may seek the advice of an independent expert for this purpose. The proposal thereof shall be submitted to the Board of Directors for approval.

The plans typically have a duration of six years, of which the initial three-year period is the period for evaluating the performance level compared to the parameters to which the plan is linked, and the next three years are the payment period during which the shares are delivered on a deferred basis.

In order to engage in a proper overall evaluation of performance, circumstances occurring after the approval of each of the plans having a material impact, either positive or negative, on the Outlook 2016-2020 and subsequent updates thereof or on the main economic/financial variables of the Company (corporate transactions, mergers, split-offs, acquisitions, extraordinary dividends, etc.) shall be taken into account.

At the end of the evaluation period for each of the incentive plans, the plan shall accrue annually in equal parts (in the case of the 2017-2019 Strategic Bonus, the accrual shall occur during the first half of 2020 and during the first quarter of 2021 and 2022). Each annual accrual and the corresponding payment thereof must be approved by the Board of Directors, after a report from the Remuneration Committee.

In this connection, during each of the three years of the payment period and for each delivery of shares, it is expected that there will be an evaluation whether to confirm or totally or partially cancel the corresponding payment and, if applicable, to claim the total or partial reimbursement of the shares already delivered (or the amount thereof in cash) under certain circumstances. The shares shall be delivered along with the remuneration corresponding to said shares that has accrued since the initial allocation thereof to the beneficiaries.

Furthermore, executive directors who are beneficiaries of the incentive plans may not transfer ownership of the shares received for a period of three years unless they are the direct or indirect holders of a number of shares equal to two times their annual fixed remuneration or unless the Board of Directors so approves under exceptional circumstances.

5.4. Remuneration for holding the position of director at other companies of the Group that are not wholly owned

Executive directors and officers of the Group who hold the position of director at companies that are not wholly owned, either directly or indirectly, by the Company, may receive remuneration corresponding to the position from said companies in accordance with their corporate governance rules on the same terms as the other directors.

5.5. Neutrality

The Board of Directors shall ensure that variable remuneration of any kind may not be based merely on the general performance of the markets, of the industry in which the Company operates or on other similar circumstances.

5.6. Benefits

The remuneration system for executive directors may be supplemented by health and life insurance, in line with practices in the market by companies with comparable capitalisation, size, ownership structure and international scope.

The Company does not currently have any commitment to provide defined contributions or defined benefits to any retirement or long-term saving system of any director.

5.7. *Malus and Claw-Back Clauses*

The Board of Directors, with due regard to any proposal made by the Remuneration Committee, has the power to cancel the payment of long-term variable remuneration (*malus* clause) or to request the return of remuneration already paid (claw-back clauses) under special circumstances. These circumstances include fraud, serious violation of the law and a material restatement of the financial statements on which the Board based the evaluation of the performance level, provided that said restatement is confirmed by the external auditors and is not due to a change in accounting rules.

The Board of Directors also has the power to suspend the payment of short-term variable remuneration if the beneficiary thereof has seriously breached the *Code of Ethics* without having remedied the consequences of said breach.

In the case of the Strategic Bonus, the power to demand a return of shares delivered shall be governed by a resolution of the shareholders acting at a General Shareholders' Meeting and the provisions of the rules implementing said resolution and approved by the Board of Directors, after a report from the Remuneration Committee.

The proportion of the amounts to be withheld or recovered shall be determined in the discretion of the Board of Directors, after an opinion of the Remuneration Committee, based on the specific circumstances giving rise to the demand.

5.8. *Severance Clauses*

Since the end of the 1990s, the executive directors, as well as a group of officers, have the right to receive severance compensation in the event of termination of their relationship with the Company, provided that such termination is not the consequence of a breach attributable thereto or of the sole decision thereof. In the case of the chairman & CEO, he is entitled to three times annual salary. Any reduction in the number of annual salary payments to this group might entail a high cost for the Company, for which reason the Board of Directors has decided not to change the current status quo, given the average age of the affected group and the practically non-existent execution of these types of guarantees. Each annual director remuneration report describes the ongoing reduction in the number of affected persons and any payment of this type of severance in each financial year. Since 2011, a severance limit of two times annual salary applies to new contracts with executive directors and senior officers, as well as the Group's Business CEO.

5.9. *Appointment of New Executive Directors*

To the extent possible, the remuneration of new executive directors shall be in line with the remuneration policy for the current executive directors. The fixed remuneration of the new executive directors shall be set at the time of their appointment taking into account market terms and comparable positions as well as their experience level. New executive directors shall participate in annual long-term incentives based on the same principles as the current ones. The Board of Directors, after taking account of the recommendation of the Remuneration Committee, reserves the right to deviate from established practice to the extent necessary to ensure the hiring of appropriate candidates, in view of the Company interest.

6. Adjustment to Economic Situation and International Environment

The application of this Policy shall be appropriately adjusted to conform to the economic situation and international environment, upon a proposal of the Remuneration Committee, which may rely on the advice of an independent expert to this end. If appropriate, all of the details of and reasons for any adjustment shall be provided to the shareholders in the next published annual director remuneration report.

7. Basic Terms of the Contracts with Executive Directors

a) Indefinite duration

The contracts with executive directors of the Company are of indefinite duration, and financial compensation is contemplated therein, as set out in sections 5.8 and 7.d), in the event of termination of the contractual relationship with the Company, provided that such termination does not occur exclusively due to the decision of the executive directors to withdraw or as a result of a breach of their duties.

b) Applicable legal provisions

The contracts with executive directors are governed by the legal provisions applicable in each case.

c) Compliance with the Company's Corporate Governance System

Executive directors have the duty to strictly observe the rules and provisions contained in the Company's Corporate Governance System, and especially, given the significance thereof, the principles and guidelines set out in the Preamble and in the Preliminary Title of the By-Laws, as well as in the Code of Ethics, which in any case shall be the reference point for the proper interpretation of the provisions of this Director Remuneration Policy.

d) Non-competition

Given the scope of their knowledge of the design and execution of the Company's strategy and business plans, the contracts with executive directors in all cases establish a duty not to compete with respect to companies and activities that are similar in nature during the term of their relationship with the Company and for a period of between one and two years thereafter. As consideration for such commitments, the executive directors are entitled to a severance payment equal to the remuneration for such period.

e) Confidentiality and return of documents

There is a rigorous duty of confidentiality both during the term of the contracts and after the relationship has terminated. In addition, upon termination of their relationship with the Company, the executive directors must return to the Company any documents and items in their possession relating to the activities carried out thereby.

8. Principle of Full Transparency

The Board of Directors of the Company assumes the commitment to enforce the principle of the fullest transparency of all the items of remuneration received by all directors, providing clear and adequate information as much in advance as required and in line with the good governance recommendations generally recognised in international markets in the area of director remuneration.

For such purpose, the Board of Directors establishes this *Director Remuneration Policy* and ensures the transparency of director remuneration by including in the Company's annual report a detailed breakdown, according to positions and status, of all remuneration received by the directors, whether as such, in their capacity as executives, if applicable, or in any other capacity, and whether such remuneration has been paid by the Company or by other companies of the Group.

In addition, the Board of Directors prepares the *Annual Director Remuneration Report* on an annual basis, which is made available to the shareholders upon the call to the General Shareholders' Meeting and is submitted to a consultative vote as a separate item on the agenda.

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