

Bilbao, 8 June, 2017

## To the National Securities Market Commission

**Subject: The Neoenergia group incorporates the activity and businesses of Elektro Holding, S.A.**

Dear Sirs,

Pursuant to article 17 of Regulation (EU) No. 596/2014 on market abuse and article 228 of the restated text of the Securities Market Law approved by the Royal Legislative Decree 4/2015, of 23 October (*texto refundido de la Ley del Mercado de Valores aprobado por el Real Decreto Legislativo 4/2015, de 23 de octubre*) and related provisions, we hereby inform you that yesterday the shareholders of Neoenergia, S.A. ("**Neoenergia**"), i.e., BB Banco de Investimento S.A. ("**Banco do Brasil**"), Caixa de Previdência dos Funcionários do Banco do Brasil ("**Previ**") and Iberdrola Energía, S.A. (Sociedad Unipersonal) ("**Iberdrola Energía**") have reached an agreement so that Neoenergia incorporates the activity and businesses of Elektro Holding, S.A. ("**Elektro**") (the "**Transaction**").

### 1. Description of the Transaction

Neoenergia is the largest private electric group in Brazil by number of clients, operates in 11 states and is active in the businesses of generation, transmission, distribution and commercialization of energy. As of today, Banco do Brasil and Previ own a 12% and a 49% interest in the share capital of Neoenergia, respectively, with Iberdrola Energía holding the ownership of the remaining 39%.

Iberdrola Energía is a Spanish company wholly-owned by Iberdrola, S.A. ("**Iberdrola**") and owner of the 99.99% of the share capital of Elektro. Elektro is the parent company of a group of Brazilian companies mainly focused on the electricity distribution business, in the states of Sao Paulo and Mato Grosso do Sul, and the renewable energy generation business.

Following completion of the Transaction, Banco do Brasil and Previ will be the owners of approximately a 9.35% and 38.21%, respectively, of the share capital of Neoenergia, and Iberdrola Energía will hold a 52.45%, incorporating as a consideration the businesses of Elektro. Additionally, the Transaction includes the commitment of Iberdrola to undertake the initial public offering of Neoenergia when Banco do Brasil and Previ deem appropriate.

The transaction will allow the creation of a leader company in the Latin-American energy sector, with its registered office and operating headquarters in Brazil, with partners as important as Banco do Brasil and Previ, which assures the commitment of the new company with the energetic development in the said country.

Banco do Brasil, 54.4% owned by the federal government, is listed in Novo Mercado with a market capitalization of 80,260 million of Brazil reals and constitutes the largest Brazilian bank in terms of assets (1,442 billion of Brazil reals).

Previ is the pension fund exclusive to the employees of Banco do Brasil and is one of the largest pension funds in Latin-America with 160,600 million of Brazil reals total assets.

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The new company will provide services to a population of 43 million people, located in a concession area of approximately 836,000 km<sup>2</sup>, have 13.4 million of clients and a Regulated Asset Base (RAB) of approximately 14,100 million of Brazil reais (approximately 3,657 million of euros) <sup>1</sup> as of December 2016.

The aggregate revenues of Neoenergia and Elektro in 2016 was of approximately 30,600 million of Brazil real (approximately 7,935 million of euros) and the EBITDA was of approximately 3,600 million of Brazil reais (approximately 934 million of euros).

## **2. Structure of the Transaction**

To implement the incorporation of the activity and businesses of Elektro in Neoenergia, the shareholders of the former, i.e., Banco do Brasil, Previ and Iberdrola Energía, have entered into an agreement containing the terms and conditions of the Transaction, as well as a new shareholders' agreement that will supersede the one currently in force entered into in 2005, that will regulate, among others, the following aspects: (i) the need that certain reserved matters are approved by qualified majorities; (ii) the existence of limitations on the transfer of shares; (iii) the right of Iberdrola Energía to appoint the majority of the members of the Board of Directors of Neoenergia; and (iv) the obligation of the Iberdrola group to channel all its investments in Brazil through Neoenergia.

The Transaction will be structured between Neoenergía and Elektro following the Brazilian legal form called "*incorporação*", that involves a share capital increase in Neoenergia that will be fully subscribed by Iberdrola Energía and involve the dissolution of Elektro and the *en bloc* transfer of its assets to Neoenergia, that will acquire the rights and liabilities of Elektro.

## **3. Terms and conditions of the Transaction**

The Transaction documents entered into between Banco do Brasil, Previ and Iberdrola Energía are subject to certain conditions such as the granting of the relevant regulatory authorizations in Brazil and the approval by the general shareholders' meeting of Neoenergia and Elektro.

As a consequence of the Transaction, it is foreseen that Iberdrola will have a positive impact on its accounts that will be quantified and communicated at the closing of the Transaction.

This information is provided to you for the appropriate purposes.

Yours faithfully,

Secretary of the Board of Directors

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<sup>1</sup> All of the equivalences to euros have been calculated applying the 2016 average reference exchange rate of EUR 1 = BRL 3.8561.

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

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

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

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

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