



Julián Martínez-Simancas
Secretary of the Board of Directors

Bilbao, February 24 2017

To the National Securities Market Commission

Subject: Publication of notice of call of the General Shareholders' Meeting 2017 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 21, 2017 (registration no. 248,326), we hereby inform you that the notice of call of the General Shareholders' Meeting to be held on March 31 or April 1, 2017 on first and second call, respectively, with the agenda notified in the abovementioned relevant fact is being published on today's date in the Official Commercial Registry Gazette (*Boletín Oficial del Registro Mercantil*), the "Deia" and "El Correo" newspapers and the corporate webpage of Iberdrola, S.A. (the "**Company**") (www.iberdrola.com). We attach hereto the aforementioned notice of call, which will be accessible without interruption on the Company's corporate webpage at least until the General Shareholders' Meeting is held.

In addition, we attach 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 registered office and on the corporate webpage of the Company on the terms laid down in the notice of call.

This information is provided to you for the appropriate purposes.

Yours faithfully,

Secretary of the Board of Directors

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



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IMPORTANT INFORMATION

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

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General Shareholders' Meeting

Announcement / 2017
of the Call to Meeting



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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 31 March 2017, at 11:30, on first call**, or, if the required quorum is not met, on the next day, at the same place and time, on second call. It is expected that the required quorum will be met on first call, for which reason **it can be expected that the proceedings will take place on 31 March 2017.**

Agenda

Annual accounts, corporate management and change of auditor

1. Approval of the individual and consolidated annual accounts for financial year 2016.
2. Approval of the individual and consolidated management reports for financial year 2016.
3. Approval of the management and activities of the Board of Directors during financial year 2016.
4. Appointment of KPMG Auditores, S.L. as new auditor of the Company and of its consolidated group for financial years 2017, 2018, and 2019.

Update of the Corporate Governance System

5. Approval of the preamble to the *By-Laws*.
6. Amendment of articles 7 and 8 of the *By-Laws* to reflect the Company's commitment to maximisation of the social dividend and to the *Mission, Vision, and Values of the Iberdrola group*.
7. Amendment of article 14 of the *Regulations for the General Shareholders' Meeting* to strengthen the right to receive information and to make technical improvements.
8. Amendment of articles 19 and 39 of the *Regulations for the General Shareholders' Meeting* to expand the channels for participation in the General Shareholders' Meeting.

Renewal of the Board of Directors

9. Appointment of Mr Juan Manuel González Serna as independent director.
10. Appointment of Mr Francisco Martínez Córcoles as executive director.

Remuneration of the shareholders, the directors, and management personnel

11. Approval of the proposed allocation of profits/losses and distribution of dividends for financial year 2016.
12. Approval of an increase in capital by means of a scrip issue at a maximum reference market value of 1,032 million euros.
13. Approval of an increase in capital by means of a scrip issue at a maximum reference market value of 1,168 million euros.
As regards each of the increases, which implement the "Iberdrola Flexible Dividend" system, it is proposed to: (i) offer that the Company acquire the free-of-charge allocation rights of the shareholders at a guaranteed fixed price; and (ii) delegate powers for the implementation thereof.
14. Approval of a reduction in share capital by means of the retirement of 219,990,000 own shares (3.41% of the share capital). Delegation of powers for the implementation thereof.
15. Approval of a strategic bonus for the executive directors and management personnel linked to the Company's performance for the 2017-2019 period, to be paid through the delivery of shares. Delegation of powers for the further development and implementation thereof.
16. Consultative vote regarding the *Annual Director Remuneration Report* for financial year 2016.

Authorisation to issue fixed-income securities

17. Authorisation to the Board of Directors to issue simple debentures and other fixed-income securities that are neither exchangeable for nor convertible into shares, as well as to guarantee the issue of securities by the Company's subsidiaries, with a limit of 6,000 million euros for notes and of 20,000 million euros for other fixed-income securities.

Formalisation of resolutions

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

Attendance Bonus

In compliance with the provisions of the *General Corporate Governance Policy*, the Company will pay an **attendance bonus in the gross amount of 0.005 euro per share** for shares present at the General Shareholders' Meeting, thus including shareholders who attend in person or by proxy representation granted to any third party and those who cast an absentee vote.

Participation

The Company does not require a minimum number of shares in order to be able to attend the General Shareholders' Meeting, to vote, or to take part in the deliberations thereof. Therefore, all holders of shares who have caused such shares to be registered in their name in the corresponding book-entry register not later than 26 March 2017 may do so if, as expected, the General Shareholders' Meeting is held on first call (or the next day if held on second call).

In addition, all shareholders having the right to attend may grant their proxy to another person, even if not a shareholder, or cast an absentee vote, via the premises made available for such purpose to be announced on the corporate website (www.iberdrola.com), the software application available on said website, or by sending a duly completed attendance, proxy, and absentee voting card to the Company (to apartado de correos número 1.113, 48008 Bilbao). Proxies and absentee votes cast by electronic communication or postal correspondence must, as a general rule, be received by the Company **before 31 March 2017** if, as expected, the General Shareholders' Meeting is held on first call (or the next day if held on second call).

In order to promote universal accessibility, the Company will adopt measures to facilitate participation at the meeting by shareholders and proxy representatives with mobility, auditory, or visual limitations and will provide a playroom for children of all ages, supervised by qualified professionals. The proceedings will also have the equipment required for the simultaneous interpretation of presentations made in Spanish into Euskera (Basque), English, and Portuguese, as well as for the consecutive interpretation into Spanish of the presentations of attendees who wish to express themselves in Euskera, English, or Portuguese.

Information

All documentation relating to the General Shareholders' Meeting, the publication of which is provided for by law or the Corporate Governance System or that is otherwise deemed appropriate to be made available to the shareholders, including the proposed resolutions as well as the reports of the Board of Directors and of the auditor, **may be viewed on the corporate website** (www.iberdrola.com). Said corporate website also allows for access to 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 8 April 2016.

The shareholders may examine at the registered office and request the immediate delivery or shipping without charge (which may be carried out by e-mail, with confirmation of receipt, if the shareholder accepts this form of delivery) of a copy of the individual and consolidated annual accounts and management reports for financial year 2016, together with the respective audit reports, the proposed resolutions, including the full text of the proposed amendments to the *By-Laws*, and the mandatory reports of the Board of Directors, and of the other documents that must be made available to the shareholders in connection with the holding of this General Shareholders' Meeting.

Shareholders with visual limitations may also 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.

Finally, until 26 March 2017, inclusive, shareholders may request in writing 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 has been provided by the Company 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 2016.

Supplement to the Call to Meeting and Well-founded 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 2 March 2017.

Digital Channels and Office of the Shareholder

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).

Shareholders may obtain additional information through the **Investor Relations App**, by accessing the **On-Line Shareholders (OLS) system**, which is continuously available on the **corporate website** (www.iberdrola.com), or by contacting the **Office of the Shareholder** (phone: (+34) 900 100 019 (hours: Monday to Friday, from 09:00 to 19:00) / e-mail: accionistas@iberdrola.com).

In Bilbao, on 21 February 2017.

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 owner of the data 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 may 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 / 2017



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ITEM NUMBER ONE ON THE AGENDA

Approval of the individual annual accounts and the consolidated annual accounts for financial year 2016.

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 2016, which were finalised by the Board of Directors at its meeting held on 21 February 2017.

ITEM NUMBER TWO ON THE AGENDA

Approval of the individual and consolidated management reports for financial year 2016.

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 2016, which were finalised by the Board of Directors at its meeting held on 21 February 2017.

ITEM NUMBER THREE ON THE AGENDA

Approval of the management and activities of the Board of Directors during financial year 2016.

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 2016.

ITEM NUMBER FOUR ON THE AGENDA

Appointment of KPMG Auditores, S.L. as new auditor of the Company and of its consolidated group for financial years 2017, 2018, and 2019.

RESOLUTION

To appoint KPMG Auditores, S.L. as auditor of IBERDROLA, S.A. (the "**Company**") and of its consolidated group to carry out the audit for financial years 2017, 2018, and 2019, authorising the Board of Directors, with express power of substitution, to enter into the respective services agreement, on the terms and conditions it deems appropriate, with authority to make such amendments therein as may be required in accordance with the law applicable at any time.

This resolution is submitted for the approval of the shareholders at the General Shareholders' Meeting upon a proposal of the Audit and Risk Supervision Committee, which, after engaging in a selection process pursuant to the provisions of law, applying transparent and non-discriminatory criteria, recommended KPMG Auditores, S.L. and Pricewaterhousecoopers Auditores, S.L. to the Board of Directors as candidate firms to perform the audit of the individual annual accounts of the Company and those of its consolidated group for the financial years 2017 to 2019, with the former being preferred by the committee due to receiving a higher score in said process.

KPMG Auditores, S.L. has its registered office in Madrid, at Paseo de la Castellana, nº 259 c, and bears Tax Identification Number B-78510153. It is registered with the Official Auditors' Registry (*Registro Oficial de Auditores de Cuentas*) of the Institute of Accounting and Accounts Auditing under number S0702 and with the Madrid Commercial Registry at volume 11,961, page M-188,007.

ITEM NUMBER FIVE ON THE AGENDA

Approval of the preamble to the By-Laws.

RESOLUTION

To approve the text of the preamble to the By-Laws, which shall read as follows:

"PREAMBLE

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

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

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

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

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

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

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

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

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

ITEM NUMBER SIX ON THE AGENDA

Amendment of articles 7 and 8 of the *By-Laws* to reflect the Company's commitment to maximisation of the social dividend and to the *Mission, Vision, and Values of the Iberdrola group*.

RESOLUTION

To amend articles 7 and 8 of the *By-Laws* to reflect the Company's commitment to maximisation of the social dividend and to the *Mission, Vision, and Values of the Iberdrola group*. These provisions shall hereafter read as follows:

"Article 7. Social Dividend

1. *The Company conceives of the social dividend as the sustainable creation of value for all stakeholders affected by the activities of the Group in carrying out its businesses, the advancement of business communities which the Company participates in and leads, both from the economic viewpoint and from the perspective of business ethics, the promotion of equality and justice, the encouragement of innovation and protection of the environment, as well as through the generation of quality employment, its strategy of social responsibility, and its effort in the fight against climate change.*
2. *The Company is conscious of the importance of the social dividend for all of the communities in which the Group is present. Maximisation of the social dividend and the Company's commitment to the sustainable creation of value, ethical principles, transparency and good corporate governance, the development of its human resources, social commitment, a sense of belonging, safety and reliability, quality, innovation, protection of the environment, customer focus, and institutional loyalty are key values that the Board of Directors takes into account in order to define the strategy of the Group.*

Article 8. Applicable Legal Provisions and Corporate Governance System

1. *The Company is governed by the legal provisions relating to listed companies and other applicable laws and regulations, as well as by its Corporate Governance System.*
2. *The Corporate Governance System is the Company's internal system of rules, which is configured in accordance with applicable law in the exercise of corporate autonomy supported thereby and applies to the entire Group. It is intended to ensure through rule-making the best development of the corporate contract that binds its shareholders, and especially the corporate object and the corporate interest, as defined in the preceding articles.*
3. *The Corporate Governance System is made up of these *By-Laws*, the *Mission, Vision, and Values of the Iberdrola group*, the *Corporate Policies*, the governance rules of the corporate decision-making bodies and other internal committees, and the codes, regulations, and procedures making up and elaborating upon the Company's regulatory compliance system.*
4. *The *Mission, Vision, and Values of the Iberdrola group* constitutes the corporate philosophy of the Company, contains the ideological and axiological foundation upon which its business enterprise is based, and expresses a desire to optimise its corporate and institutional reality, in the awareness that, due to its size and the importance of its activities, it is a focal point for many stakeholders and for the economic and social environment in which its companies do business.*
5. *The *Mission, Vision, and Values of the Iberdrola group* inspires and takes form in the *Corporate Policies* and in the other rules of the Corporate Governance System, governing the day-to-day activities of all companies of the Group and guiding their strategy and all of their actions.*
6. *The Board of Directors has approved a Code of Ethics that further develops the bylaw-mandated commitment of the Company to the *Mission, Vision, and Values of the Iberdrola group* and ethical principles."*
7. *Full or summarised versions of the rules making up the Corporate Governance System can be viewed on the Company's corporate website.*
8. *The shareholders acting at a General Shareholders' Meeting and the Board of Directors of the Company, within their respective purview, develop, apply, and interpret the rules making up the Corporate Governance System in order to ensure compliance at all times with the purposes thereof and, particularly, the fulfilment of the corporate interest."*

ITEM NUMBER SEVEN ON THE AGENDA

Amendment of article 14 of the *Regulations for the General Shareholders' Meeting* to strengthen the right to receive information and to make technical improvements.

RESOLUTION

To amend article 14 of the *Regulations for the General Shareholders' Meeting* to strengthen the shareholders' right to receive information and to make technical improvements. This provision shall hereafter read as follows:

"Article 14. Corporate Website

1. *The Company shall use its corporate website to promote the informed participation of all shareholders in the General Shareholders' Meeting and to facilitate the exercise of their rights related thereto.*
2. *From the date of publication of the announcement of the call to meeting through the date of holding of the General Shareholders' Meeting in question, the Company shall continuously publish on its corporate website in electronic format and in an organised and environmentally-friendly manner, such information as is required by law or deemed appropriate to facilitate and promote the attendance and participation of the shareholders at the General Shareholders' Meeting, including in any case the following:*
 - a) *The announcement of the call to the General Shareholders' Meeting.*
 - b) *The total number of shares and voting rights existing on the date of the announcement of the call to meeting, broken down by classes of shares, if any.*
 - c) *Such documents relating to the General Shareholders' Meeting as are required by law, including the reports of the directors, the auditors, and the independent experts that are expected to be submitted, proposed resolutions submitted by the Board of Directors or by the shareholders, and any other relevant information that the shareholders might need in order to cast their vote.*
 - d) *In the event that the shareholders acting at a General Shareholders' Meeting must deliberate on the appointment, re-election, or ratification of directors, the corresponding proposed resolution shall be accompanied by the following information: professional profile and biographical data of the director; other boards of directors on which the director holds office, at listed companies or otherwise; type of director such person is or should be, with mention, in the case of proprietary directors, of the shareholder that proposes or proposed the appointment thereof or who the director represents or with which the director maintains ties; date of the director's first and any subsequent appointments as director of the Company; shares of the Company and derivative financial instruments whose underlying assets are shares of the Company of which such director is the holder; the report prepared by the Board of Directors and the proposal of the Appointments Committee in the case of independent directors, and the report of such Committee in other cases.*
 - e) *The existing channels of communication between the Company and the shareholders and, in particular, explanations pertinent to the exercise of the right to receive information, indicating the postal and e-mail addresses to which the shareholders may direct their requests.*
 - f) *The means and procedures for granting a proxy to attend the General Shareholders' Meeting and for casting absentee votes, including the form of attendance, proxy, and absentee voting card, if any.*
3. *Furthermore, after the publication of the announcement of the call to the Ordinary General Shareholders' Meeting, the Company shall publish the following documentation on its corporate website:*
 - a) *The integrated report, the sustainability report and any other reports determined by the Board of Directors.*
 - b) *The report on the independence of the auditor prepared by the Audit and Risk Supervision Committee.*
 - c) *The related-party transactions report prepared by the Appointments Committee.*
 - d) *The activities report of the Board of Directors and of the committees thereof.*
4. *The Company shall use its best efforts to include in its corporate website, beginning on the date of the announcement of the call to meeting, an English version of the information and the principal documents related to the General Shareholders' Meeting. In the event of a discrepancy between the Spanish and English versions, the former shall prevail.*

5. Pursuant to the provisions of applicable legislation, an Electronic Shareholders' Forum shall be enabled on the Company's corporate website on occasion of the call to the General Shareholders' Meeting. Duly verified shareholders and shareholder groups may access the Electronic Shareholders' Forum, the use of which shall conform to its legal purpose and to the assurances and rules of operation established by the Company."

ITEM NUMBER EIGHT ON THE AGENDA

Amendment of articles 19 and 39 of the Regulations for the General Shareholders' Meeting to expand the channels for participation in the General Shareholders' Meeting.

RESOLUTION

To amend articles 19 and 39 of the Regulations for the General Shareholders' Meeting to expand the channels for shareholder participation in the General Shareholders' Meeting. These provisions shall hereafter read as follows:

"Article 19. Right to Proxy Representation

1. Shareholders may exercise the right to attend personally or through proxy representation by another person, whether or not such person is a shareholder, by complying with the requirements of law and the Corporate Governance System.
2. The proxy may be granted by delivering to the proxy representative the attendance, proxy, and absentee voting card or any other means of verifying the grant of a proxy that is accepted by the Company, or by any of the following means:
 - a) Advance delivery of the attendance, proxy, and absentee voting card or any other means of verifying the grant of a proxy that is accepted by the Company at the premises provided by the Company on the days announced on the Company's corporate website.
 - b) Sending the attendance, proxy, and absentee voting card or any other means of verifying the grant of a proxy that is accepted by the Company by postal correspondence addressed to the Company.
 - c) By electronic correspondence, completing the proxy form available on the Company's corporate website, using a recognised electronic signature of the shareholder or other type of guarantee that the Company deems proper to ensure the authenticity and identification of the shareholder granting the proxy.

For these purposes, the use of the personal passwords that the Company has previously delivered to the shareholder by postal or electronic correspondence to the address that the shareholder has communicated to the Company or through any other form determined by the Board of Directors shall be deemed to be a proper assurance.
 - d) By any other means that the Board of Directors determines is appropriate to favour the participation of the largest possible number of shareholders, provided that notice thereof is provided on the corporate website at the time of publishing the announcement of the call to meeting, and the authenticity and identification of the shareholder granting the proxy is duly ensured.
3. A proxy granted by any of the means indicated in the preceding section must be received by the Company before 24:00 on the day immediately prior to the day on which the General Shareholders' Meeting is held upon first call or upon second call, as applicable.
4. The Board of Directors is authorised to further develop the foregoing provisions by establishing rules, means, and procedures adjusted to current techniques in order to organise the granting of proxies by electronic means, in each case in accordance with the rules and regulations issued for such purpose.

Specifically, the Board of Directors may establish rules for the use of personal passwords and other guarantees other than electronic signatures for the granting of proxies by electronic correspondence, reduce the advance period established above for receipt by the Company of proxies granted by postal or electronic correspondence, and accept, and authorise the chair of and the secretary for the General Shareholders' Meeting or the persons acting by delegation therefrom to accept, any proxies received after such period, to the extent allowed by the means available.

5. The chairman and the secretary of the Board of Directors or the chair of and the secretary for the General Shareholders' Meeting, from the constitution thereof, and the persons acting by delegation from either of them, shall have the broadest powers for verifying the identity of the shareholders and their representatives, verifying the ownership and status of their rights, and recognising the validity of the attendance, proxy, and absentee voting card or the instrument or means evidencing attendance or representation by proxy.

6. *A proxy is always revocable. Attendance by the shareholder granting the proxy at the General Shareholders' Meeting, whether in person or due to having cast an absentee vote on a date subsequent to that of the proxy, shall have the effect of revoking the proxy.*
7. *A public solicitation for proxies by the Board of Directors or any of its members shall be governed by the provisions of law and by the corresponding resolution of the Board of Directors, if any.*
8. *A proxy may cover those matters that the law allows to be dealt with at the General Shareholders' Meeting even when not included in the agenda.*
9. *If the proxy has been validly granted pursuant to law and these Regulations but does not include voting instructions or if questions arise as to the intended proxy-holder or the scope of the representation, and unless otherwise indicated by the shareholder, it shall be deemed that the proxy: (i) is granted in favour of the chairman of the Board of Directors; (ii) refers to all of the items included in the agenda of the call to meeting; (iii) contains the instruction to vote favourably on all proposals made by the Board of Directors with respect to the items on the agenda of the call to meeting; and (iv) extends to matters that, although not included in the agenda of the call to meeting, may be dealt with at the General Shareholders' Meeting in accordance with law, in respect of which the proxy-holder shall vote in the direction the proxy-holder deems most favourable to the interests of the shareholder granting the proxy, within the framework of the corporate interest.*

This provision may be further developed by any rules approved by the Board of Directors that systematise, further develop, adapt, and specify the provisions of the Corporate Governance System regarding the management of the General Shareholders' Meeting.

10. *Before being appointed, the proxy-holder shall provide detailed information to the shareholder regarding the existence of any conflict of interest. If the conflict is subsequent to the appointment and the shareholder granting the proxy has not been advised of the possible existence of such conflict, the proxy-holder shall immediately inform the shareholder thereof. In both cases, if the proxy-holder has not received new specific voting instructions regarding each of the matters on which the proxy-holder has to vote on behalf of the shareholder, the proxy-holder shall abstain from voting, without prejudice to the provisions of the following section.*
11. *Unless otherwise expressly indicated by the shareholder, if the proxy-holder is affected by a conflict of interest and has no specific voting instructions, or if the proxy-holder has them but it is deemed preferable that the proxy-holder not exercise the proxy with respect to the items involved in the conflict of interest, the shareholder shall be deemed to have appointed the following persons as proxy-holders for such items, severally and successively, in the event that any of them is in turn affected by a conflict of interest: first, the chair of the General Shareholders' Meeting, second, the secretary therefor, and finally, the deputy secretary of the Board of Directors, if any. In this latter event, if there are several deputy secretaries, the order to be used shall be the order established at the time of their appointment (first deputy secretary, second deputy secretary, etc.). The proxy representative so designated shall cast the vote in the direction deemed most favourable to the interests of the person represented thereby, within the framework of the corporate interest.*
12. *A proxy representative may hold the proxy of more than one shareholder without limitation as to the number of shareholders being represented, and exercise the corresponding voting rights pursuant to the provisions of article 40.3 below."*

"Article 39. Absentee Voting; Powers to Engage in Proxy-Granting and Absentee Voting

1. *Shareholders may cast their vote regarding proposals relating to the items included in the agenda of the call to meeting by means of postal or electronic correspondence, as well as by any other means of long-distance communication, provided that they adequately guarantee the authenticity and identification of the voting shareholders and, if applicable, duly ensure the security of the electronic communications. In all such cases, they shall be deemed to be present for purposes of the establishment of a quorum at the General Shareholders' Meeting.*
2. *In order to vote by postal correspondence, shareholders must send to the Company the attendance, proxy, and absentee voting card issued in their favour by the corresponding institution, setting forth thereon the direction of their vote, their abstention, or their blank vote, and the direction of the vote in these cases.*
3. *Votes by electronic correspondence shall be cast using a recognised electronic signature or using the personal passwords referred to in letter c of article 19.2 above or other type of guarantee that the Board of Directors deems best ensures the authenticity and identification of the voting shareholder.*
4. *Votes cast by any of the means set forth in the preceding sections must be received by the Company before 24:00 on the day immediately prior to the day set for the holding of the General Shareholders' Meeting upon first call or upon second call, as applicable.*

5. *The absentee voting referred to in this article shall be rendered void:*

 - a) *By subsequent express revocation made by the same means used to cast the vote and within the period established for such voting.*
 - b) *By attendance at the meeting of the shareholder casting the vote.*
 - c) *If the shareholder validly grants a proxy within the established period after the date of casting the absentee vote.*

6. *If no express instructions are included when casting the absentee vote, or if instructions are included only with respect to some of the items on the agenda of the call to meeting, and unless expressly indicated otherwise by the shareholder, it shall be deemed that the absentee vote refers to all of the items included in the agenda of the call to the General Shareholders' Meeting and that the vote is in favour of the proposals made by the Board of Directors regarding the items included in the agenda of the call to meeting with respect to which no express instructions are included.*
7. *As regards proposed resolutions other than those submitted by the Board of Directors or regarding items not included in the agenda of the call to meeting, the shareholder casting an absentee vote may grant proxy representation through any of the means contemplated in these Regulations, in which case the rules established for such purpose shall apply to the proxy, which shall be deemed granted to the chairman of the Board of Directors unless expressly indicated otherwise by the shareholder.*
8. *The Board of Directors is authorised to develop the appropriate rules, means, and procedures to organise the casting of votes and the granting of proxies by electronic means.*

Specifically, the Board of Directors may establish rules for the use of personal passwords and other guarantees other than electronic signatures for casting electronic votes or by other valid means of long-distance communication and to grant proxies by electronic correspondence. It may also reduce the advance period established in section 4 above for receipt by the Company of absentee votes and proxies granted by postal or electronic correspondence, and accept, and authorise the chair of and the secretary for the General Shareholders' Meeting and the persons acting by delegation therefrom to accept, absentee votes and proxies received after such period, to the extent permitted by the means available.

The Board of Directors is also authorised to further develop the procedures for granting proxies and for absentee voting in general, including the rules of priority and conflict applicable thereto. The implementing rules adopted by the Board of Directors under the provisions of this section shall be published on the Company's corporate website.

The chairman and the secretary of the Board of Directors or the chair of and the secretary for the General Shareholders' Meeting, from the constitution thereof, and the persons acting by delegation therefrom, shall have the broadest powers to verify the identity of the shareholders and their representatives; check the legitimacy of the exercise of the rights of attendance, proxy-granting, and voting by the shareholders and their representatives; check and accept the validity and effectiveness of the proxies and absentee votes (particularly the attendance, proxy, and absentee voting card or verification document or instrument for attendance or proxy-granting), as well as the validity and effectiveness of the instructions received through intermediary and management institutions or depositaries of shares, all in accordance with the provisions set forth in the Company's Corporate Governance System and in the rules that the Board of Directors may establish in order to further develop such provisions."

ITEM NUMBER NINE ON THE AGENDA

Appointment of Mr Juan Manuel González Serna as independent director.

RESOLUTION

To appoint Mr Juan Manuel González Serna as director of the Company, upon a proposal of the Appointments Committee, for the by-law mandated four-year term, with the status of independent director.

ITEM NUMBER TEN ON THE AGENDA

Appointment of Mr Francisco Martínez Córcoles as executive director.

RESOLUTION

To appoint Mr Francisco Martínez Córcoles as director of the Company, after a report from the Appointments Committee, for the by-law mandated four-year term, with the status of executive director.

ITEM NUMBER ELEVEN ON THE AGENDA

Approval of the proposed allocation of profits/losses and distribution of dividends for financial year 2016.

RESOLUTION

To approve the proposed allocation of profits/losses and distribution of dividends prepared by the Board of Directors at its meeting held on 21 February 2017, which is described below:

To distribute, with a charge to the results for the financial year ended on 31 December 2016, a gross dividend of three euro cents for each share of IBERDROLA, S.A. carrying the right to receive it and that is outstanding on the date that the respective payment is made.

Payment of the aforementioned dividend is planned to be made at the beginning of July 2017.

This dividend will be distributed through the entities members of "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 for payment of the 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 basis for distribution and the resulting distribution (stated in euros) are as follows:

BASIS FOR DISTRIBUTION:

Balance from prior financial years:	5,400,881,539
Profits for financial year 2016:	1,410,966,043

TOTAL:	6,811,847,582
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DISTRIBUTION:

To legal reserve:	10,726,050
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To dividends (maximum amount to distribute corresponding to a fixed dividend of 0.03 euro (gross) per share for all of the 6,459,990,000 ordinary shares outstanding on the date hereof):	193,799,700
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To remainder:	6,607,321,832
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TOTAL:	6,811,847,582
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ITEM NUMBER TWELVE ON THE AGENDA

Approval of an increase in capital by means of a scrip issue at a maximum reference market value of 1,032 million euros.

RESOLUTION

In order to implement a new edition of the "Iberdrola Flexible Dividend" system, to increase share capital upon the terms and conditions described in the section "*Common Terms and Conditions of the increase in capital resolutions proposed under item numbers twelve and thirteen on the agenda*" below, at a maximum reference market value of 1,032 million euros for the shares to be issued in implementation of said increase.

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 during the month of July 2017.

ITEM NUMBER THIRTEEN ON THE AGENDA

Approval of an increase in capital by means of a scrip issue at a maximum reference market value of 1,168 million euros.

RESOLUTION

In order to implement a new edition of the "Iberdrola Flexible Dividend" system, to increase share capital upon the terms and conditions described in the section "*Common Terms and Conditions of the increase in capital resolutions proposed under item numbers twelve and thirteen on the agenda*" below, at a maximum reference market value of 1,168 million euros for the shares to be issued in implementation of said increase.

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 during the month of December 2017 or January 2018.

TERMS COMMON TO THE INCREASE IN CAPITAL RESOLUTIONS PROPOSED UNDER ITEM NUMBERS TWELVE AND THIRTEEN ON THE AGENDA IN ORDER TO IMPLEMENT TWO NEW EDITIONS OF THE "IBERDROLA FLEXIBLE DIVIDEND" SYSTEM

1. Principal Characteristics of the Two Increases in Capital

The amount of each of the two increases in capital (the "**Increases in Capital**" and each the "**Increase in Capital**") being submitted to the shareholders for approval at the General Shareholders' Meeting under item numbers twelve and thirteen on the agenda will be the amount resulting from multiplying: (a) the nominal value of each share of IBERDROLA, S.A. (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 2 below, on the date of implementation of each of the two Increases in Capital (the new shares of the Company issued by way of implementation of the Increases in Capital shall be collectively referred to as the "**New Shares**", and each one, individually, as a "**New Share**").

The sum of the reference market value of the New Shares corresponding to each of the Increases in Capital may not exceed the maximum reference market values of 1,032 million euros in the case of the increase in capital submitted for the approval of the shareholders at the General Shareholders' Meeting under item number twelve on the agenda, and of 1,168 million euros in the case of the increase in capital appearing in item number thirteen on the agenda.

Both Increases in Capital will be carried out, if at all, by means of the issuance and flotation, on their respective dates of implementation, of the New Shares, which will 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 will 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, will 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 will be issued at par, i.e. at their nominal value of seventy-five euro cents, without a share premium, and will be allocated to the shareholders of the Company without charge.

Within the year following the date of approval of the resolutions included in items twelve and thirteen on the agenda, each of the Increases in Capital may be implemented 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 by taking into consideration the legal and financial conditions existing at the time of

implementing each of the Increases in Capital, in order to offer the Company's shareholders a flexible and efficient remuneration formula.

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, 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 will be increased by the corresponding amount.

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

The number of New Shares to be issued in each of the Increases in Capital will 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 item numbers twelve and thirteen on the agenda (i.e. 1,032 and 1,168 million euros, respectively).

For its part, "**ListPri**" will be the arithmetic mean of the average weighted listing prices of the Company's shares on the Bilbao, Madrid, Barcelona, and Valencia Stock Exchanges 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, as well as the respective Purchase Price (as such term is defined below), rounded to the closest one-thousandth part of one euro.

3. 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 will 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 2 above. Specifically, the holders of free-of-charge allocation rights will be entitled to receive one New Share for the number of free-of-charge allocation rights held by them, which will be determined as provided in section 2 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) will 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 will 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 settlement and payment rules from time to time in effect.

The free-of-charge allocation rights will 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 will 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.

4. Irrevocable Commitment to Purchase the Free-of-charge Allocation Rights

At the time of implementation of each of the Increases in Capital, the Company will assume an irrevocable commitment to purchase the free-of-charge allocation rights at the price set forth below (the "**Purchase Commitment**") on the terms and conditions set forth below.

The Purchase Commitment corresponding to each of the Increases in Capital will be in effect and may be accepted during such term, within the period for trading the free-of-charge allocation rights, as is established by the Board of Directors, with express power of substitution. For such purposes, it is hereby resolved to authorise the acquisition by the Company of the aforementioned free-of-charge allocation rights up to the maximum limit of the total number of rights issued in each of the Increases in Capital, with the observance of legal restrictions in any case.

The object of the Purchase Commitment assumed by the Company will be such as is determined by the Board of Directors in each of the Increases in Capital, in exercise of the powers delegated thereto by the shareholders at the General Shareholders' Meeting, with express power of substitution, and taking into account market conditions and the corporate interest, based on the following two alternatives:

- (a) 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 in accordance with the securities settlement and payment rules from time to time in effect, excluding such rights as have been transferred on the market; or
- (b) all of the free-of-charge allocation rights, regardless of whether the holders thereof have received them from the Company without charge because of their status as shareholders at the time of allocation thereof or have acquired them on the market.

The "**Purchase Price**" with respect to each Increase in Capital will be the fixed price at which the Company will acquire each free-of-charge allocation right under the respective Purchase Commitment and will be calculated in accordance with the following formula, with the resulting number being rounded to the closest one-thousandth part of one euro and, in the case of one-half of one-thousandth of one euro, to the next higher one-thousandth part of one euro:

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

The acquisition by the Company of the free-of-charge allocation rights as a consequence of the Purchase Commitment will be effected with a charge to the reserves contemplated in section 303.1 of the *Companies Act*.

5. 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 2016, 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 will 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, will 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.

6. Representation of the New Shares

The New Shares will 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 member entities.

7. 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 will grant the holders thereof the same financial, voting, and like rights as the ordinary shares of the Company then outstanding.

8. 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 will 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 will be deposited with Banco de España or with Caja General de Depósitos at the disposal of the interested parties.

9. Application for Admission to Trading

The Company will 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 will 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 will be safeguarded, in compliance with the requirements set out in applicable law at such time.

10. Implementation of the Increases in Capital

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 they must be implemented 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 Increases in Capital).

Notwithstanding the foregoing, if the Board of Directors, with express power of substitution, does not deem it advisable to implement, in whole or in part, one or both of the Increases in Capital within the aforementioned period, it may refrain from implementing them, with the duty to inform the shareholders thereof at the next General Shareholders' Meeting held.

Specifically, the Board of Directors, with express power of substitution), will 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 implement one or both Increases in Capital, it may decide not to implement them. In addition, the resolutions of the shareholders at this General Shareholders' Meeting relating to each of the Increases in Capital will be deprived of any and all effect in the event that the Board of Directors does not exercise the powers delegated thereto within the 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 will 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 member entities, are the holders of free-of-charge allocation rights in the proportion resulting from section 3 above.
- (b) The period for trading the free-of-charge allocation rights will 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 will be formalised on the books in the respective amount, with which appropriation the Increase in Capital will be paid up.

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, will 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).

11. Delegation of Powers for the Implementation of the Increases in Capital

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 Increases in Capital must be implemented, which shall in any case be within a period of one year from the approval of this resolution, and to determine the schedule for implementation of each of the Increases in Capital.
- (b) As regards each of the Increases in Capital, to set the exact amount thereof, the Amount of the Option, the number of New Shares, and the number of free-of-charge allocation rights necessary for the allocation of one New Share, applying the rules established by this resolution for such purpose.
- (c) To determine the reserve(s), among those contemplated in this resolution, with a charge to which each of the Increases in Capital and the acquisition by the Company of the free-of-charge allocation rights as a consequence of the respective Purchase Commitments 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 Increases in Capital, and sign all required contracts and documents for such purpose.
- (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) To set the period during which the Purchase Commitments will be in effect for each of the Increases in Capital and determine the object thereof within the limits established in this resolution.
- (g) To fulfil the Purchase Commitments corresponding to each of the Increases in Capital, paying the corresponding amounts to those who have accepted such commitments.
- (h) To declare the Increases in Capital to be closed and implemented, setting, for such purpose, 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 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.
- (j) To waive the free-of-charge allocation rights held by the Company at the end of the respective period for trading them as a result of the Purchase Commitment in each of the Increases in Capital and thus waive the New Shares corresponding to such rights.
- (k) 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.
- (l) 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.
- (m) 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.

ITEM NUMBER FOURTEEN ON THE AGENDA

Approval of a reduction in share capital by means of the retirement of 219,990,000 own shares (3.41% of the share capital). Delegation of powers for the implementation thereof.

RESOLUTION

1. Reduction in Capital by means of the Retirement of both Currently Existing Treasury Shares and Own Shares of the Company Acquired 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. 141,715,734.75 euros, through the retirement of 188,954,313 currently existing treasury shares, 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 23,276,765.25 euros, of the own shares of the Company, each with a nominal value of seventy-five euro cents, up to a maximum of 31,035,687 own shares, that are acquired for their retirement under the buy-back programme in effect until no later than 31 May 2017 approved by the Board of Directors on 21 February 2017 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 *Commission Delegated Regulation (EU) No 2016/1052 of 8 March 2016 supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the conditions applicable to buy-back programmes and stabilisation measures* (the "**Buy-back Programme**").

Consequently, the maximum amount of the reduction in capital (the "**Reduction in Capital**") will be 164,992,500.00 euros, through the retirement of a maximum of 219,990,000 own shares, each with a nominal value of seventy-five euro cents, representing not more than 3.41% of the share capital at the time this resolution is approved.

In accordance with the provisions below, the final amount of the Reduction in Capital will be set by the Board of Directors of the Company depending upon the final number of shares acquired from the shareholders within the framework of the Buy-back Programme.

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

Without prejudice to the Existing Treasury Shares, and in accordance with the resolution approved by the Board of Directors at its meeting of 21 February 2017, the Company may acquire a maximum number of 31,035,687 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 0.48% 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.

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

In accordance with the foregoing, pursuant to section 340.3 of the *Companies Act*, if the Company fails to acquire the maximum number of 31,035,687 own shares, each with a nominal value of seventy-five euro cents, under the Buy-back Programme, it will 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 shares effectively acquired within the framework of the Buy-back Programme.

Consequently, the shares will be acquired upon the terms set forth in sections 144.a) and 338 through 342 of the *Companies Act*, to the extent applicable, in section 12.2 of *Royal Decree 1066/2007 of 27 July*, and in *Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse* and in *Commission Delegated Regulation (EU) No 2016/1052 of 8 March 2016 supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the conditions applicable to buy-back programmes and stabilisation measures*, without the need for a takeover bid for the shares of the Company planned to be retired.

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 will 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 powers 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 powers 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 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.

- (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 FIFTEEN ON THE AGENDA

Approval of a strategic bonus for the executive directors and management personnel linked to the Company's performance for the 2017-2019 period, to be paid through the delivery of shares. Delegation of powers for the further development and implementation thereof.

RESOLUTION

To approve, pursuant to the provisions of section 219 of the *Companies Act* and article 48.4 of the *By-Laws* of IBERDROLA, S.A. (the "**Company**"), the establishment of a strategic bonus to be paid by means of the delivery of shares of the Company and directed towards the executive directors, senior officers, and other management personnel of the Company and of its subsidiaries (the "**2017-2019 Strategic Bonus**"), in accordance with the following terms:

1. Description

The 2017-2019 Strategic Bonus is configured as a long-term incentive tied to the Company's performance with respect to the Strategic Plan approved by the Board of Directors and submitted on 24 February 2016. The Company's performance with respect to this plan at 31 December 2019 will be evaluated based on the following parameters, which present a challenging scenario for a company that continues with its profitable growth, is financially sound and committed to the environment, the fight against climate change, and sustainable growth:

- (a) Cumulative annual average growth in net profit during the 2017-2019 period above 5%, calculated as from the close of financial year 2016. It shall be deemed that this goal is not met if such growth does not improve on the results from 2016.
- (b) Total shareholder return during the 2017-2019 period greater than total shareholder return for the EUROSTOXX UTILITIES INDEX. It shall be deemed that this goal is not met if total shareholder return is 5 percentage points less than the return for the EUROSTOXX UTILITIES INDEX. It shall be deemed that it is fully met if it is 5 percentage points above.
- (c) Maintenance of financial strength through the FFO/net debt ratio. It shall be deemed that this goal is not met if such ratio decreases below the figure for year-end 2016.
- (d) Reduction in average CO2 emissions intensity in line with United Nations Sustainable Development Goals (SDGs) 7 and 13. It shall be deemed that the goal is met if a 5% reduction is obtained in the average intensity of emissions for the 2017-2019 period compared to the average for the 2014-2016 period. It shall be deemed that this goal is not met if the average intensity is not decreased.

Each of these parameters will have a specific weighting of 30% for the first and second parameters and 20% for the third and fourth parameters in the overall evaluation of performance during the 2017-2019 period.

2. Beneficiaries

The 2017-2019 Strategic Bonus is intended for the executive directors, the senior officers, and the other officers of the Company and its group included in the 2017-2019 Strategic Bonus during the term thereof pursuant to the resolutions adopted by the Board of Directors in implementation thereof, with a maximum of 300 beneficiaries.

3. Amount

The maximum number of shares to be delivered to the beneficiaries of the 2017-2019 Strategic Bonus as a whole shall be 14,000,000 shares, equal to 0.22% of the share capital at the time of adoption of this resolution, with a maximum of 2,500,000 shares corresponding to all executive directors at any particular time.

4. Term of the 2017-2019 Strategic Bonus

The 2017-2019 Strategic Bonus has a term of six years, within which the period between financial years 2017 and 2019 shall be the performance level evaluation period with respect to the targets to which the 2017-2019 Strategic

Bonus is linked and the period between financial years 2020 and 2022 shall be the payment period, with payment to be made by means of the delivery of shares on a deferred basis over such three-year period.

5. Evaluation, Payment, Cancellation, and Reimbursement

The Board of Directors, after a report from the Remuneration Committee, shall evaluate the performance of the Company regarding the goals listed in section 1 of this resolution.

The reference parameters mentioned in said section are formulated based on the current situation and circumstances of the Company. In this connection, in order to engage in a proper overall evaluation of performance, any circumstances occurring after the approval of this 2017-2019 Strategic Bonus that have a material impact on the Strategic Plan or on the main economic/financial variables of the Company (corporate transactions, mergers, split-offs, acquisitions, extraordinary dividends, etc.) must be taken into account.

At the end of the evaluation period, the 2017-2019 Strategic Bonus shall accrue annually and in equal parts, 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 2021 and 2022 and for each delivery of shares there will be an evaluation of whether to confirm or cancel, totally or partially, the payment corresponding to each financial year, and, if applicable, to claim the complete or partial reimbursement of the shares already delivered (or the amount thereof in cash) in the event of 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.

Executive directors who are beneficiaries of the 2017-2019 Strategic Bonus may not transfer the shares delivered 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.

6. Delegation of Powers

To delegate to the Board of Directors, with express power of substitution, the powers necessary to implement, develop, formalise, execute, and pay the 2017-2019 Strategic Bonus, adopting any resolutions and signing any public or private documents that may be necessary or appropriate for the full effectiveness thereof, including the power to correct, rectify, amend, or supplement this resolution. Specifically, and only by way of example, the following powers are delegated to the Board of Directors, with express power of substitution:

- (a) To designate the beneficiaries of the 2017-2019 Strategic Bonus, whether at the time of the establishment thereof or subsequent thereto, determine the allocations of "theoretical shares", and revoke, if and when appropriate, any designations or allocations previously made.
- (b) To establish the terms and conditions of the 2017-2019 Strategic Bonus as to all matters not provided for in this resolution within the framework of the existing contracts with the executive directors, senior officers, and other beneficiaries.
- (c) To formalise and implement the 2017-2019 Strategic Bonus in the manner it deems appropriate, taking all actions required for the best implementation thereof.
- (d) To draft, sign, and submit to any public or private entity any notices and documents, whether public or private, that may be necessary or appropriate for the implementation and execution of the 2017-2019 Strategic Bonus.
- (e) To take any action, make any statement, or carry out any proceedings at any public or private body, entity or registry in order to obtain any authorisation or verification necessary to implement and execute the 2017-2019 Strategic Bonus.
- (f) If applicable, to designate the banking institution or institutions that are to provide services to the Company in connection with the formalisation and administration of the 2017-2019 Strategic Bonus, and to negotiate, agree upon, and sign the relevant contracts with the banking institution or institutions thus selected, as well as such other contracts or agreements as may be appropriate with any other entities and, if applicable, with the beneficiaries, for the implementation and execution of the 2017-2019 Strategic Bonus, upon such terms and conditions as it deems appropriate.
- (g) To evaluate the level of performance with respect to the targets to which the 2017-2019 Strategic Bonus is tied and proceed with the payment thereof, for which purposes it may seek the advice of an independent expert, where appropriate.

- (h) And, in general, to perform all such acts and sign all such documents as may be necessary or appropriate for the validity, effectiveness, implementation, development, execution, payment, and proper completion of the 2017-2019 Strategic Bonus.

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

ITEM NUMBER SIXTEEN ON THE AGENDA

Consultative vote regarding the *Annual Director Remuneration Report* for financial year 2016.

RESOLUTION

To approve, on a consultative basis, the *Annual Director Remuneration Report* for financial year 2016, 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 SEVENTEEN ON THE AGENDA

Authorisation to the Board of Directors to issue simple debentures and other fixed-income securities that are neither exchangeable for nor convertible into shares, as well as to guarantee the issue of securities by the Company's subsidiaries, with a limit of 6,000 million euros for notes and of 20,000 million euros for other fixed-income securities.

RESOLUTION

1. Authorisation to the Board of Directors to Issue Securities

To authorise the Board of Directors to issue simple bonds or debentures, notes, and other similar fixed-income securities that are neither exchangeable for nor convertible into shares.

2. Term

The issuance of the securities covered by the authorisation may be effected on one or more occasions within a maximum period of five years following the date of approval of this resolution.

3. Maximum Amount

- (a) The maximum net total amount of the simple bonds or debentures and other similar fixed-income securities (other than notes) issued under this authorisation may not exceed 20,000 million euros or the equivalent thereof in another currency. This limit is independent of the limit established in paragraph b) below.
- (b) For its part, the maximum net total amount of notes issued under this authorisation may not exceed 6,000 million euros or the equivalent thereof in another currency. This limit is independent of the limit established in paragraph a) above.

To determine whether each of said limits has been reached, the amounts corresponding to retirements or repurchases made or occurring during the effective period thereof will be deducted from the new issues approved under this authorisation.

4. Scope

For each issue, the Board of Directors shall be responsible for determining, among other things: the nominal value, the issue price, the repurchase price, the currency, the form of representation, the interest rate, the repayment terms, the subordination clauses, the security, the place of the issue, any applicable law, the setting of the internal rules for the bondholders' syndicate, and the appointment of the representative in the case of an issue of simple debentures or bonds, when required, as well as the taking of any steps necessary for the implementation of the specific issues approved under this authorisation.

In addition, the Board of Directors is authorised such that, when it deems it appropriate and subject, if applicable, to any appropriate authorisations being secured and to the consent of security-holders coming together at a meeting of the corresponding syndicates of security-holders, it may modify the terms and conditions applicable to the repayment of the fixed-income securities issued as well as the respective period thereof, and the rate of interest, if any, accrued by the securities included in each of the issues effected under this authorisation.

5. Admission to Trading

The Company shall, when appropriate, make application for trading of the securities issued within the framework of this authorisation on Spanish or foreign, official or unofficial, organised or other secondary markets, and the Board of Directors shall be authorised, as broadly as required by law, to carry out all acts and formalities that may be required for these purposes with the appropriate authorities of the various domestic or foreign securities markets.

It is expressly stated for the record that if application is subsequently made for the exclusion from trading of the securities issued by the Company under this authorisation, it shall be made in compliance with the same formalities as the application for admission, to the extent any such formalities are required, and in such case, the interests of the shareholders or debenture-holders opposing or not voting on the resolution shall be safeguarded as provided by applicable law. In addition, it is expressly stated that the Company undertakes to abide by Stock Market regulations, whether now existing or as may hereafter be issued, particularly as regards trading, continued trading, and removal from trading.

6. Guarantee in Support of Issues of Fixed-Income Securities

The Board of Directors is also authorised to guarantee on behalf of the Company and within the limits set forth above new issues of securities effected by subsidiaries during the effective period of this resolution.

7. Power of Substitution

The Board of Directors is expressly authorised to further delegate the powers contemplated in this resolution.

8. Revocation of Current Authorisation

This resolution deprives of effect, to the extent of the unused amount, the authorisation to issue simple debentures or bonds and other similar fixed-income securities, including notes, granted for this purpose to the Board of Directors by the shareholders at the General Shareholders' Meeting held on 22 June 2012, expressly maintaining such authorisation in effect to the extent of the amount already utilised for the issue of securities and the provision of guarantees with respect to said issues and guarantees.

ITEM NUMBER EIGHTEEN 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) Prepare restated texts of the *By-Laws* and the *Regulations for the General Shareholders' Meeting*, including the amendments approved at this General Shareholders' Meeting.
- (d) 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.

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 Amendments of the By-Laws / 2017



Take care of the environment. Print only if necessary

REPORT SUBMITTED BY THE BOARD OF DIRECTORS OF IBERDROLA, S.A. REGARDING THE PROPOSED AMENDMENTS OF THE BY-LAWS INCLUDED IN ITEM NUMBERS FIVE AND SIX ON THE AGENDA FOR THE GENERAL SHAREHOLDERS' MEETING CALLED TO BE HELD ON 31 MARCH AND 1 APRIL 2017, ON FIRST AND SECOND CALL, RESPECTIVELY

1. Purpose of the Report

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

Pursuant to the aforementioned section, the Board of Directors prepares this report explaining the purpose of and rationale for the proposed by-law amendments, attaching such proposals below. In addition, in order to provide the shareholders with a clear view of the scope of the amendment and a comparison between the new text of the articles proposed to be amended and the text currently in effect, attached to this report as an Annex is a verbatim transcription of both texts organised in a two-column table, for information purposes. The text contained in the right-hand column shows the changes proposed to be made to the text currently in force, which is contained in the left-hand column.

2. Purpose of and Rationale for the Proposals

2.1 Introduction

The challenges facing Iberdrola -and the social impact thereof- have been growing in parallel with the group's triumphs in all of the countries in which it does business: today, Iberdrola produces and supplies electricity in a clean, reliable, and responsible manner to some one hundred million people, mainly in the United Kingdom, the United States, Mexico, Brazil, Spain, and Portugal, which in turn drives their economic and social progress.

Iberdrola has always been quite conscious of the significance of its activities for the communities in which it does business, and of the challenges this entails.

When it was founded at the beginning of the 20th century, access to electric energy was a key element decisively favouring progress and the creation of wealth. This same energy permitted the activation of the economy, supported the creation of increasingly qualified jobs, fostered the education and training of the group's professionals and improved their quality of life, and developed both culture and art.

The generation and distribution of electric energy improved the society that gave birth to Iberdrola and in which its beginnings were bundled.

This is the same energy with which Iberdrola, now a global actor, today faces the main environmental, social, and economic challenges threatening the future of the planet, through initiatives such as the inclusion within its business strategy and its *Sustainability Policy* of the Sustainable Development Goals defined by the United Nations for the 2015-2030 period.

In harmony with its activity, Iberdrola focuses its efforts on the supply of accessible and non-polluting energy (goal 7) and climate action (goal 13): the emissions intensity of the Iberdrola group is 34% lower than the European average - it is one of the European electric utilities with the lowest ratio of emissions per MWh. Iberdrola also hopes to achieve a 30% reduction in its greenhouse gas emissions intensity by 2020 compared to 2007 levels and a 50% reduction by 2030.

The effective realisation of this desire to improve the communities in which it lives, and ultimately to improve the planet, is Iberdrola's social dividend, the maximisation of which has been, is, and must continue to be an essential part of the Company's *raison d'être*.

Hardly a year ago, Iberdrola formalised its commitment to its Mission, Vision, and Values within its foundational document, its *By-Laws*, thus becoming the first large Spanish multinational to acknowledge the importance thereof as a business, institutional, and social reality and its firm commitment to face the challenges involved thereby.

The proposal that the Board of Directors now submits to the shareholders at the General Shareholders' Meeting is one more step along this path of commitment to the social dividend as an essential part of its strategy and of its business enterprise.

The proposed by-law amendments go into more detail on the maximisation of Iberdrola's social dividend as an essential part of its strategy and its business enterprise, and complete the definition of its corporate governance model, taking into account all of the stakeholders related to the Company.

In particular, the reform provides for the insertion of a new preamble, which confirms and makes explicit this commitment, and the development of the concept of a social dividend, conceived as the sustainable creation of value for all stakeholders affected by the activities of the Group in carrying out its businesses, the advancement of the business communities which the Company participates in and leads, both from the economic viewpoint and from the perspective of business ethics, the promotion of equality and justice, the encouragement of innovation and protection of the environment, as well as through the generation of quality employment, its strategy of social responsibility, and its effort in the fight against climate change.

The proposed by-law reform deepens Iberdrola's explicit commitment to its Mission, Vision, and Values and completes the redefinition of its corporate governance model, focusing it on the maximisation of its social dividend, conceived as the sustainable creation of value for all stakeholders affected by the activities of the Iberdrola group in carrying out its businesses, the advancement of the business communities which the Company participates in and leads, both from the economic viewpoint and from the perspective of business ethics, innovation, and protection of the environment, and through its strategy of social responsibility and its economic, social, and cultural contributions to such communities.

2.2 Purpose of the Proposals

Within this framework, a proposal is made to insert a new preamble that summarises and explains the inspirational principles guiding Iberdrola and which define its business enterprise, as well as the amendment of the current article 7 to formalise the Company's strategy to maximise its social dividend and of article 8 to strengthen its commitment to the *Mission, Vision, and Values of the Iberdrola group* and to reflect the new structure of the Corporate Governance System after the most recent reforms approved by the Board of Directors during the month of July to strengthen the regulatory compliance function.

2.3 Structure of the Proposed Amendments

In order to facilitate the proper exercise of shareholders' voting rights, pursuant to the provisions of section 197 *bis* of the *Companies Act* and article 40.1 of the *Regulations for the General Shareholders' Meeting*, the creation of the new Preamble is submitted for the approval of the shareholders separately (item number five on the agenda) from the amendment of articles 7 and 8 of the *By-Laws*, which will be voted on together because they affect the same articles (item number six on the agenda).

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

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

"ITEM NUMBER FIVE ON THE AGENDA

Approval of the preamble to the *By-Laws*.

RESOLUTION

To approve the text of the preamble to the *By-Laws*, which shall read as follows:

"PREAMBLE

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

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

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

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

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

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

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

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

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

ITEM NUMBER SIX ON THE AGENDA

Amendment of articles 7 and 8 of the By-Laws to reflect the Company's commitment to maximisation of the social dividend and to the *Mission, Vision, and Values of the Iberdrola group.*

RESOLUTION

To amend articles 7 and 8 of the By-Laws to reflect the Company's commitment to maximisation of the social dividend and to the *Mission, Vision, and Values of the Iberdrola group.* These provisions shall hereafter read as follows:

"Article 7. Social Dividend

- 1. The Company conceives of the social dividend as the sustainable creation of value for all stakeholders affected by the activities of the Group in carrying out its businesses, the advancement of business communities which the Company participates in and leads, both from the economic viewpoint and from the perspective of business ethics, the promotion of equality and justice, the encouragement of innovation and protection of the environment, as well as through the generation of quality employment, its strategy of social responsibility, and its effort in the fight against climate change.*
- 2. The Company is conscious of the importance of the social dividend for all of the communities in which the Group is present. Maximisation of the social dividend and the Company's commitment to the sustainable creation of value, ethical principles, transparency and good corporate governance, the development of its human resources, social commitment, a sense of belonging, safety and reliability, quality, innovation, protection of the environment, customer focus, and institutional loyalty are key values that the Board of Directors takes into account in order to define the strategy of the Group.*

Article 8. Applicable Legal Provisions and Corporate Governance System

- 1. The Company is governed by the legal provisions relating to listed companies and other applicable laws and regulations, as well as by its Corporate Governance System.*

2. *The Corporate Governance System is the Company's internal system of rules, which is configured in accordance with applicable law in the exercise of corporate autonomy supported thereby and applies to the entire Group. It is intended to ensure through rule-making the best development of the corporate contract that binds its shareholders, and especially the corporate object and the corporate interest, as defined in the preceding articles.*
3. *The Corporate Governance System is made up of these By-Laws, the Mission, Vision, and Values of the Iberdrola group, the Corporate Policies, the governance rules of the corporate decision-making bodies and other internal committees, and the codes, regulations, and procedures making up and elaborating upon the Company's regulatory compliance system.*
4. *The Mission, Vision, and Values of the Iberdrola group constitutes the corporate philosophy of the Company, contains the ideological and axiological foundation upon which its business enterprise is based, and expresses a desire to optimise its corporate and institutional reality, in the awareness that, due to its size and the importance of its activities, it is a focal point for many stakeholders and for the economic and social environment in which its companies do business.*
5. *The Mission, Vision, and Values of the Iberdrola group inspires and takes form in the Corporate Policies and in the other rules of the Corporate Governance System, governing the day-to-day activities of all companies of the Group and guiding their strategy and all of their actions.*
6. *The Board of Directors has approved a Code of Ethics that further develops the bylaw-mandated commitment of the Company to the Mission, Vision, and Values of the Iberdrola group and ethical principles."*
7. *Full or summarised versions of the rules making up the Corporate Governance System can be viewed on the Company's corporate website.*
8. *The shareholders acting at a General Shareholders' Meeting and the Board of Directors of the Company, within their respective purview, develop, apply, and interpret the rules making up the Corporate Governance System in order to ensure compliance at all times with the purposes thereof and, particularly, the fulfilment of the corporate interest."*

* * *

In Bilbao, on 21 February 2017.

ANNEX

Article 7. Social Dividend	Article 7. Social Return, Corporate Values, and Ethical Principles <u>Dividend</u>
<p>1. The <i>Mission, Vision, and Values of the Iberdrola group</i> constitutes the corporate philosophy of the Group and expresses a desire to optimise its business, corporate, and institutional reality, in the awareness that, due to its size and the importance of its activities, it is a focal point for many stakeholders and of the economic and social environment in which its companies do business.</p>	<p>1. The <i>Mission, Vision, and Values of the Iberdrola group</i> constitutes the corporate philosophy of the Group and expresses a desire to optimise its business, corporate, and institutional reality, in the awareness that, due to its size and the importance of its activities, it is a focal point for many stakeholders and of the economic and social environment in which its companies do business. <u>Company conceives of the social dividend as the sustainable creation of value for all stakeholders affected by the activities of the Group in carrying out its businesses, the advancement of business communities which the Company participates in and leads, both from the economic viewpoint and from the perspective of business ethics, the promotion of equality and justice, the encouragement of innovation and protection of the environment, as well as through the generation of quality employment, its strategy of social responsibility, and its effort in the fight against climate change.</u></p>
<p>2. The <i>Mission, Vision, and Values of the Iberdrola group</i> inspires and takes form in the <i>Corporate Policies</i> and in the other rules of the Corporate Governance System, governing the day-to-day activities of all companies of the Group and guiding their strategy and all of their actions.</p>	<p>2. 2. The <i>Mission, Vision, and Values of the Iberdrola group</i> inspires and takes form in the <i>Corporate Policies</i> and in the other rules of the Corporate Governance System, governing the day-to-day activities of all companies of the Group and guiding their strategy and all of their actions.</p>
<p>3. The Company seeks a social return on all of its activities. Its corporate values reflect its commitment to the creation of value in a sustainable manner, ethical principles, transparency and good corporate governance, the development of human resources, social commitment, a sense of belonging, safety and reliability, quality, innovation, protection of the environment, customer focus, and institutional loyalty.</p>	<p>3. The Company seeks a social return on all of its activities. Its corporate values reflect its <u>dividend for all of the communities in which the Group is present. Maximisation of the social dividend and the Company's commitment to the sustainable creation of value in a sustainable manner,</u> ethical principles, transparency and good corporate governance, the development of <u>its</u> human resources, social commitment, a sense of belonging, safety and reliability, quality, innovation, protection of the environment, customer focus, and institutional loyalty <u>are key values that the Board of Directors takes into account in order to define the strategy of the Group.</u></p>
<p>4. The Board of Directors has approved a <i>Code of Ethics</i> that further develops the bylaw-mandated commitment of the Company to its corporate values and ethical principles.</p>	<p>4. The Board of Directors has approved a <i>Code of Ethics</i> that further develops the bylaw-mandated commitment of the Company to its corporate values and ethical principles.</p>
<p>Article 8. Applicable Legal Provisions and Corporate Governance System</p>	<p>Article 8. Applicable Legal Provisions and Corporate Governance System</p>
<p>1. The Company is governed by the legal provisions relating to listed companies and other applicable laws and regulations, as well as by its Corporate Governance System.</p>	<p>1. The Company is governed by the legal provisions relating to listed companies and other applicable laws and regulations, as well as by its Corporate Governance System.</p>
<p>2. The Corporate Governance System is the Company's internal system of rules, which is configured in accordance with applicable law in the exercise of corporate autonomy supported thereby and applies to the entire Group. It is intended to ensure through rule-making the best development of the corporate object of the Company and the fulfilment of the corporate</p>	<p>2. The Corporate Governance System is the Company's internal system of rules, which is configured in accordance with applicable law in the exercise of corporate autonomy supported thereby and applies to the entire Group. It is intended to ensure through rule-making the best development of the corporate <u>contract that binds its shareholders, and especially the corporate</u></p>

<p>interest.</p>	<p>object of the Company and the fulfilment of <u>and</u> the corporate interest, <u>as defined in the preceding articles.</u></p>
<p>3. The Corporate Governance System is made up of these <i>By-Laws</i>, the <i>Mission, Vision, and Values of the Iberdrola group</i>, the <i>Corporate Policies</i>, the internal corporate governance rules, which include the <i>Regulations for the General Shareholders' Meeting</i>, the <i>Regulations of the Board of Directors</i> and those of its consultative committees, and of the other internal codes and procedures approved by the competent decision-making bodies of the Company.</p>	<p>3. The Corporate Governance System is made up of these <i>By-Laws</i>, the <i>Mission, Vision, and Values of the Iberdrola group</i>, the <i>Corporate Policies</i>, the internal corporate governance rules, which include the <i>Regulations for the General Shareholders' Meeting</i>, the <i>Regulations of the Board of Directors</i> and those of its consultative committees, and of <u>governance rules of the corporate decision-making bodies and other internal committees, and</u> the other internal codes, <u>regulations,</u> and procedures approved by the competent decision-making bodies of <u>up and elaborating upon</u> the Company's <u>regulatory compliance system.</u></p>
	<p>4. Meeting, the Regulations of the Board of Directors and those of its consultative committees, and of the other internal codes and procedures approved by the competent decision-making bodies of the Company. <u>The <i>Mission, Vision, and Values of the Iberdrola group</i> constitutes the corporate philosophy of the Company, contains the ideological and axiological foundation upon which its business enterprise is based, and expresses a desire to optimise its corporate and institutional reality, in the awareness that, due to its size and the importance of its activities, it is a focal point for many stakeholders and for the economic and social environment in which its companies do business.</u></p>
	<p>5. <u>The <i>Mission, Vision, and Values of the Iberdrola group</i> inspires and takes form in the <i>Corporate Policies</i> and in the other rules of the Corporate Governance System, governing the day-to-day activities of all companies of the Group and guiding their strategy and all of their actions.</u></p>
	<p>6. <u>The Board of Directors has approved a <i>Code of Ethics</i> that further develops the bylaw-mandated commitment of the Company to the <i>Mission, Vision, and Values of the Iberdrola group</i> and ethical principles.</u></p>
<p>4. Full or summarised versions of the rules making up the Corporate Governance System can be viewed on the Company's corporate website.</p>	<p><u>5.</u> 4- Full or summarised versions of the rules making up the Corporate Governance System can be viewed on the Company's corporate website.</p>
<p>5. The shareholders acting at a General Shareholders' Meeting and the Board of Directors of the Company, within their respective purview, develop, apply, and interpret the rules making up the Corporate Governance System in order to ensure compliance at all times with the purposes thereof and, particularly, the fulfilment of the corporate interest.</p>	<p><u>6.</u> 5- The shareholders acting at a General Shareholders' Meeting and the Board of Directors of the Company, within their respective purview, develop, apply, and interpret the rules making up the Corporate Governance System in order to ensure compliance at all times with the purposes thereof and, particularly, the fulfilment of the corporate interest.</p>



General Shareholders' Meeting

Report of the Board of Directors
Proposed Amendments of the Regulations for the General Shareholders' Meeting / 2017



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REPORT SUBMITTED BY THE BOARD OF DIRECTORS OF IBERDROLA, S.A. REGARDING THE PROPOSED AMENDMENTS OF THE REGULATIONS FOR THE GENERAL SHAREHOLDERS' MEETING INCLUDED IN ITEM NUMBERS SEVEN AND EIGHT ON THE AGENDA FOR THE GENERAL SHAREHOLDERS' MEETING CALLED TO BE HELD ON 31 MARCH AND 1 APRIL 2017, ON FIRST AND SECOND CALL, RESPECTIVELY

1. Purpose of the Report

This report has been prepared by the Board of Directors of IBERDROLA, S.A. ("**Iberdrola**" or the "**Company**") in order to provide a rationale for the proposed amendments of the *Regulations for the General Shareholders' Meeting* (the "**Regulations**") included in item numbers seven and eight on the agenda.

To facilitate the shareholders' understanding of the changes entailed by these proposals, the purpose of and rationale for such amendments is first provided, followed by the proposed resolutions submitted to the shareholders for approval at the General Shareholders' Meeting.

In addition, in order to facilitate a comparison between the new text of the articles proposed to be amended and the current text thereof, attached to this report as an Annex is a verbatim transcription of both texts organised in a two-column table, for information purposes. The text contained in the right-hand column shows the changes proposed to be made to the text currently in force, which is contained in the left-hand column.

2. Purpose of and Rationale for the Proposals

2.1 Purpose

The proposed amendments of the *Regulations* are intended to improve and strengthen the regulation of the shareholders' right to receive information prior to the holding of the General Shareholders' Meeting and to expand the channels of participation, permitting other formulas or paths that might be developed for future meetings, provided that there are sufficient guarantees to ensure the authenticity and identification of the shareholder granting the proxy or voting. The measures are framed within the *Shareholder Engagement Policy* and in the Company's corporate governance strategy, and are ultimately intended to encourage the informed participation of the maximum number of shareholders at the General Shareholders' Meeting.

2.2 Structure of the Proposed Amendments

In order to facilitate the proper exercise of shareholders' voting rights, pursuant to the provisions of section 197 *bis* of the *Companies Act* and article 40.1 of the *Regulations for the General Shareholders' Meeting*, the amendments are proposed in two separate items on the agenda:

- (a) In item number seven, a proposal is made to amend article 14 of the *Regulations for the General Shareholders' Meeting* to strengthen the shareholders' right to receive information, expanding the array of reports that the Board of Directors must make available to the shareholders on occasion of the call to the General Shareholders' Meeting.
- (b) In item number eight, a proposal is made to amend articles 19 and 39 of the *Regulations* to expand the channels for shareholder participation in the General Shareholders' Meeting, providing for the ability to use other formulas or paths for remote participation, alternatives to postal or electronic correspondence, provided that there are sufficient guarantees to ensure the authenticity and identification of the shareholder granting the proxy or casting an absentee vote.

Below is a description of the purpose of the main amendments submitted to the shareholders for approval at the General Shareholders' Meeting, distinguishing the two items on the agenda:

2.3 Item number seven on the Agenda: Amendment of Article 14 (Corporate Website) of the Regulations

In article 14 of the *Regulations*, which governs the contents to be published on the corporate website for purposes of the call to the General Shareholders' Meeting, it is proposed to improve the regulation of the shareholders' right to receive information prior to the holding of the meeting, with the documents that must be made available to the Company's shareholders including the integrated report, the sustainability report, and any other reports that the Board of Directors determines, the related-party transactions report prepared by the Appointments Committee (until now required by the *General Corporate Governance Policy* and which the Company already published at the last General Shareholders' Meeting), and the activities report of the Board of Directors and the committees thereof (a new document that includes information regarding the activities of this body and that will substantially improve the transparency of the information received by the Company's shareholders).

In addition, there is a clarification as to which documents must be made available to the shareholders only at ordinary General Shareholders' Meetings and as to when they must be made available, allowing the publication thereof a few days after the publication of the announcement of the call to meeting.

2.4 Item number eight on the Agenda: Amendment of Articles 19 (Right to Proxy Representation) and 39 (Absentee Voting: Powers to Engage in Proxy-Granting and Absentee Voting) of the Regulations

In articles 19 and 39, it is proposed to expand the shareholders' channels of participation at the General Shareholders' Meeting in order to permit the granting of proxies and absentee voting by formulas other than postal and electronic correspondence, if there are sufficient guarantees to ensure the authenticity and identification of the shareholder granting the proxy or voting. It thereby seeks to provide the Company with instruments allowing the maximisation of the number of shareholders who can participate in the General Shareholders' Meeting.

3. 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

Amendment of article 14 of the Regulations for the General Shareholders' Meeting to strengthen the right to receive information and to make technical improvements.

RESOLUTION

To amend article 14 of the Regulations for the General Shareholders' Meeting to strengthen the shareholders' right to receive information and to make technical improvements. This provision shall hereafter read as follows:

"Article 14. Corporate Website

1. *The Company shall use its corporate website to promote the informed participation of all shareholders in the General Shareholders' Meeting and to facilitate the exercise of their rights related thereto.*
2. *From the date of publication of the announcement of the call to meeting through the date of holding of the General Shareholders' Meeting in question, the Company shall continuously publish on its corporate website in electronic format and in an organised and environmentally-friendly manner, such information as is required by law or deemed appropriate to facilitate and promote the attendance and participation of the shareholders at the General Shareholders' Meeting, including in any case the following:*
 - a) *The announcement of the call to the General Shareholders' Meeting.*
 - b) *The total number of shares and voting rights existing on the date of the announcement of the call to meeting, broken down by classes of shares, if any.*
 - c) *Such documents relating to the General Shareholders' Meeting as are required by law, including the reports of the directors, the auditors, and the independent experts that are expected to be submitted, proposed resolutions submitted by the Board of Directors or by the shareholders, and any other relevant information that the shareholders might need in order to cast their vote.*
 - d) *In the event that the shareholders acting at a General Shareholders' Meeting must deliberate on the appointment, re-election, or ratification of directors, the corresponding proposed resolution shall be accompanied by the following information: professional profile and biographical data of the director; other boards of directors on which the director holds office, at listed companies or otherwise; type of director such person is or should be, with mention, in the case of proprietary directors, of the shareholder that proposes or proposed the appointment thereof or who the director represents or with which the director maintains ties; date of the director's first and any subsequent appointments as director of the Company; shares of the Company and derivative financial instruments whose underlying assets are shares of the Company of which such director is the holder; the report prepared by the Board of Directors and the proposal of the Appointments Committee in the case of independent directors, and the report of such Committee in other cases.*
 - e) *The existing channels of communication between the Company and the shareholders and, in particular, explanations pertinent to the exercise of the right to receive information, indicating the postal and e-mail addresses to which the shareholders may direct their requests.*

- f) *The means and procedures for granting a proxy to attend the General Shareholders' Meeting and for casting absentee votes, including the form of attendance, proxy, and absentee voting card, if any.*
3. *Furthermore, after the publication of the announcement of the call to the Ordinary General Shareholders' Meeting, the Company shall publish the following documentation on its corporate website:*
 - a) *The integrated report, the sustainability report and any other reports determined by the Board of Directors.*
 - b) *The report on the independence of the auditor prepared by the Audit and Risk Supervision Committee.*
 - c) *The related-party transactions report prepared by the Appointments Committee.*
 - d) *The activities report of the Board of Directors and of the committees thereof.*
4. *The Company shall use its best efforts to include in its corporate website, beginning on the date of the announcement of the call to meeting, an English version of the information and the principal documents related to the General Shareholders' Meeting. In the event of a discrepancy between the Spanish and English versions, the former shall prevail.*
5. *Pursuant to the provisions of applicable legislation, an Electronic Shareholders' Forum shall be enabled on the Company's corporate website on occasion of the call to the General Shareholders' Meeting. Duly verified shareholders and shareholder groups may access the Electronic Shareholders' Forum, the use of which shall conform to its legal purpose and to the assurances and rules of operation established by the Company."*

ITEM NUMBER EIGHT ON THE AGENDA

Amendment of articles 19 and 39 of the Regulations for the General Shareholders' Meeting to expand the channels for participation in the General Shareholders' Meeting.

RESOLUTION

To amend articles 19 and 39 of the Regulations for the General Shareholders' Meeting to expand the channels for shareholder participation in the General Shareholders' Meeting. These provisions shall hereafter read as follows:

"Article 19. Right to Proxy Representation

1. *Shareholders may exercise the right to attend personally or through proxy representation by another person, whether or not such person is a shareholder, by complying with the requirements of law and the Corporate Governance System.*
2. *The proxy may be granted by delivering to the proxy representative the attendance, proxy, and absentee voting card or any other means of verifying the grant of a proxy that is accepted by the Company, or by any of the following means:*
 - a) *Advance delivery of the attendance, proxy, and absentee voting card or any other means of verifying the grant of a proxy that is accepted by the Company at the premises provided by the Company on the days announced on the Company's corporate website.*
 - b) *Sending the attendance, proxy, and absentee voting card or any other means of verifying the grant of a proxy that is accepted by the Company by postal correspondence addressed to the Company.*
 - c) *By electronic correspondence, completing the proxy form available on the Company's corporate website, using a recognised electronic signature of the shareholder or other type of guarantee that the Company deems proper to ensure the authenticity and identification of the shareholder granting the proxy.*

For these purposes, the use of the personal passwords that the Company has previously delivered to the shareholder by postal or electronic correspondence to the address that the shareholder has communicated to the Company or through any other form determined by the Board of Directors shall be deemed to be a proper assurance.
 - d) *By any other means that the Board of Directors determines is appropriate to favour the participation of the largest possible number of shareholders, provided that notice thereof is provided on the corporate website at the time of publishing the announcement of the call to meeting, and the authenticity and identification of the shareholder granting the proxy is duly ensured.*

3. *A proxy granted by any of the means indicated in the preceding section must be received by the Company before 24:00 on the day immediately prior to the day on which the General Shareholders' Meeting is held upon first call or upon second call, as applicable.*

4. *The Board of Directors is authorised to further develop the foregoing provisions by establishing rules, means, and procedures adjusted to current techniques in order to organise the granting of proxies by electronic means, in each case in accordance with the rules and regulations issued for such purpose.*

Specifically, the Board of Directors may establish rules for the use of personal passwords and other guarantees other than electronic signatures for the granting of proxies by electronic correspondence, reduce the advance period established above for receipt by the Company of proxies granted by postal or electronic correspondence, and accept, and authorise the chair of and the secretary for the General Shareholders' Meeting or the persons acting by delegation therefrom to accept, any proxies received after such period, to the extent allowed by the means available.

5. *The chairman and the secretary of the Board of Directors or the chair of and the secretary for the General Shareholders' Meeting, from the constitution thereof, and the persons acting by delegation from either of them, shall have the broadest powers for verifying the identity of the shareholders and their representatives, verifying the ownership and status of their rights, and recognising the validity of the attendance, proxy, and absentee voting card or the instrument or means evidencing attendance or representation by proxy.*

6. *A proxy is always revocable. Attendance by the shareholder granting the proxy at the General Shareholders' Meeting, whether in person or due to having cast an absentee vote on a date subsequent to that of the proxy, shall have the effect of revoking the proxy.*

7. *A public solicitation for proxies by the Board of Directors or any of its members shall be governed by the provisions of law and by the corresponding resolution of the Board of Directors, if any.*

8. *A proxy may cover those matters that the law allows to be dealt with at the General Shareholders' Meeting even when not included in the agenda.*

9. *If the proxy has been validly granted pursuant to law and these Regulations but does not include voting instructions or if questions arise as to the intended proxy-holder or the scope of the representation, and unless otherwise indicated by the shareholder, it shall be deemed that the proxy: (i) is granted in favour of the chairman of the Board of Directors; (ii) refers to all of the items included in the agenda of the call to meeting; (iii) contains the instruction to vote favourably on all proposals made by the Board of Directors with respect to the items on the agenda of the call to meeting; and (iv) extends to matters that, although not included in the agenda of the call to meeting, may be dealt with at the General Shareholders' Meeting in accordance with law, in respect of which the proxy-holder shall vote in the direction the proxy-holder deems most favourable to the interests of the shareholder granting the proxy, within the framework of the corporate interest.*

This provision may be further developed by any rules approved by the Board of Directors that systematise, further develop, adapt, and specify the provisions of the Corporate Governance System regarding the management of the General Shareholders' Meeting.

10. *Before being appointed, the proxy-holder shall provide detailed information to the shareholder regarding the existence of any conflict of interest. If the conflict is subsequent to the appointment and the shareholder granting the proxy has not been advised of the possible existence of such conflict, the proxy-holder shall immediately inform the shareholder thereof. In both cases, if the proxy-holder has not received new specific voting instructions regarding each of the matters on which the proxy-holder has to vote on behalf of the shareholder, the proxy-holder shall abstain from voting, without prejudice to the provisions of the following section.*

11. *Unless otherwise expressly indicated by the shareholder, if the proxy-holder is affected by a conflict of interest and has no specific voting instructions, or if the proxy-holder has them but it is deemed preferable that the proxy-holder not exercise the proxy with respect to the items involved in the conflict of interest, the shareholder shall be deemed to have appointed the following persons as proxy-holders for such items, severally and successively, in the event that any of them is in turn affected by a conflict of interest: first, the chair of the General Shareholders' Meeting, second, the secretary therefor, and finally, the deputy secretary of the Board of Directors, if any. In this latter event, if there are several deputy secretaries, the order to be used shall be the order established at the time of their appointment (first deputy secretary, second deputy secretary, etc.). The proxy representative so designated shall cast the vote in the direction deemed most favourable to the interests of the person represented thereby, within the framework of the corporate interest.*

12. *A proxy representative may hold the proxy of more than one shareholder without limitation as to the number of shareholders being represented, and exercise the corresponding voting rights pursuant to the provisions of article 40.3 below."*

“Article 39. Absentee Voting; Powers to Engage in Proxy-Granting and Absentee Voting

1. *Shareholders may cast their vote regarding proposals relating to the items included in the agenda of the call to meeting by means of postal or electronic correspondence, as well as by any other means of long-distance communication, provided that they adequately guarantee the authenticity and identification of the voting shareholders and, if applicable, duly ensure the security of the electronic communications. In all such cases, they shall be deemed to be present for purposes of the establishment of a quorum at the General Shareholders' Meeting.*
2. *In order to vote by postal correspondence, shareholders must send to the Company the attendance, proxy, and absentee voting card issued in their favour by the corresponding institution, setting forth thereon the direction of their vote, their abstention, or their blank vote, and the direction of the vote in these cases.*
3. *Votes by electronic correspondence shall be cast using a recognised electronic signature or using the personal passwords referred to in letter c of article 19.2 above or other type of guarantee that the Board of Directors deems best ensures the authenticity and identification of the voting shareholder.*
4. *Votes cast by any of the means set forth in the preceding sections must be received by the Company before 24:00 on the day immediately prior to the day set for the holding of the General Shareholders' Meeting upon first call or upon second call, as applicable.*
5. *The absentee voting referred to in this article shall be rendered void:*
 - a) *By subsequent express revocation made by the same means used to cast the vote and within the period established for such voting.*
 - b) *By attendance at the meeting of the shareholder casting the vote.*
 - c) *If the shareholder validly grants a proxy within the established period after the date of casting the absentee vote.*
6. *If no express instructions are included when casting the absentee vote, or if instructions are included only with respect to some of the items on the agenda of the call to meeting, and unless expressly indicated otherwise by the shareholder, it shall be deemed that the absentee vote refers to all of the items included in the agenda of the call to the General Shareholders' Meeting and that the vote is in favour of the proposals made by the Board of Directors regarding the items included in the agenda of the call to meeting with respect to which no express instructions are included.*
7. *As regards proposed resolutions other than those submitted by the Board of Directors or regarding items not included in the agenda of the call to meeting, the shareholder casting an absentee vote may grant proxy representation through any of the means contemplated in these Regulations, in which case the rules established for such purpose shall apply to the proxy, which shall be deemed granted to the chairman of the Board of Directors unless expressly indicated otherwise by the shareholder.*
8. *The Board of Directors is authorised to develop the appropriate rules, means, and procedures to organise the casting of votes and the granting of proxies by electronic means.*

Specifically, the Board of Directors may establish rules for the use of personal passwords and other guarantees other than electronic signatures for casting electronic votes or by other valid means of long-distance communication and to grant proxies by electronic correspondence. It may also reduce the advance period established in section 4 above for receipt by the Company of absentee votes and proxies granted by postal or electronic correspondence, and accept, and authorise the chair of and the secretary for the General Shareholders' Meeting and the persons acting by delegation therefrom to accept, absentee votes and proxies received after such period, to the extent permitted by the means available.

The Board of Directors is also authorised to further develop the procedures for granting proxies and for absentee voting in general, including the rules of priority and conflict applicable thereto. The implementing rules adopted by the Board of Directors under the provisions of this section shall be published on the Company's corporate website.

The chairman and the secretary of the Board of Directors or the chair of and the secretary for the General Shareholders' Meeting, from the constitution thereof, and the persons acting by delegation therefrom, shall have the broadest powers to verify the identity of the shareholders and their representatives; check the legitimacy of the exercise of the rights of attendance, proxy-granting, and voting by the shareholders and their representatives; check and accept the validity and effectiveness of the proxies and absentee votes (particularly the attendance, proxy, and absentee voting card or verification document or instrument for attendance or proxy-

granting), as well as the validity and effectiveness of the instructions received through intermediary and management institutions or depositaries of shares, all in accordance with the provisions set forth in the Company's Corporate Governance System and in the rules that the Board of Directors may establish in order to further develop such provisions."

* * *

In Bilbao, on 21 February 2017.

ANNEX

Article 14. Corporate Website	Article 14. Corporate Website
1. The Company shall use its corporate website to promote the informed participation of all shareholders in the General Shareholders' Meeting and to facilitate the exercise of their rights related thereto.	1. The Company shall use its corporate website to promote the informed participation of all shareholders in the General Shareholders' Meeting and to facilitate the exercise of their rights related thereto.
2. From the date of publication of the announcement of the call to meeting through the date of holding of the General Shareholders' Meeting in question, the Company shall continuously publish on its corporate website in electronic format and in an organised and environmentally-friendly manner, such information as is required by law or deemed appropriate to facilitate and promote the attendance and participation of the shareholders at the General Shareholders' Meeting, including in any case the following:	2. From the date of publication of the announcement of the call to meeting through the date of holding of the General Shareholders' Meeting in question, the Company shall continuously publish on its corporate website in electronic format and in an organised and environmentally-friendly manner, such information as is required by law or deemed appropriate to facilitate and promote the attendance and participation of the shareholders at the General Shareholders' Meeting, including in any case the following:
a) The announcement of the call to the General Shareholders' Meeting.	a) The announcement of the call to the General Shareholders' Meeting.
b) The total number of shares and voting rights existing on the date of the announcement of the call to meeting, broken down by classes of shares, if any.	b) The total number of shares and voting rights existing on the date of the announcement of the call to meeting, broken down by classes of shares, if any.
c) Such documents relating to the General Shareholders' Meeting as are required by law, including the reports of the directors, the auditors, and the independent experts that are expected to be submitted, proposed resolutions submitted by the Board of Directors or by the shareholders, and any other relevant information that the shareholders might need in order to cast their vote.	c) Such documents relating to the General Shareholders' Meeting as are required by law, including the reports of the directors, the auditors, and the independent experts that are expected to be submitted, proposed resolutions submitted by the Board of Directors or by the shareholders, and any other relevant information that the shareholders might need in order to cast their vote.
d) In the event that the shareholders acting at a General Shareholders' Meeting must deliberate on the appointment, re-election, or ratification of directors, the corresponding proposed resolution shall be accompanied by the following information: professional profile and biographical data of the director; other boards of directors on which the director holds office, at listed companies or otherwise; type of director such person is or should be, with mention, in the case of proprietary directors, of the shareholder that proposes or proposed the appointment thereof or who the director represents or with which the director maintains ties; date of the director's first and any subsequent appointments as director of the Company; shares of the Company and derivative financial instruments whose underlying assets are shares of the Company of which such director is the holder; the report prepared by the Board of Directors and the proposal of the Appointments Committee in the case of independent directors, and the report of such Committee in other cases.	d) In the event that the shareholders acting at a General Shareholders' Meeting must deliberate on the appointment, re-election, or ratification of directors, the corresponding proposed resolution shall be accompanied by the following information: professional profile and biographical data of the director; other boards of directors on which the director holds office, at listed companies or otherwise; type of director such person is or should be, with mention, in the case of proprietary directors, of the shareholder that proposes or proposed the appointment thereof or who the director represents or with which the director maintains ties; date of the director's first and any subsequent appointments as director of the Company; shares of the Company and derivative financial instruments whose underlying assets are shares of the Company of which such director is the holder; the report prepared by the Board of Directors and the proposal of the Appointments Committee in the case of independent directors, and the report of such Committee in other cases.

e)	The existing channels of communication between the Company and the shareholders and, in particular, explanations pertinent to the exercise of the right to receive information, indicating the postal and e-mail addresses to which the shareholders may direct their requests.	e)	The existing channels of communication between the Company and the shareholders and, in particular, explanations pertinent to the exercise of the right to receive information, indicating the postal and e-mail addresses to which the shareholders may direct their requests.
f)	The means and procedures for granting a proxy to attend the General Shareholders' Meeting and for casting absentee votes, including the form of attendance, proxy, and absentee voting card, if any.	f)	The means and procedures for granting a proxy to attend the General Shareholders' Meeting and for casting absentee votes, including the form of attendance, proxy, and absentee voting card, if any.
		3.	<u>Furthermore, after the publication of the announcement of the call to the Ordinary General Shareholders' Meeting, the Company shall publish the following documentation on its corporate website:</u>
g)	The annual reports determined by the Board of Directors.	a)	g) The annual <u>The integrated report, the sustainability report and any other reports</u> that determined by the Board of Directors has approved regarding corporate social responsibility.
h)	The report on the independence of the auditor prepared by the Audit and Risk Supervision Committee.	b)	h) The report on the independence of the auditor prepared by the Audit and Risk Supervision Committee.
		c)	<u>The related-party transactions report prepared by the Appointments Committee.</u>
i)	The activities report of the Board of Directors and of the committees thereof.	d)	i) The activities reports or integrated activities report of the consultative committees of the Board of Directors <u>and of the committees thereof.</u>
3.	The Company shall use its best efforts to include in its corporate website, beginning on the date of the announcement of the call to meeting, an English version of the information and the principal documents related to the General Shareholders' Meeting. In the event of a discrepancy between the Spanish and English versions, the former shall prevail.	4.	3. The Company shall use its best efforts to include in its corporate website, beginning on the date of the announcement of the call to meeting, an English version of the information and the principal documents related to the General Shareholders' Meeting. In the event of a discrepancy between the Spanish and English versions, the former shall prevail.
4.	Pursuant to the provisions of applicable legislation, an Electronic Shareholders' Forum shall be enabled on the Company's corporate website on occasion of the call to the General Shareholders' Meeting. Duly verified shareholders and shareholder groups may access the Electronic Shareholders' Forum, the use of which shall conform to its legal purpose and to the assurances and rules of operation established by the Company.	5.	4. Pursuant to the provisions of applicable legislation, an Electronic Shareholders' Forum shall be enabled on the Company's corporate website on occasion of the call to the General Shareholders' Meeting. Duly verified shareholders and shareholder groups may access the Electronic Shareholders' Forum, the use of which shall conform to its legal purpose and to the assurances and rules of operation established by the Company.
Article 19. Right to Proxy Representation		Article 19. Right to Proxy Representation	
1.	Shareholders may exercise the right to attend personally or through proxy representation by another person, whether or not such person is a shareholder, by complying with the requirements of law and the Corporate Governance System.	1.	Shareholders may exercise the right to attend personally or through proxy representation by another person, whether or not such person is a shareholder, by complying with the requirements of law and the Corporate Governance System.
2.	The proxy may be granted by delivering to the proxy representative the attendance, proxy, and absentee voting card or any other means of verifying the grant of a proxy that is accepted by	2.	The proxy may be granted by delivering to the proxy representative the attendance, proxy, and absentee voting card or any other means of verifying the grant of a proxy that is accepted by

the Company, or by any of the following means:	the Company, or by any of the following means:
a) Advance delivery of the attendance, proxy, and absentee voting card or any other means of verifying the grant of a proxy that is accepted by the Company at the premises provided by the Company on the days announced on the Company's corporate website.	a) Advance delivery of the attendance, proxy, and absentee voting card or any other means of verifying the grant of a proxy that is accepted by the Company at the premises provided by the Company on the days announced on the Company's corporate website.
b) Sending the attendance, proxy, and absentee voting card or any other means of verifying the grant of a proxy that is accepted by the Company by postal correspondence addressed to the Company.	b) Sending the attendance, proxy, and absentee voting card or any other means of verifying the grant of a proxy that is accepted by the Company by postal correspondence addressed to the Company.
c) By electronic correspondence, completing the proxy form available on the Company's corporate website, using a recognised electronic signature of the shareholder or other type of guarantee that the Company deems proper to ensure the authenticity and identification of the shareholder granting the proxy.	c) By electronic correspondence, completing the proxy form available on the Company's corporate website, using a recognised electronic signature of the shareholder or other type of guarantee that the Company deems proper to ensure the authenticity and identification of the shareholder granting the proxy.
For these purposes, the use of the personal passwords that the Company has previously delivered to the shareholder by postal or electronic correspondence to the address that the shareholder has communicated to the Company or through any other form determined by the Board of Directors shall be deemed to be a proper assurance.	For these purposes, the use of the personal passwords that the Company has previously delivered to the shareholder by postal or electronic correspondence to the address that the shareholder has communicated to the Company or through any other form determined by the Board of Directors shall be deemed to be a proper assurance.
	d) <u>By any other means that the Board of Directors determines is appropriate to favour the participation of the largest possible number of shareholders, provided that notice thereof is provided on the corporate website at the time of publishing the announcement of the call to meeting, and the authenticity and identification of the shareholder granting the proxy is duly ensured.</u>
3. A proxy granted by any of the means indicated in the preceding section must be received by the Company before 24:00 on the day immediately prior to the day on which the General Shareholders' Meeting is held upon first call or upon second call, as applicable.	3. A proxy granted by any of the means indicated in letters a), b), or c) of the preceding section must be received by the Company before 24:00 on the day immediately prior to the day on which the General Shareholders' Meeting is held upon first call or upon second call, as applicable.
4. (...)	4. (...)
Article 39. Absentee Voting; Powers to Engage in Proxy-Granting and Absentee Voting	Article 39. Absentee Voting; Powers to Engage in Proxy-Granting and Absentee Voting
1. Shareholders may cast their vote regarding proposals relating to the items included in the agenda of the call to meeting by means of postal or electronic correspondence, as well as by any other means of long-distance communication, provided that they adequately guarantee the authenticity and identification of the voting shareholders and, if applicable, duly ensure the security of the electronic communications. In all such cases, they shall be deemed to be present for purposes of the	1. Shareholders may cast their vote regarding proposals relating to the items included in the agenda of the call to meeting by means of postal or electronic correspondence or, as well as by any other means of long-distance communication, provided that the identity of the person and they <u>adequately guarantee the authenticity and identification of the voting shareholders and, if applicable, duly ensure</u> the security of the electronic communications are assured . In all such

<p>establishment of a quorum at the General Shareholders' Meeting.</p>	<p>cases, they shall be deemed to be present for purposes of the establishment of a quorum at the General Shareholders' Meeting.</p>
<p>2. In order to vote by postal correspondence, shareholders must send to the Company the attendance, proxy, and absentee voting card issued in their favour by the corresponding institution, setting forth thereon the direction of their vote, their abstention, or their blank vote, and the direction of the vote in these cases.</p>	<p>2. In order to vote by postal correspondence, shareholders must send to the Company the attendance, proxy, and absentee voting card issued in their favour by the corresponding institution, setting forth thereon the direction of their vote, their abstention, or their blank vote, and the direction of the vote in these cases.</p>
<p>3. Votes by electronic correspondence shall be cast using a recognised electronic signature or using the personal passwords referred to in letter c of article 19.2 above or other type of guarantee that the Board of Directors deems best ensures the authenticity and identification of the voting shareholder.</p>	<p>3. Votes by electronic correspondence shall be cast using a recognised electronic signature or using the personal passwords referred to in letter c of article 19.2 above or other type of guarantee that the Board of Directors deems best ensures the authenticity and identification of the voting shareholder.</p>
<p>4. Votes cast by any of the means set forth in the preceding sections must be received by the Company before twenty-four hours on the day immediately prior to the day set for the holding of the General Shareholders' Meeting upon first call or upon second call, as applicable.</p>	<p>Votes cast by any of the means set forth in the preceding sections must be received by the Company before twenty-four hours 24:00 on the day immediately prior to the day set for the holding of the General Shareholders' Meeting upon first call or upon second call, as applicable.</p>
<p>5. The absentee voting referred to in this article shall be rendered void:</p>	<p>4. The absentee voting referred to in this article shall be rendered void:</p>
<p>a) By subsequent express revocation made by the same means used to cast the vote and within the period established for such voting.</p>	<p>a) By subsequent express revocation made by the same means used to cast the vote and within the period established for such voting.</p>
<p>b) By attendance at the meeting of the shareholder casting the vote.</p>	<p>b) By attendance at the meeting of the shareholder casting the vote.</p>
<p>c) If the shareholder validly grants a proxy within the established period after the date of casting the absentee vote.</p>	<p>c) If the shareholder validly grants a proxy within the established period after the date of casting the absentee vote.</p>
<p>6. If no express instructions are included when casting the absentee vote, or if instructions are included only with respect to some of the items on the agenda of the call to meeting, and unless expressly indicated otherwise by the shareholder, it shall be deemed that the absentee vote refers to all of the items included in the agenda of the call to the General Shareholders' Meeting and that the vote is in favour of the proposals made by the Board of Directors regarding the items included in the agenda of the call to meeting with respect to which no express instructions are included.</p>	<p>5. If no express instructions are included when casting the absentee vote, or if instructions are included only with respect to some of the items on the agenda of the call to meeting, and unless expressly indicated otherwise by the shareholder, it shall be deemed that the absentee vote refers to all of the items included in the agenda of the call to the General Shareholders' Meeting and that the vote is in favour of the proposals made by the Board of Directors regarding the items included in the agenda of the call to meeting with respect to which no express instructions are included.</p>
<p>7. As regards proposed resolutions other than those submitted by the Board of Directors or regarding items not included in the agenda of the call to meeting, the shareholder casting an absentee vote may grant proxy representation through any of the means contemplated in these Regulations, in which case the rules established for such purpose shall apply to the proxy, which shall be deemed granted to the chairman of the Board of Directors unless expressly indicated otherwise by the shareholder.</p>	<p>6. As regards proposed resolutions other than those submitted by the Board of Directors or regarding items not included in the agenda of the call to meeting, the shareholder casting an absentee vote may grant proxy representation through any of the means contemplated in these Regulations, in which case the rules established for such purpose shall apply to the proxy, which shall be deemed granted to the chairman of the Board of Directors unless expressly indicated otherwise by the shareholder.</p>
<p>8. The Board of Directors is authorised to develop the appropriate rules, means, and procedures to organise the casting of votes and the granting of</p>	<p>7. The Board of Directors is authorised to develop the appropriate rules, means, and procedures to organise the casting of votes and the granting of</p>

proxies by electronic means.	proxies by electronic means.
<p>Specifically, the Board of Directors may establish rules for the use of personal passwords and other guarantees other than electronic signatures for casting electronic votes or by other valid means of long-distance communication and to grant proxies by electronic correspondence. It may also reduce the advance period established in section 4 above for receipt by the Company of absentee votes and proxies granted by postal or electronic correspondence, and accept, and authorise the chair of and the secretary for the General Shareholders' Meeting and the persons acting by delegation therefrom to accept, absentee votes and proxies received after such period, to the extent permitted by the means available.</p>	<p>Specifically, the Board of Directors may establish rules for the use of personal passwords and other guarantees other than electronic signatures for casting electronic votes or by other valid means of long-distance communication and to grant proxies by electronic correspondence. It may also reduce the advance period of twenty-four hours established <u>in section 4 above</u> for receipt by the Company of absentee votes and proxies granted by postal or electronic correspondence, and accept, and authorise the chair of and the secretary for the General Shareholders' Meeting and the persons acting by delegation therefrom to accept, absentee votes and proxies received after such period, to the extent permitted by the means available.</p>
<p>The Board of Directors is also authorised to further develop the procedures for granting proxies and for absentee voting in general, including the rules of priority and conflict applicable thereto. The implementing rules adopted by the Board of Directors under the provisions of this section shall be published on the Company's corporate website.</p>	<p>The Board of Directors is also authorised to further develop the procedures for granting proxies and for absentee voting in general, including the rules of priority and conflict applicable thereto. The Shareholder's Guide and other implementing rules adopted by the Board of Directors under the provisions of this section shall be published on the Company's corporate website.</p>
<p>The chairman and the secretary of the Board of Directors or the chair of and the secretary for the General Shareholders' Meeting, from the constitution thereof, and the persons acting by delegation therefrom, shall have the broadest powers to verify the identity of the shareholders and their representatives; check the legitimacy of the exercise of the rights of attendance, proxy-granting, and voting by the shareholders and their representatives; check and accept the validity and effectiveness of the proxies and absentee votes (particularly the attendance, proxy, and absentee voting card or verification document or instrument for attendance or proxy-granting), as well as the validity and effectiveness of the instructions received through intermediary and management institutions or depositaries of shares, all in accordance with the provisions set forth in the Company's Corporate Governance System and in the rules that the Board of Directors may establish in order to further develop such provisions.</p>	<p>The chairman and the secretary of the Board of Directors or the chair of and the secretary for the General Shareholders' Meeting, from the constitution thereof, and the persons acting by delegation therefrom, shall have the broadest powers to verify the identity of the shareholders and their representatives; check the legitimacy of the exercise of the rights of attendance, proxy-granting, and voting by the shareholders and their representatives; check and accept the validity and effectiveness of the proxies and absentee votes (particularly the attendance, proxy, and absentee voting card or verification document or instrument for attendance or proxy-granting), as well as the validity and effectiveness of the instructions received through intermediary and management institutions or depositaries of shares, all in accordance with the provisions set forth in the Company's Corporate Governance System and in the rules that the Board of Directors may establish in order to further develop such provisions.</p>



General Shareholders' Meeting

Report of the Board of Directors
Proposed Appointment of Directors

/ 2017



Take care of the environment. Print only if necessary

MASTER REPORT SUBMITTED BY THE BOARD OF DIRECTORS OF IBERDROLA, S.A. REGARDING THE PROPOSED APPOINTMENT OF DIRECTORS INCLUDED IN ITEM NUMBERS NINE AND TEN ON THE AGENDA FOR THE GENERAL SHAREHOLDERS' MEETING CALLED TO BE HELD ON 31 MARCH AND 1 APRIL 2017, ON FIRST AND SECOND CALL, RESPECTIVELY

1. Purpose 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 of Mr Juan Manuel González Serna and Mr Francisco Martínez Córcoles as directors, with the classifications of independent and executive, respectively.

Pursuant to the provisions of article 14.2.d) of the Company's *Regulations for the General Shareholders' Meeting*, in the event that the shareholders acting at a General Shareholders' Meeting must deliberate on the appointment, re-election, or ratification of directors, the corresponding proposed resolution shall be accompanied by the following information:

- a) background and professional experience of the director;
- b) membership on other boards of directors of listed or unlisted companies;
- c) indication of class to which the director belongs;
- d) date of their first and subsequent appointments as a director of the Company;
- e) shares of the Company and derivative financial instruments whose underlying assets are shares of the Company of which such director is the holder;
- f) the report prepared by the Board of Directors; and
- g) the proposal of the Appointments Committee, in the case of independent directors, and the report of said Committee in the other cases.

In accordance with the provisions of law and the Corporate Governance System, the proposed appointment as director of Mr Juan Manuel González Serna, who must be assigned to the class of independent director, is submitted to the shareholders at the General Shareholders' Meeting upon a proposal of the Appointments Committee.

The proposed appointment of Mr Francisco Martínez Córcoles, who must be assigned to the class of executive director, is submitted to the shareholders at the General Shareholders' Meeting after a report from the Appointments Committee.

This master report assesses competency, experience, and merits of the proposed candidates as a whole to hold the office of director upon the terms of subsection 5 of section 529 *decies* of the Companies Act.

This is followed by the individual reports for each of the candidates to be appointed as directors, which include the information referred to in article 14.2.d) of the *Regulations for the General Shareholders' Meeting*.

2. Prior Analysis

Pursuant to the provisions of the *Director Candidate Selection Policy*, the Board of Directors, with the advice and report of the Appointments Committee, has engaged in a prior analysis of the needs of the Company.

The conclusion of this analysis is that it would be appropriate for the Board of Directors to have members with extensive experience in the business area, who are able to contribute value in the function that the Corporate Governance System entrusts to the board of directors as regards the determination of the Iberdrola group's strategy and supervision of the implementation thereof, as well as extensive knowledge of the businesses and of the internal operation of the Company and of the Iberdrola group. Furthermore, in the case of the appointment of Mr Juan Manuel González Serna, the Board of Directors has highly valued his commitment to the inclusion of persons at risk of social exclusion and with differing abilities.

Along these lines, the Board of Directors, with the advice and the report of the Appointments Committee, views quite favourably the profile, aptitudes, and experience of the two candidates for appointment as directors, which are conform to the needs delineated in the prior analysis.

3. Rationale for the Proposals as a Whole

In preparing the proposals for appointment and re-election, the Board of Directors has taken into account the alignment of the professional profiles of the candidates with the specific characteristics of the business carried out by the Company and the industries in which it does business, the international nature thereof, and their availability to provide the attention required to hold the position.

In this regard, the Board of Directors is of the opinion that all its members appropriately combine adequate qualifications and skills in the following areas:

- a) knowledge of the industries in which the Company does business;
- b) experience in and background knowledge of economic and financial matters, management of highly qualified human resources, and legal and regulatory frameworks;
- c) international experience and background knowledge of the geographical markets that are most significant for the Company; and
- d) experience in and knowledge of management, leadership, and business strategy.

The curriculum vitae and professional history of the directors whose appointment is submitted to the shareholders at the General Shareholders' Meeting shows their competencies as administrators, their merits to hold the position of director, their extensive experience in industries relevant to the Company and the group, and their in-depth knowledge of various business areas, which ensures the contribution of multiple viewpoints to the debate of matters within the Board of Directors.

In addition, the proposed appointment of Mr Juan Manuel González Serna as an independent director contributes to maintaining a high percentage of independent directors within the Company's Board of Directors.

Finally, the Appointments Committee has verified that Mr Juan Manuel González Serna and Mr Francisco Martínez Córcoles meet the requirements of respectability, capability, expertise, competence, experience, qualifications, training, availability, and commitment to the duties of the position of director and that they are not affected, directly or indirectly, by any of the instances of disqualification from or prohibition against holding such office or by having interests that conflict with or are contrary to the corporate interest as set forth in provisions of a general nature or in the Corporate Governance System.

* * *

In Bilbao, on 21 February 2017.

INDIVIDUAL REPORT SUBMITTED BY THE BOARD OF DIRECTORS OF IBERDROLA, S.A. REGARDING THE PROPOSED RE-APPOINTMENT OF MR JUAN MANUEL GONZÁLEZ SERNA INCLUDED IN ITEM NUMBER NINE ON THE AGENDA FOR THE GENERAL SHAREHOLDERS' MEETING CALLED TO BE HELD ON 31 MARCH AND 1 APRIL 2017, ON FIRST AND SECOND CALL, RESPECTIVELY

1. Introduction

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 of Mr Juan Manuel González Serna as director.

This report individually assesses the background and professional experience of the candidate to be appointed as director and other information referred to in article 14.2.d) of the *Regulations for the General Shareholders' Meeting*.

2. Proposal of the Appointments Committee

Attached to this report as an annex is the proposal of the Appointments Committee regarding the appointment of Mr González Serna submitted on 14 February 2017.

3. Professional profile and biographical data

Degree in Law, Economics and Business Studies from the Instituto Católico de Administración y Dirección de Empresas (ICADE) of the Comillas Pontifical University (Madrid) and a Masters in Business Administration (MBA) from the Escuela de Dirección del Instituto de Estudios Superiores de la Empresa de la Universidad de Navarra (IESE Business School) in Barcelona

In 1991, he founded, together with his wife, the Siro Group, today one of the largest business groups in the food sector, of which he is currently the Chairman, which has allowed him to acquire significant experience in business management, leadership, and strategy.

He also has prior experience at the Iberdrola group, which gives him in-depth knowledge of the industries in which the Company operates as well as how its businesses work. He has been an independent director of Iberdrola España, S.A. and Iberdrola Renovables, S.A.

He has been a member of the Governing Board of the Spanish Commercial Coding Association (*Asociación Española de Codificación Comercial*) (AECOC) since 1997.

Apart from the food sector, he also has extensive experience in the finance, venture capital, and health sectors: he has been a member of the Advisory Council of Rabobank in Madrid since 2003 and has been a member of the board of Banco Urquijo Sabadell Banca Privada, S.A., and was a member of the Board of Directors of Sociedad para el Desarrollo Industrial de Castilla y León, Sociedad de Capital Riesgo, S.A. (SODICAL, now Ade Capital Sodical, Sociedad de Capital Riesgo de Régimen Común, S.A.) between 2000 and October 2010. He is also a member of the board of directors of the HM Hospitales Group.

He is a founding trustee and chairman of Fundación Grupo SIRO as well as a member of the Executive Committee and trustee of Fundación SERES. Through these entities, the candidate has shown his commitment to the inclusion of persons at risk of social exclusion and with differing abilities and his ability to contribute to the development of effective social responsibility policies that contribute to the professional development of these groups. Mr González Serna has also been president, and is currently the honorary president, of Empresa Familiar de Castilla y León.

4. Membership on Other Boards of Directors

He is a member of the Board of Directors of the HM Hospitales Group.

He has been a member of the Governing Board of the Spanish Commercial Coding Association (*Asociación Española de Codificación Comercial*) (AECOC) since 1997 and a member of the Management Board of the Spanish Federation of FIAB since 2014.

He is a founding trustee and chairman of Fundación Grupo SIRO as well as a trustee and vice chair of Fundación SERES. He is also a trustee of the Casa Ducal de Medinaceli Foundation. He has been honorary president of the Empresa Familiar de Castilla y León association since 1999.

5. Category to Which the Director Should Belong

Mr Juan Manuel González Serna has been proposed on the basis of his personal and professional qualifications and can discharge his duties without being constrained by relationships with the Company, its significant shareholders, or its directors and officers, which makes him worthy of the status of independent director.

6. Availability

The effective availability of the candidate for appointment as director to provide the dedication required to perform the duties of the position has been verified with the candidate.

7. Shares of the Company and Derivative Financial Instruments whose Underlying Assets are Shares of the Company of which the Director is a Holder

At the date of this report, Mr Juan Manuel González Serna is the direct holder of 40,863 shares of the Company and the indirect holder, through Grupo Siro Corporativo, S.L., of 358,903 shares. Therefore, his total participation amounts to 399,586 shares, which represent 0.006 % of the share capital.

8. Proposed Resolution

The Board of Directors has concluded that his broad experience in business management and proven entrepreneurial skills, as well as his extensive knowledge of the activities carried out by the Company and the Iberdrola group, will allow Mr Juan Manuel González Serna to contribute quite positively to the operation of the Company's Board of Directors. The Board of Directors also very favourably viewed his commitment to the inclusion of persons at risk of social exclusion and with differing abilities.

In addition, the proposed appointment of Mr Juan Manuel González Serna with the classification as independent director will help to maintain a high percentage of independent directors on the Company's Board of Directors.

After evaluating the proposed appointment and re-election of the directors as a whole on the terms of the master report set out above, and after individually evaluating the information regarding Mr Juan Manuel González Serna set out in this report, the proposed resolution submitted to the shareholders for approval at the General Shareholders' Meeting reads as follows:

"ITEM NUMBER NINE ON THE AGENDA

Appointment of Mr Juan Manuel González Serna as independent director.

RESOLUTION

To appoint Mr Juan Manuel González Serna as director of the Company, upon a proposal of the Appointments Committee, for the by-law mandated four-year term, with the status of independent director."

* * *

In Bilbao, on 21 February 2017.

ANNEX

REPORT PREPARED BY THE APPOINTMENTS COMMITTEE REGARDING THE PROPOSED APPOINTMENT OF MR JUAN MANUEL GONZALEZ SERNA

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 to verify compliance with the specific requirements for independent directors provided by law and the Corporate Governance System, and gather 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 potential appointment of Mr González Serna, as well as to propose the appointment thereof to the Board of Directors with the classification of independent director.

2. Compliance with the Provisions of the Director Candidate Selection Policy

Pursuant to the provisions of the *Director Candidate Selection Policy*, in order to advise the Board of Directors on the analysis of the needs of the Company and of the Iberdrola group to determine the appropriateness of appointing Mr González Serna in particular to the position of director of the Company, the Committee has taken into consideration the business carried out by the Iberdrola group, the countries and territories in which it is carried out, the management needs of a complex multinational company like Iberdrola and its commitment to social return, and the principles contained in the *Mission, Vision, and Values of the Iberdrola group*.

The conclusion of this analysis is that the Board of Directors must have members with extensive experience in business management and strategy, as well as extensive knowledge of the internal operation of the Iberdrola group.

Pursuant to the provisions of the *Director Candidate Selection Policy*, the Appointments Committee very positively values the verified business experience of Mr González Serna, as well as his extensive knowledge regarding the businesses and operation of the Iberdrola group acquired while holding the position of independent director of the subholding company of the energy businesses of the Iberdrola group in Spain, Iberdrola España, S.A., as well as of Iberdrola Renovables, S.A. and Iberdrola Renovables España, S.A.

3. 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**"), to analyse not only 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 his professional experience and the standards that proxy agencies use to assess suitability for the position. In this regard, the suitability report of PwC concludes that:

- Mr González Serna does not have a conflict of interest with Iberdrola, nor is there any other disqualification as director of the Company, in light of the positions he currently holds and has held in recent years.

Although the Siro Group has interest in certain companies that might have activities that are potentially coincidental with those of the Iberdrola group, they do not give rise to a structural conflict of interest for the candidate, and in any case could be resolved using corporate governance mechanisms.
- As to the director classification, there are no impediments under Iberdrola's Corporate Governance System to being considered an independent director.
- As to his professional experience, Mr Juan Manuel González Serna adequately complies with the standards required by proxy agencies regarding suitability of a candidate for director, given his experience on other Boards of Directors, his industry knowledge, and his potential dedication.

In addition, the Committee has verified that the conduct and professional history 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. González Serna can discharge his duties without being constrained by relationships with the Company, its significant shareholders, or its directors and officers, which makes him worthy of the status of independent director, contributing 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.

4. Conclusion

The Committee has unanimously decided to propose the appointment of Mr. Juan Manuel González Serna as a director of the Company, with the classification of independent director.

INDIVIDUAL REPORT SUBMITTED BY THE BOARD OF DIRECTORS OF IBERDROLA, S.A. REGARDING THE PROPOSED RE-APPOINTMENT OF MR FRANCISCO MARTÍNEZ CÓRCOLES INCLUDED IN ITEM NUMBER TEN ON THE AGENDA FOR THE GENERAL SHAREHOLDERS' MEETING CALLED TO BE HELD ON 31 MARCH AND 1 APRIL 2017, ON FIRST AND SECOND CALL, RESPECTIVELY

1. Introduction

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 of Mr Francisco Martínez Córcoles as director.

This report individually assesses the background and professional experience of the candidate to be appointed as director and other information referred to in article 14.2.d) of the *Regulations for the General Shareholders' Meeting*.

2. Proposal of the Appointments Committee

Attached to this report as an annex is the report of the Appointments Committee regarding the proposed appointment of Mr Martínez Córcoles submitted on 14 February 2017.

3. Professional profile and biographical data

Industrial Engineer specialising in Electricity from the ICAI (Universidad de Comillas, Madrid) and Master in Business Management from IESE Business School (Universidad de Navarra).

He worked at Arthur Andersen and Compañía Sevillana de Electricidad, S.A. before joining Hidroeléctrica Española, S.A. and, following the merger with Iberduero, S.A., Iberdrola.

He has held several executive positions at the Company, including Generation Market manager, manager of the Wholesale Energy Markets Business Unit and general manager of the Group's Deregulated Energy Business, and has spearheaded the development of the areas of generation, retail and natural gas in the national and international sphere.

Mr Martínez Córcoles has also previously held the position of chairman of Iberdrola Generación, S.A. and of Scottish Power Generation Holdings Ltd. and has been a director of Compañía Operadora del Mercado Eléctrico Español, S.A., Elcogas, S.A. and Iberdrola Ingeniería y Construcción, S.A.

He is currently the Business CEO of the Iberdrola group, with overall responsibility for all of the group's businesses worldwide.

His ample background as an officer of the Iberdrola group and his presence on the boards of directors of various international companies of the group in Brazil, Mexico and the United Kingdom have allowed Mr Martínez Córcoles to acquire an in-depth understanding of the functioning of the group's businesses, as well as significant international experience.

In addition, Mr Martínez Córcoles has been awarded the Javier Benjumea Price of the Association of Engineers of ICAI in its XVII edition and with the Gold Medal of the Spanish Nuclear Company.

4. Membership on Other Boards of Directors

Mr Francisco Martínez Córcoles is a director representing the Iberdrola group at the Spanish Electric Industry Association (*Asociación Española de la Industria Eléctrica*) (UNESA).

Within the Iberdrola group, Mr Martínez Córcoles is currently the chairman of the board of directors of Elektro Holding, S.A. and a director of Iberdrola México, S.A. de C.V.

5. Category to Which the Director Should Belong

Taking into account the executive duties that will continue to be performed by Mr Francisco Martínez Córcoles within the Company, it has been proposed to appoint him as an executive director.

6. Availability

The effective availability of the candidate for appointment as director to provide the dedication required to perform the duties of the position has been verified with the candidate.

7. Shares of the Company and Derivative Financial Instruments whose Underlying Assets are Shares of the Company of which the Director is a Holder

At the date of this report, Mr Francisco Martínez Córcoles is the direct holder of 166,481 shares of the Company, which represent 0.003 % of the share capital.

8. Proposed Resolution

The Board of Directors has concluded that his broad experience and extensive knowledge of the businesses of the Company and the Iberdrola group, at both the domestic and international level, will allow Mr Francisco Martínez Córcoles to contribute quite positively to the operation of the Company's Board of Directors.

Furthermore, the Board of Directors quite favourably values the proposed appointment of a new executive director, given that two executive directors on the Board of Directors will considerably strengthen the efficiency of the system of weights and balances provided for in the corporate governance system, ensuring that management power is not centralised within a single governance body or a single person.

After evaluating the proposed appointment and re-election of the directors as a whole upon the terms of the master report set out above, and after individually evaluating the information regarding Mr Francisco Martínez Córcoles set out in this report, the proposed resolution submitted to the shareholders for approval at the General Shareholders' Meeting reads as follows:

"ITEM NUMBER TEN ON THE AGENDA

Appointment of Mr Francisco Martínez Córcoles as executive director.

RESOLUTION

To appoint Mr Francisco Martínez Córcoles as director of the Company, after a report from the Appointments Committee, for the by-law mandated four-year term, with the status of executive director."

* * *

In Bilbao, on 21 February 2017.

ANNEX

REPORT PREPARED BY THE APPOINTMENTS COMMITTEE REGARDING THE PROPOSED APPOINTMENT OF MR FRANCISCO MARTÍNEZ CÓRCOLES

1. Introduction

Pursuant to the provisions of article 4.g of the *Regulations of the Appointments Committee* of IBERDROLA, S.A. (“Iberdrola” or the “Company”), the Appointments Committee (the “Committee”), at the request of the chairman of the Board of Directors or of any other member of the Board of Directors, is to report on the proposed appointment of directors for submission to the shareholders at a General Shareholders' Meeting.

To this end, the purpose of this document is to report on the proposal of the Board of Directors to appoint Mr Francisco Martínez Córcoles as a director of the Company, with the classification of executive.

2. Compliance with the Provisions of the Director Candidate Selection Policy

Pursuant to the provisions of the *Director Candidate Selection Policy*, in order to advise the Board of Directors on the analysis of the needs of the Company and of the Iberdrola group to determine the appropriateness of appointing Mr Martínez Córcoles in particular to the position of director of the Company, the Committee has taken into consideration the business carried out by the Iberdrola group, the countries and territories in which it is carried out, the management needs of a complex multinational company like Iberdrola and its commitment to social return, and the principles contained in the *Mission, Vision, and Values of the Iberdrola group*.

The conclusion of this analysis is that the Board of Directors must have members with extensive knowledge of the operation of the businesses of the Company and of the Iberdrola group.

Pursuant to the provisions of the *Director Candidate Selection Policy*, the Appointments Committee very positively values the experience and knowledge regarding the businesses and operation of the Iberdrola group, at both the domestic and international level, that Mr Martínez Córcoles has acquired during his time as an officer of the Iberdrola group, as well as due to his presence on the Boards of Directors of various international companies of the group in Brazil, Mexico, and the United Kingdom (Elektro Holding, S.A., Iberdrola México, S.A. de C.V., and Scottish Power Generation Holdings Ltd.), and more recently while he held the position of Business CEO of the Iberdrola group.

Furthermore, the proposed appointment of Mr Francisco Martínez Córcoles as executive director is intended to expand and strengthen the system of weights and balances provided for in the Company's *General Corporate Governance Policy*, given that two executive directors on the Board of Directors will contribute to avoiding the centralisation of power within a single governance body or a single person.

3. Verification of Compliance with the Requirements to be a Director of the Company

To complete its analysis of the proposed candidate, the Appointments Committee has requested an external expert, PricewaterhouseCoopers Asesores de Negocios, S.L. (“PwC”), to analyse not only 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 his professional experience and the standards that proxy agencies use to assess suitability for the position. In this regard, the suitability report of PwC concludes that:

- (i) Mr Francisco Martínez Córcoles does not have a conflict of interest with Iberdrola, nor is there any other disqualification as director of the Company, in light of the positions he currently holds and has held in recent years.
- (ii) As to his professional experience, Mr Francisco Martínez Córcoles adequately complies with the standards required by proxy agencies regarding suitability of a candidate for director, given his extensive experience on Boards of Directors, his deep knowledge of the Iberdrola group's business, and his significant international experience.

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.

Specifically, the Committee has verified that the conduct and professional history 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 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.

4. Conclusion

The Committee has unanimously decided to report favourably on the proposed appointment of Mr Francisco Martínez Córcoles as a director of the Company, with the classification of executive director.



General Shareholders' Meeting

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

/ 2017

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 FOR TWO NEW EDITIONS OF THE "IBERDROLA FLEXIBLE DIVIDEND" SYSTEM INCLUDED IN ITEM NUMBERS TWELVE AND THIRTEEN ON THE AGENDA FOR THE GENERAL SHAREHOLDERS' MEETING CALLED TO BE HELD ON 31 MARCH AND 1 APRIL 2017, ON FIRST AND SECOND CALL, RESPECTIVELY.

1. Purpose of the Report

This report has been prepared by the Board of Directors of IBERDROLA, S.A. (the "**Company**") 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 item numbers twelve and thirteen on the agenda.

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 an identical 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

In order to improve its shareholder remuneration policy, in 2010 the Company first offered its shareholders an option (known as the "Iberdrola Flexible Dividend") that allowed them to receive, in the alternative, bonus shares of the Company, giving them the benefit of favourable tax treatment, but without limiting their ability to receive in cash an amount equivalent to the payment of a dividend. This formula was repeated continuously through 2016. Given its general acceptance, the Company has decided to offer the same possibility again this year.

Accordingly, the purpose of the proposals to increase share capital by means of scrip issues made to the shareholders at the General Shareholders' Meeting and covered by this report is to offer all of the Company's shareholders newly-issued bonus shares or, ultimately, and through the transfer to the Company at a guaranteed fixed price of the free-of-charge allocation rights that they receive for the shares they hold (as set forth in section 2.2 below), the possibility of obtaining, at a minimum, equivalent value to that of the traditional dividend payments in cash, without altering the shareholder remuneration policy as a result. Furthermore, under this system the shareholders of the Company would have the option to monetise their free-of-charge allocation rights through the transfer thereof on the market, without having the right to receive a guaranteed fixed price in this case.

2.2 Structure of the Proposals

The proposals submitted to the shareholders for approval at the General Shareholders' Meeting under item numbers twelve and thirteen on the agenda, which consist of offering the Company's shareholders the option to receive their choice of bonus shares or a cash amount, in both instances at least equal to the payment of any dividend that they would have been entitled to receive (the "**Option**"), 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**"). The foregoing should be understood to be without prejudice to the distribution of a cash dividend upon the terms proposed for approval by the shareholders at the Company's General Shareholders' Meeting under item number eleven on the agenda.

Notwithstanding the fact that the Increases in Capital have the purpose described above, each of them is independent of the other, such that each Increase in Capital would be implemented on different dates and the Company might even decide not to implement one or both of them, in which case the respective Increase in Capital would be deprived of effect, as provided in section 3.7 below.

As explained below, the total number of shares to be issued in each Increase in Capital will be such that the sum of the reference market value of such shares at the time of the implementation thereof (calculated in accordance with the procedure described in this report) will come to the maximum amount of 1,032 million euros in the Increase in Capital submitted for approval at the General Shareholders' Meeting under item number twelve on the agenda (the "**First Increase in Capital**") and of 1,168 million euros in the Increase in Capital submitted for approval at the General Shareholders' Meeting under item number thirteen on the agenda (the "**Second Increase in Capital**").

It is expected that the First Increase in Capital will be implemented in the month of July 2017, while the Second Increase in Capital can be expected to be implemented in the month of December 2017 or January 2018.

In each Increase in Capital:

- i. The Company's shareholders will receive one free-of-charge allocation right for each Iberdrola share they hold. These rights will be tradable and, therefore, transferable on the same terms as the shares from which they derive on the Bilbao, Madrid, Barcelona, and Valencia Stock Exchanges, through the Automated Quotation System (*Sistema de Interconexión Bursátil*), for a term of at least fifteen calendar days, at the expiration of which term such rights will automatically become newly-issued shares, which will be allocated to those who are then holders of said free-of-charge allocation rights.

The specific number of shares to be issued in each Increase in Capital and, consequently, the number of rights required for the allocation of one new share will depend on the listing price of the Company's shares at the time the implementation of the Increase in Capital is approved, in accordance with the procedure described in this report (the "**Listing Price**" or "**ListPri**").

In any event, as explained below, the total number of shares to be issued in each Increase in Capital will be such that the reference market value of such shares (calculated at the Listing Price) will in no event be greater than the Amount of the Option (as defined in section 2.4 below) established for each Increase in Capital (which, in the case of the First Increase in Capital, may not exceed 1,032 million euros, and in the case of the Second Increase in Capital, may not exceed 1,168 million euros).

- ii. The Company will assume, upon the terms and conditions set forth below, an irrevocable commitment to purchase such free-of-charge allocation rights at a fixed price (the "**Purchase Commitment**"). Such fixed price will be calculated prior to the commencement of the period for trading the free-of-charge allocation rights of the respective Increase in Capital in accordance with the provisions of section 3.3 below. In this way, the Company assures all of the shareholders of the ability to monetise their rights if they do not wish to receive new shares.

The object of the Purchase Commitment assumed by the Company will be such as is determined by the Board of Directors of Iberdrola, in exercise of the powers delegated thereto by the shareholders at the General Shareholders' Meeting (with express power of substitution) and taking into account market conditions and the corporate interest, based on the following two alternatives:

- (i) 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 in accordance with the securities settlement and payment rules from time to time in effect, excluding such rights as have been transferred on the market; or
- (ii) all of the free-of-charge allocation rights, regardless of whether the holders thereof have received them from the Company without charge because of their status as shareholders at the time of allocation thereof or have acquired them on the market.

Therefore, upon each Increase in Capital, the shareholders will have the option, at their own discretion¹:

- a. To not transfer their free-of-charge allocation rights. In this case, at the end of each trading period, the shareholders will receive such number of new shares as they are proportionately entitled to receive, entirely as bonus shares.

¹ The options available to the holders of ADRs (in the United States of America) and of CDIs (in the United Kingdom) may have particularities of their own as compared to the options described in this report, based on the terms and conditions applicable to the programmes in which such holders participate.

- b. To transfer all or part of their free-of-charge allocation rights to the Company pursuant to the Purchase Commitment, at a guaranteed fixed price for such Increase in Capital. In this way, shareholders would choose to monetise their rights and receive in cash an amount that is at least equal to any dividend that the Company would have paid.
- c. To transfer all or part of their free-of-charge allocation rights on the market. In this case, shareholders would also choose to monetise their rights, but they would not receive a guaranteed fixed price; rather, the consideration for such rights would depend on market conditions in general and on the listing price of such rights in particular.

In each Increase in Capital, the Company's shareholders may combine any of the alternatives mentioned in items (a) through (c) above. In this regard, it should be borne in mind that the tax treatment of the above alternatives is different, as described in section 3.6.

2.3 Coordination with the Distribution of Cash Dividends

As stated above, within the period of one year from the date on which the shareholders acting at the General Shareholders' Meeting approve the resolutions proposed herein, and provided that the legal and financial conditions prevailing from time to time so advise, the Company could again put into practice the shareholder remuneration system known as the "Iberdrola Flexible Dividend", replacing the traditional payment of dividends in cash with one or two increases in share capital by means of scrip issues, maintaining in all events the possibility for the shareholders to receive, at their election, a cash amount that is at least equal to their entire customary cash remuneration (through the Option, as such term is defined in section 2.2 above). In this way, the Company seeks to ensure that shareholders that so wish will receive a cash amount that is at least equal to what could have been the traditional dividend amounts paid.

The foregoing should be understood to be without prejudice to the distribution of a cash dividend, if approved by the shareholders at the Company's General Shareholders' Meeting under item number eleven on the agenda.

2.4 Amount of the Option in each Increase in Capital

The structure of the proposals covered by this report consists of offering bonus shares to the shareholders, on one or two occasions, during the period of one year from the date of approval of the proposed resolutions by the shareholders acting at the General Shareholders' Meeting and provided that the legal and financial conditions prevailing from time to time so advise.

The aggregate market value of the bonus shares to be issued in the Increases in Capital, calculated on the basis of the Listing Price applicable at the time of implementation of each Increase in Capital, will be fixed by the Board of Directors (or the body acting by delegation therefrom) and will come to a maximum amount of 1,032 million euros in the First Increase in Capital and of 1,168 million euros in the Second Increase in Capital (the "Amount of the Option" of each Increase in Capital, respectively).

The Amount of the Option of each Increase in Capital will be set and announced as provided in section 3.1 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 nominal amount of each Increase in Capital will be the result of multiplying the number of new shares to be issued in each of such increases by the nominal value of the shares of the Company (seventy-five euro cents per share). The Increases in Capital will thus be carried out at par (i.e. without a share premium).

In turn, the number of shares to be issued in each Increase in Capital will be the result of dividing the respective Amount of the Option by the Listing Price applicable in each increase.

The Listing Price or ListPri of each Increase in Capital will be the arithmetic mean of the average weighted listing prices of the Company's shares on the Bilbao, Madrid, Barcelona, and Valencia Stock Exchanges 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, as well as the Purchase Price (as such term is defined below), rounded to the closest one-thousandth part of one euro.

The number thus calculated will 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 will waive the corresponding free-of-charge allocation rights as provided in section 3.2 below.

Specifically, at the time of the decision to implement each Increase in Capital, the Board of Directors (with express power of substitution) will determine the number of new shares to be issued and, as a consequence, the nominal amount of the Increase in Capital in question, as well as the number of free-of-charge allocation rights required for the allocation of one new share, by using the following formula (the result to be rounded to the next lower integer):

$$\text{NNS} = \text{TNShrs.} / \text{Num. rights}^2$$

Solely for purposes of facilitating an understanding of the application hereof, attached hereto as an Annex is a sample calculation of the maximum number of new shares to be issued in the First Increase in Capital, 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 Purchase Price (as such term is defined below).

The Amount of the Option of each Increase in Capital will 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.

The number of free-of-charge allocation rights required to receive one new share in each Increase in Capital will be automatically determined according to the ratio existing between the number of Iberdrola shares 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 will be entitled to receive one new share in exchange for the number of free-of-charge allocation rights held by them, which will 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) will 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, there will be an incomplete allocation of the Increase in Capital in question, and share capital will be increased solely by the amount corresponding to the free-of-charge allocation rights that have not been waived (for which purposes, the provisions of section 3.3 below will also have to be taken into account), pursuant to the provisions of section 311 of the *Companies Act*.

The free-of-charge allocation rights will 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 settlement and payment 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 will not be less than fifteen calendar days. During such term,

² **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:

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

a sufficient number of free-of-charge allocation rights may be acquired on the market in the proportion required to receive new shares³.

3.3 Irrevocable Commitment to Purchase the Free-of-charge Allocation Rights

As explained above, within the context of the implementation of each Increase in Capital, the Company will assume the irrevocable commitment to purchase the free-of-charge allocation rights (as defined earlier, the "**Purchase Commitment**") on the terms and conditions set forth in section 2.2 (b) above. In this way, the Company's shareholders will be assured of the possibility of selling their rights to the Company and of receiving, at their election, all or part of the Option in cash. The Purchase Commitment will be in effect and may be accepted during such term, within each period for trading the free-of-charge allocation rights, as is established for each Increase in Capital by the Board of Directors (with express power of substitution).

For such purposes, the Company is granted authority to acquire the aforementioned free-of-charge allocation rights up to the maximum limit of the total number of rights issued in each Increase in Capital, and must in any event observe such legal restrictions as may apply at any time. The purchase price under the Purchase Commitment will be a fixed price that will be different for each Increase in Capital and will be calculated prior to the commencement of the corresponding period for trading the free-of-charge allocation rights in accordance with the following formula (to which the definitions set forth in section 3.1 above apply), rounded to the closest one-thousandth part of one euro and, in the case of one-half of one-thousandth of one euro, to the next higher one-thousandth part of one euro (the "**Purchase Price**"):

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

The final Purchase Price thus calculated will be announced at the time of approval of the implementation of each Increase in Capital.

The acquisition by the Company of the free-of-charge allocation rights as a consequence of the Purchase Commitment will be effected in each Increase in Capital with a charge to the reserves contemplated in section 303.1 of the *Companies Act*.

It is contemplated that, in each Increase in Capital, the Company will waive the new shares corresponding to the free-of-charge allocation rights that the Company has acquired under the Purchase Commitment. In such an event, there will be an incomplete allocation of the Increase in Capital in question, and share capital will 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*.

3.4 Rights Attaching to the New Shares

The new shares issued in each Increase in Capital will 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 member entities.

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

The Increases in Capital will be carried out free of expenses and fees as to the allocation of the new shares issued. The Company will 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 the entities members of "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, pursuant to applicable law, establish such pass-

³ 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 to the Company under the Purchase Commitment at a guaranteed fixed price; or (c) transfer all or part of their free-of-charge allocation rights on the market (in which case they will not be entitled to receive a guaranteed fixed price; rather, the consideration for their rights will depend on market conditions in general and on the listing price of the free-of-charge allocation rights in particular).

through management fees and expenses as they may freely determine as a consequence of maintaining the securities in their book-entry records. Moreover, such member entities may, pursuant to applicable law, 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.

3.5 Balance Sheet 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 2016, which has been audited by Ernst & Young, 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 will 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) will 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.

3.6 Tax Regime

Within the framework of the implementation of the "Iberdrola Flexible Dividend" system, 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, which was submitted to such agency on 23 November 2009. The consultation was answered by the DGT on 27 April 2010 and, in turn, the answer was clarified by the DGT, at the Company's request, on 1 October 2010.

The answer to such consultation indicates that the treatment is as described below. This tax treatment has not changed, as far as the proposals covered by this report are concerned, since the date of issuance of such answer for shareholders residing in common regions (territorio común), without prejudice to the fact that the tax reform that was approved by the Spanish Parliament (Cortes Generales) in November 2014 has made changes affecting the tax regime in the Personal Income Tax (Impuesto sobre la Renta de las Personas Físicas) ("IRPF") within the common regions and the Non-Resident Income Tax (Impuesto sobre la Renta de no Residentes) ("IRNR"), for shareholders subject to these taxes who participate in the "Iberdrola Flexible Dividend" system. These changes, which directly affect the taxation of the various options within the "Iberdrola Flexible Dividend" system, entered into force on 1 January 2017. The Historical Territories of the Basque Country and in the Chartered Community of Navarre have also introduced similar measures to this end.

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 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 (except for the historic territory of Álava as of the date hereof) 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 commercial 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.

In the event that the holders of free-of-charge allocation rights in relation to whom the Company has assumed the Purchase Commitment decide to use such Purchase Commitment, the tax treatment applicable to the amount received for the transfer to the Company of their free-of-charge allocation rights will be equal to the treatment applicable to dividends directly distributed in cash and, consequently, such amount will be subject to the corresponding withholding and taxes.

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 shall 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 before making a decision in connection with the Increases in Capital.

3.7 Delegation of Powers and Implementation of the Increases in Capital

It is proposed to delegate to the Board of Directors, with express power of substitution, the power to set the date on which each Increase in Capital is to be carried out, as well as to establish the terms and conditions applicable to such increases 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 implement either of the Increases in Capital within the aforementioned period, it may decide not to implement the Increases in Capital (one or both), with the duty to inform the shareholders thereof at the next General Shareholders' Meeting held. Specifically, the Board of Directors (with express power of substitution) will 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 implement either of the Increases in Capital, it may decide not to implement it. In addition, the Increase in Capital in question will be deprived of any and all effect in the event that the Board of Directors does not exercise the powers delegated thereto within the period of one year established by the shareholders at the General Shareholders' Meeting for implementation thereof.

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 will make public such terms and conditions. In particular, prior to the commencement of each free-of-charge allocation period, the Company will make available to the public a document containing information on the number and nature of the shares and the reasons for the Increase in Capital, all as provided by section 26.1.e) of Royal Decree 1310/2005 of 4 November.

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

- i. The new shares will 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 member entities, are the holders of free-of-charge allocation rights in the required proportion.
- ii. The period for trading the free-of-charge allocation rights will be declared to have ended and the appropriation of the account(s) with a charge to which the Increase in Capital will be implemented will be formalised on the books in the respective amount, with which appropriation the Increase in Capital will be paid up.

Finally, in each Increase in Capital, the Board of Directors (with express power of substitution) will 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.

3.8 Admission of the New Shares to Trading

The Company will 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 will 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 TWELVE ON THE AGENDA

Approval of an increase in capital by means of a scrip issue at a maximum reference market value of 1,032 million euros.

RESOLUTION

In order to implement a new edition of the “Iberdrola Flexible Dividend” system, to increase share capital upon the terms and conditions described in the section “Common Terms and Conditions of the increase in capital resolutions proposed under item numbers twelve and thirteen on the agenda” below, at a maximum reference market value of 1,032 million euros for the shares to be issued in implementation of said increase.

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 during the month of July 2017.

ITEM NUMBER THIRTEEN ON THE AGENDA

Approval of an increase in capital by means of a scrip issue at a maximum reference market value of 1,168 million euros.

RESOLUTION

In order to implement a new edition of the “Iberdrola Flexible Dividend” system, to increase share capital upon the terms and conditions described in the section “Common Terms and Conditions of the increase in capital resolutions proposed under item numbers twelve and thirteen on the agenda” below, at a maximum reference market value of 1,168 million euros for the shares to be issued in implementation of said increase.

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 during the month of December 2017 or January 2018.

TERMS COMMON TO THE INCREASE IN CAPITAL RESOLUTIONS PROPOSED UNDER ITEM NUMBERS TWELVE AND THIRTEEN ON THE AGENDA IN ORDER TO IMPLEMENT TWO NEW EDITIONS OF THE “IBERDROLA FLEXIBLE DIVIDEND” SYSTEM

1. Principal Characteristics of the Two Increases in Capital

The amount of each of the two increases in capital (the “Increases in Capital” and each the “Increase in Capital”) being submitted to the shareholders for approval at the General Shareholders' Meeting under item numbers twelve and thirteen on the agenda will be the amount resulting from multiplying: (a) the nominal value of each share of

IBERDROLA, S.A. (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 2 below, on the date of implementation of each of the two Increases in Capital (the new shares of the Company issued by way of implementation of the Increases in Capital shall be collectively referred to as the "**New Shares**", and each one, individually, as a "**New Share**").

The sum of the reference market value of the New Shares corresponding to each of the Increases in Capital may not exceed the maximum reference market values of 1,032 million euros in the case of the increase in capital submitted for the approval of the shareholders at the General Shareholders' Meeting under item number twelve on the agenda, and of 1,168 million euros in the case of the increase in capital appearing in item number thirteen on the agenda.

Both Increases in Capital will be carried out, if at all, by means of the issuance and flotation, on their respective dates of implementation, of the New Shares, which will 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 will 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, will 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 will be issued at par, i.e. at their nominal value of seventy-five euro cents, without a share premium, and will be allocated to the shareholders of the Company without charge.

Within the year following the date of approval of the resolutions included in items twelve and thirteen on the agenda, each of the Increases in Capital may be implemented 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 by taking into consideration the legal and financial conditions existing at the time of implementing each of the Increases in Capital, in order to offer the Company's shareholders a flexible and efficient remuneration formula.

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, 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 will be increased by the corresponding amount.

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

The number of New Shares to be issued in each of the Increases in Capital will 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 item numbers twelve and thirteen on the agenda (i.e. 1,032 and 1,168 million euros, respectively).

For its part, "**ListPri**" will be the arithmetic mean of the average weighted listing prices of the Company's shares on the Bilbao, Madrid, Barcelona, and Valencia Stock Exchanges 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, as well as the respective Purchase Price (as such term is defined below), rounded to the closest one-thousandth part of one euro.

3. 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 will 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 2 above. Specifically, the holders of free-of-charge allocation rights will be entitled to receive one New Share for the number of free-of-charge allocation rights held by them, which will be determined as provided in section 2 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) will 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 will 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 settlement and payment rules from time to time in effect.

The free-of-charge allocation rights will 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 will 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.

4. Irrevocable Commitment to Purchase the Free-of-charge Allocation Rights

At the time of implementation of each of the Increases in Capital, the Company will assume an irrevocable commitment to purchase the free-of-charge allocation rights at the price set forth below (the "**Purchase Commitment**") on the terms and conditions set forth below.

The Purchase Commitment corresponding to each of the Increases in Capital will be in effect and may be accepted during such term, within the period for trading the free-of-charge allocation rights, as is established by the Board of Directors, with express power of substitution. For such purposes, it is hereby resolved to authorise the acquisition by the Company of the aforementioned free-of-charge allocation rights up to the maximum limit of the total number of rights issued in each of the Increases in Capital, with the observance of legal restrictions in any case.

The object of the Purchase Commitment assumed by the Company will be such as is determined by the Board of Directors in each of the Increases in Capital, in exercise of the powers delegated thereto by the shareholders at the General Shareholders' Meeting, with express power of substitution, and taking into account market conditions and the corporate interest, based on the following two alternatives:

- (a) 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 in accordance with the securities settlement and payment rules from time to time in effect, excluding such rights as have been transferred on the market; or
- (b) all of the free-of-charge allocation rights, regardless of whether the holders thereof have received them from the Company without charge because of their status as shareholders at the time of allocation thereof or have acquired them on the market.

The "**Purchase Price**" with respect to each Increase in Capital will be the fixed price at which the Company will acquire each free-of-charge allocation right under the respective Purchase Commitment and will be calculated in accordance

with the following formula, with the resulting number being rounded to the closest one-thousandth part of one euro and, in the case of one-half of one-thousandth of one euro, to the next higher one-thousandth part of one euro:

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

The acquisition by the Company of the free-of-charge allocation rights as a consequence of the Purchase Commitment will be effected with a charge to the reserves contemplated in section 303.1 of the Companies Act.

5. 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 2016, 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 will 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, will 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.

6. Representation of the New Shares

The New Shares will 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 member entities.

7. 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 will grant the holders thereof the same financial, voting, and like rights as the ordinary shares of the Company then outstanding.

8. 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 will 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 will be deposited with Banco de España or with Caja General de Depósitos at the disposal of the interested parties.

9. Application for Admission to Trading

The Company will 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 will 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 will be safeguarded, in compliance with the requirements set out in applicable law at such time.

10. Implementation of the Increases in Capital

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 they must be implemented 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 Increases in Capital).

Notwithstanding the foregoing, if the Board of Directors, with express power of substitution, does not deem it advisable to implement, in whole or in part, one or both of the Increases in Capital within the aforementioned period, it may refrain

from implementing them, with the duty to inform the shareholders thereof at the next General Shareholders' Meeting held.

Specifically, the Board of Directors, with express power of substitution), will 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 implement one or both Increases in Capital, it may decide not to implement them. In addition, the resolutions of the shareholders at this General Shareholders' Meeting relating to each of the Increases in Capital will be deprived of any and all effect in the event that the Board of Directors does not exercise the powers delegated thereto within the 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 will 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 member entities, are the holders of free-of-charge allocation rights in the proportion resulting from section 3 above.
- (b) The period for trading the free-of-charge allocation rights will 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 will be formalised on the books in the respective amount, with which appropriation the Increase in Capital will be paid up.

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, will 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).

11. Delegation of Powers for the Implementation of the Increases in Capital

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 Increases in Capital must be implemented, which shall in any case be within a period of one year from the approval of this resolution, and to determine the schedule for implementation of each of the Increases in Capital.
- (b) As regards each of the Increases in Capital, to set the exact amount thereof, the Amount of the Option, the number of New Shares, and the number of free-of-charge allocation rights necessary for the allocation of one New Share, applying the rules established by this resolution for such purpose.
- (c) To determine the reserve(s), among those contemplated in this resolution, with a charge to which each of the Increases in Capital and the acquisition by the Company of the free-of-charge allocation rights as a consequence of the respective Purchase Commitments 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 Increases in Capital, and sign all required contracts and documents for such purpose.
- (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) To set the period during which the Purchase Commitments will be in effect for each of the Increases in Capital and determine the object thereof within the limits established in this resolution.
- (g) To fulfil the Purchase Commitments corresponding to each of the Increases in Capital, paying the corresponding amounts to those who have accepted such commitments.
- (h) To declare the Increases in Capital to be closed and implemented, setting, for such purpose, 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 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.*
- (j) *To waive the free-of-charge allocation rights held by the Company at the end of the respective period for trading them as a result of the Purchase Commitment in each of the Increases in Capital and thus waive the New Shares corresponding to such rights.*
- (k) *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.*
- (l) *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.*
- (m) *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."*

* * *

In Bilbao, on 21 February 2017.

ANNEX

Sample calculation of the maximum number of new shares to be issued in the First Increase in Capital, of the maximum nominal value of the increase, of the number of free-of-charge allocation rights required for the allocation of one new share, and of the Purchase Price:

Included below, solely for purposes of facilitating an understanding of the application thereof, is a sample calculation in the case of the First Increase in Capital of the maximum number of new shares to be issued, of the maximum nominal value of said increase, of the number of free-of-charge allocation rights required for the allocation of one new share, and of the Purchase Price.⁴

The result of this calculation is not representative of the actual results that may be obtained, which, in the case of the First Increase in Capital, will depend on the different variables used in the formulas (basically, the Listing Price of Iberdrola shares at that time 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 979,000,000 million euros.
- The TNShrs. is 6,459,990,000.
- A ListPri of 6.060 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 16 February 2017 has been used as a reference).

Therefore:

Provisional number of shares = Amount of the Option / ListPri	$979,000,000 / 6.060 = 161,551,155.115512 = 161,551,155$ shares (rounded downwards)
Num. rights = TNShrs. / Provisional number of shares	$6,459,990,000 / 161,551,155 = 39.9872721 = 40$ rights (rounded upwards)
NNS = TNShrs. / Num. rights	$6,459,990,000 / 40 = 161,499,750$ shares
Purchase Price = ListPri / (Num. rights + 1)	$6.060 / (40 + 1) = 0.1478049 = 0.148$ euros (rounded to the closest one-thousandth part)

Thus, (i) the maximum number of new shares to be issued in the First Increase in Capital would be 161,499,750, (ii) the maximum nominal value of the First Increase in Capital would come to 121,124,812.50 euros (161,499,750 x 0.75) and (iii) 40 free-of-charge allocation rights (or existing shares) would be required for the allocation of one new share⁵.

* * *

⁴ Additionally, in the Second Increase in Capital, the results of the calculations would also vary according to the number of shares then outstanding, which number will be determined, among other factors, by the shares issued in the First Increase in Capital.

⁵ In this example, the Company (or an entity of its group that holds shares of the Company) would not be required to waive 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 / 2017



Take care of the environment. Print only if necessary

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 FOURTEEN ON THE AGENDA FOR THE GENERAL SHAREHOLDERS' MEETING CALLED TO BE HELD ON 31 MARCH AND 1 APRIL 2017, ON FIRST AND SECOND CALL, RESPECTIVELY.

1. Purpose 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 fourteen 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 shareholder 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, implementing successive editions of the "Iberdrola Flexible Dividend" system, which is carried out through the implementation of increases in capital by means of scrip issues.

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 the Company has implemented each year since 2013– 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 8 April 2016 under sections A and B of item six on the agenda and which were implemented in July 2016 and January 2017, 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 will come from a share Buy-Back Programme approved by the Board of Directors at its meeting of 21 February 2017 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 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. This initiative is intended to favour the liquidity of the shares, apart from the benefits of the Reduction in Capital already discussed.

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) 141,715,734.75 euros, through the retirement of 188,954,313 treasury shares, each with a nominal value of seventy-five euro cents, representing 2.925% of the share capital and 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 23,276,765.25 euros, of the own shares of the Company, each with a nominal value of seventy-five euro cents, up to a maximum of 31,035,687 own shares (representing a maximum of 0.48% of the share capital), that are acquired for their retirement under the buy-back programme approved by the Board of Directors today, 21 February 2017, 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 Commission Delegated Regulation (EU) No 2016/1052 of 8 March 2016 supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the conditions applicable to buy-back programmes and stabilisation measures (the "Buy-back Programme").

Consequently, the maximum amount of the Reduction in Capital would be 164,992,500.00 euros, through the retirement of a maximum of 219,990,000 own shares, each with a nominal value of seventy-five euro cents, representing not more than 3.41% 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 Board of Directors of the Company depending upon the final number of shares acquired from the shareholders within the framework of the Buy-back Programme.

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 21 February 2017 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 FOURTEEN ON THE AGENDA

Approval of a reduction in share capital by means of the retirement of 219,990,000 own shares (3.41% of the share capital). Approval of a reduction in share capital by means of the retirement of 219,990,000 own shares (3.41% of the share capital). Delegation of powers for the implementation thereof.

RESOLUTION

1. Reduction in Capital by means of the Retirement of both Currently Existing Treasury Shares and Own Shares of the Company Acquired 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. 141,715,734.75 euros, through the retirement of 188,954,313 currently existing treasury shares, 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 23,276,765.25 euros, of the own shares of the Company, each with a nominal value of seventy-five euro cents, up to a maximum of 31,035,687 own shares, that are acquired for their retirement under the buy-back programme in effect until no later than 31 May 2017 approved by the Board of Directors on 21 February 2017 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 Commission Delegated Regulation (EU) No 2016/1052 of 8 March 2016 supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the conditions applicable to buy-back programmes and stabilisation measures (the “**Buy-back Programme**”).*

Consequently, the maximum amount of the reduction in capital (the “**Reduction in Capital**”) will be 164,992,500.00 euros, through the retirement of a maximum of 219,990,000 own shares, each with a nominal value of seventy-five euro cents, representing not more than 3.41% of the share capital at the time this resolution is approved.

In accordance with the provisions below, the final amount of the Reduction in Capital will be set by the Board of Directors of the Company depending upon the final number of shares acquired from the shareholders within the framework of the Buy-back Programme.

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

Without prejudice to the Existing Treasury Shares, and in accordance with the resolution approved by the Board of Directors at its meeting of 21 February 2017, the Company may acquire a maximum number of 31,035,687 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 0.48% 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.

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

In accordance with the foregoing, pursuant to section 340.3 of the Companies Act, if the Company fails to acquire the maximum number of 31,035,687 own shares, each with a nominal value of seventy-five euro cents, under the Buy-back Programme, it will 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 shares effectively acquired within the framework of the Buy-back Programme.

Consequently, the shares will be acquired upon the terms set forth in sections 144.a) and 338 through 342 of the Companies Act, to the extent applicable, in section 12.2 of Royal Decree 1066/2007 of 27 July, and in Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse and in Commission Delegated Regulation (EU) No 2016/1052 of 8 March 2016 supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the conditions applicable to buy-back programmes and stabilisation measures, without the need for a takeover bid for the shares of the Company planned to be retired.

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

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

In Bilbao, on 21 February 2017.



IBERDROLA

General Shareholders' Meeting

Report of the Board of Directors
Proposed Authorisation to Issue Simple Debentures / 2017

REPORT SUBMITTED BY THE BOARD OF DIRECTORS OF IBERDROLA, S.A. REGARDING THE PROPOSED AUTHORISATION TO ISSUE SIMPLE DEBENTURES AND OTHER FIXED-INCOME SECURITIES THAT ARE NEITHER EXCHANGEABLE FOR NOR CONVERTIBLE INTO SHARES, AS WELL AS TO GUARANTEE THE ISSUE OF SECURITIES BY THE COMPANY'S SUBSIDIARIES, INCLUDED IN ITEM NUMBER SEVENTEEN ON THE AGENDA FOR THE GENERAL SHAREHOLDERS' MEETING CALLED TO BE HELD ON 31 MARCH AND 1 APRIL 2017, ON FIRST AND SECOND CALL, RESPECTIVELY.

1. Purpose of the Report

This report is prepared by the Board of Directors of IBERDROLA, S.A. ("Iberdrola" or the "Company") in order to provide a rationale for the proposed delegation to the Board of Directors, with express power of substitution, of the power to issue simple debentures or bonds, notes, and other fixed-income securities of a similar nature that are neither exchangeable for nor convertible into shares, and authorisation for the Company to be able to guarantee obligations of all kinds that might arise for its subsidiaries from issues of securities thereby.

2. Rationale for the Proposal

Although under the provisions of the *Companies Act*, the issue of simple debentures or bonds, notes, and other similar fixed-income securities that are neither exchangeable for nor convertible into shares is not a power that must necessarily belong to the shareholders acting at a General Shareholders' Meeting, Iberdrola's *By-Laws* vest the final decision regarding these types of issues to said body, without prejudice to the power of the shareholders, when they so deem appropriate, to delegate the power to issue these kinds of securities to the Board of Directors.

Within this context, the Board of Directors regards it as quite desirable to have this power in order to be at all times in a position to raise the funds needed to properly manage the corporate interests on the primary securities markets, in accordance with customary practices at listed companies (many of which vest this power directly in the Board of Directors).

The purpose of this delegation is to provide the Company with the manoeuvrability and responsiveness required by the current competitive environment, in which the success of a strategic initiative or a financial transaction often depends on the possibility of dealing with it quickly, without incurring the delays and costs that inevitably ensue from the call to and holding of a General Shareholders' Meeting.

Thus, the proposal being submitted for approval of the shareholders at the General Shareholders' Meeting is intended to authorise the Board of Directors to raise an appropriate volume of funds within a short period of time, if necessary and taking into account the potential future needs of the Company. The Company thus gains flexibility and agility when financing its activities, thereby facilitating the optimisation of the costs associated with the raising of funds on the markets.

For such purpose, pursuant to the provisions of section 319 of the Regulations of the Commercial Registry and in accordance with article 17.1.p) of the *By-Laws* (which provide that the shareholders at the General Shareholders' Meeting delegate to the Board of Directors the power to issue the negotiable securities covered by the proposal), the authorisation to the Board of Directors to be able to issue simple bonds or debentures, notes, and other similar fixed-income securities that are neither exchangeable for nor convertible into shares, and to guarantee issues by subsidiaries of Iberdrola, is submitted to the shareholders at the General Shareholders' Meeting.

The proposed delegation to the Board of Directors is quantitatively limited in order not to distort the provisions of the *By-Laws* and to allow the shareholders to better evaluate the scope of the authorisation requested of them at the General Shareholders' Meeting. The Board of Directors believes that the limit on the authorisation requested of the shareholders is reasonable and sufficiently broad to permit the raising of required funds on the capital markets within the context of the financing needs expected to comply with the 2016-2020 Strategic Plan.

Within this context, the proposed maximum limit of the amount of the issue or issues of simple bonds or debentures and other similar fixed-income securities other than notes approved under this delegation is the net amount of 20,000 million euros, which means that, for the calculation of said limit, the amount corresponding to retirements or repurchases of said securities made or occurring during the effective period of the authorisation will be deducted from the new issues approved under this authorisation. This limit will not apply to the issue of notes, for which a separate and independent limit is proposed in the amount of 6,000 million euros, also with respect to the net amount of the issue, i.e. in order to calculate said limit, the amount corresponding to retirements or repurchases of notes made or occurring during the effective period of the authorisation will be deducted from the new issues approved under this authorisation. This formula allows for the authorisation to be quantitatively limited in a clear and objective manner, while at the same time giving the Board of Directors an increased margin of flexibility, inasmuch as issues that have been redeemed and repurchases of securities made during the authorisation period are taken into account in calculating the limit.

Furthermore, it may sometimes be desirable to issue these securities through a subsidiary with the guarantee of the parent company, which is a circumstance also provided for in the *By-Laws*. Accordingly, it is deemed to be of interest for the shareholders at the General Shareholders' Meeting to authorise the Board of Directors to guarantee, in the name of the Company, within the limits describe above, such new issues of securities as may be made by subsidiaries of the Company during the effective period of this resolution, in order that the Board of Directors may be granted the utmost degree of flexibility in structuring the issues of securities in such manner as may be most appropriate based on the specific circumstances in each case.

In addition, it is provided that the securities issued pursuant to the powers delegated hereby may be admitted to trading on the appropriate Spanish or foreign, official or unofficial, organised or other secondary market.

Finally, a proposal is made to deprive of effect, to the extent of the unused amount, the authorisation to issue simple debentures or bonds and other similar fixed-income securities, including notes, granted to the Board of Directors by the shareholders at the General Shareholders' Meeting held on 22 June 2012. For purposes of clarification, this will not in any way affect the securities issued or the guarantees provided under said authorisation (or any prior ones), which will continue in effect upon the terms thereof for so long as such issues and/or guarantees exist.

3. 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 SEVENTEEN ON THE AGENDA

Authorisation to the Board of Directors to issue simple debentures and other fixed-income securities that are neither exchangeable for nor convertible into shares, as well as to guarantee the issue of securities by the Company's subsidiaries, with a limit of 6,000 million euros for notes and of 20,000 million euros for other fixed-income securities.

RESOLUTION

1. Authorisation to the Board of Directors to Issue Securities

To authorise the Board of Directors to issue simple bonds or debentures, notes, and other similar fixed-income securities that are neither exchangeable for nor convertible into shares.

2. Term

The issuance of the securities covered by the authorisation may be effected on one or more occasions within a maximum period of five years following the date of approval of this resolution.

3. Maximum Amount

- (a) *The maximum net total amount of the simple bonds or debentures and other similar fixed-income securities (other than notes) issued under this authorisation may not exceed 20,000 million euros or the equivalent thereof in another currency. This limit is independent of the limit established in paragraph b) below.*
- (b) *For its part, the maximum net total amount of notes issued under this authorisation may not exceed 6,000 million euros or the equivalent thereof in another currency. This limit is independent of the limit established in paragraph a) above.*

To determine whether each of said limits has been reached, the amounts corresponding to retirements or repurchases made or occurring during the effective period thereof will be deducted from the new issues approved under this authorisation.

4. Scope

For each issue, the Board of Directors shall be responsible for determining, among other things: the nominal value, the issue price, the repurchase price, the currency, the form of representation, the interest rate, the repayment terms, the subordination clauses, the security, the place of the issue, any applicable law, the setting of the internal rules for the bondholders' syndicate, and the appointment of the representative in the case of an issue of simple debentures or bonds, when required, as well as the taking of any steps necessary for the implementation of the specific issues approved under this authorisation.

In addition, the Board of Directors is authorised such that, when it deems it appropriate and subject, if applicable, to any appropriate authorisations being secured and to the consent of security-holders coming together at a meeting of the corresponding syndicates of security-holders, it may modify the terms and conditions applicable to the repayment of the fixed-income securities issued as well as the respective period thereof, and the rate of interest, if any, accrued by the securities included in each of the issues effected under this authorisation.

5. Admission to Trading

The Company shall, when appropriate, make application for trading of the securities issued within the framework of this authorisation on Spanish or foreign, official or unofficial, organised or other secondary markets, and the Board of Directors shall be authorised, as broadly as required by law, to carry out all acts and formalities that may be required for these purposes with the appropriate authorities of the various domestic or foreign securities markets.

It is expressly stated for the record that if application is subsequently made for the exclusion from trading of the securities issued by the Company under this authorisation, it shall be made in compliance with the same formalities as the application for admission, to the extent any such formalities are required, and in such case, the interests of the shareholders or debenture-holders opposing or not voting on the resolution shall be safeguarded as provided by applicable law. In addition, it is expressly stated that the Company undertakes to abide by Stock Market regulations, whether now existing or as may hereafter be issued, particularly as regards trading, continued trading, and removal from trading.

6. Guarantee in Support of Issues of Fixed-Income Securities

The Board of Directors is also authorised to guarantee on behalf of the Company and within the limits set forth above new issues of securities effected by subsidiaries during the effective period of this resolution.

7. Power of Substitution

The Board of Directors is expressly authorised to further delegate the powers contemplated in this resolution.

8. Revocation of Current Authorisation

This resolution deprives of effect, to the extent of the unused amount, the authorisation to issue simple debentures or bonds and other similar fixed-income securities, including notes, granted for this purpose to the Board of Directors by the shareholders at the General Shareholders' Meeting held on 22 June 2012, expressly maintaining such authorisation in effect to the extent of the amount already utilised for the issue of securities and the provision of guarantees with respect to said issues and guarantees."

* * *

In Bilbao, on 21 February 2017.