



Julián Martínez-Simancas
Secretary to the Board of Directors

Bilbao, 26 February 2016

To the National Securities Market Commission

Subject: Publication of the notice of the 2016 General Shareholders' Meeting and documentation made available to the shareholders

Dear Sirs,

Pursuant to article 228 of the restated text of the Securities Market Law approved by 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 notice of significant event (*comunicación de hecho relevante*) dated 23 February 2016 (official registry number 235.163), we hereby notify you that the notice of the call to the Ordinary General Shareholders' Meeting of Iberdrola, S.A. (the "**Company**") to be held on 8 or 9 April 2016 on first and second call, respectively, is being published today on the Official Gazette of the Mercantile Registry (*Boletín Oficial del Registro Mercantil*), the newspapers "Deia" and "El Correo" and the corporate website of Iberdrola (www.iberdrola.com), with the agenda communicated in the above referred notice of significant event. Such notice of the call, which will remain uninterruptedly accessible in the corporate website of the Company at least until the holding of the General Shareholders' Meeting, is attached hereto.

Likewise, the proposed resolutions and directors reports in relation to the different items of the agenda of the referred General Shareholders' Meeting are attached hereto. Such proposed resolutions and directors reports, together with the rest of the documentation relating to the General Shareholders' Meeting, will be available to the shareholders of the Company on its registered office and its corporate website as described in the notice of the call.

This information is provided to you for the appropriate purposes.

Yours faithfully,

Secretary to 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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Sustainable Event Certificate
ISO 20121 / AENOR

Erronka Garbia certificate for
environmental sustainability of
events / **Basque Government**



Announcement of the Call to Meeting

2016 GENERAL SHAREHOLDERS' MEETING

Place, Date, and Time of Meeting

The Board of Directors of IBERDROLA, S.A. has resolved to call a **General Shareholders' Meeting**, as part of the activities to be held on Shareholder Day, **at Palacio Euskalduna in Bilbao (avenida Abandoibarra número 4), on Friday 8 April 2016, at 11:30, on first call**, or, if the required quorum is not met, on second call the next day, 9 April 2016, at the same place and time. Shareholder registration desks will be open as from 08:30. Although two calls are provided for, it is expected the required quorum will be met on first call, for which reason **the General Shareholders' Meeting will in all likelihood be held on Friday 8 April 2016**.

Agenda

Items relating to the annual accounts, the management of the company, and the auditor:

1. Approval of the individual annual accounts of the Company and of the annual accounts of the Company consolidated with those of its subsidiaries for financial year 2015.
2. Approval of the individual management reports of the Company and of the management reports of the Company consolidated with those of its subsidiaries for financial year 2015.
3. Approval of the management and activities of the Board of Directors during financial year 2015.
4. Re-election of Ernst & Young, S.L. as auditor of the Company and of its consolidated group for financial year 2016.

Items relating to shareholder remuneration:

5. Approval of the proposed allocation of profits/losses and distribution of dividends for financial year 2015.
6. Approval of two increases in share capital by means of scrip issues for two new editions of the "Iberdrola Flexible Dividend" system for the free-of-charge allocation of new shares to the shareholders of the Company in the following amounts: (A) a first increase in share capital by means of a scrip issue at a maximum reference market value of 855 million euros, and (B) a second increase in share capital by means of a scrip issue at a maximum reference market value of 985 million euros. Each of the increases provides for: (i) an offer to the shareholders of the acquisition of their free-of-charge allocation rights at a guaranteed fixed price, and (ii) delegation of powers to the Board of Directors, with express power of substitution, including, among others, the power to set the date on which the increases must be implemented and to amend the article of the *By-Laws* setting the share capital.

Items relating to the express authorisations and delegations being requested:

7. Authorisation to the Board of Directors, with express power of substitution, to increase the share capital upon the terms and within the limits set out in section 297.1.b) of the Companies Act, with the power to exclude pre-emptive rights, limited to a maximum nominal amount of 20 % of the share capital, including such amount as may arise from the approval and implementation of the proposed resolution set forth in item 8 of the agenda.
8. Authorisation to the Board of Directors, with express power of substitution, for a term of five years, to issue debentures or bonds that are exchangeable for and/or convertible into shares of the Company or of other companies and warrants on newly-issued or outstanding shares of the Company or of other companies, with a maximum limit of five billion euros. The authorisation includes the delegation of such powers as may be required to: (i) determine the basis for and terms and conditions applicable to the conversion, exchange, or exercise; (ii) increase share capital to the extent required to accommodate requests for conversion; and (iii) exclude the pre-emptive rights of the shareholders in connection with the issues, limited to a maximum nominal amount of 20 % of the share capital, including such amount as may arise from the approval and implementation of the proposed resolution set forth in item 7 of the agenda.

Item relating to the composition of the Board of Directors:

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9. Re-election of the following directors: (A) Mr Iñigo Víctor de Oriol Ibarra, as other external director; (B) Ms Inés Macho Stadler, as independent director; (C) Mr Braulio Medel Cámara, as independent director; and (D) Ms Samantha Barber, as independent director; and appointment of (E) Mr Xabier Sagredo Ormaza, as other external director.

Items relating to the update of the Corporate Governance System:

10. Amendment of the following articles of the *By-Laws*: (A) articles 2, 3, 5, 6, 7, 8, 9, and 32, to formalise the inclusion of the *Mission, Vision, and Values of the Iberdrola group* within the Corporate Governance System and to stress the Company's commitment to its corporate values, to social return, and to the engagement of all stakeholders, and creation of a new Preliminary Title; (B) article 12, to refer to the indirect participation of the shareholders of IBERDROLA, S.A. in the other companies of the Iberdrola group, and restructuring of Title I; and (C) articles 34, 37, 38, 39, 40, 41, 42, 43, 44, and 45, to clarify the distribution of the powers of the Appointments Committee and of the Remuneration Committee, and to make other improvements of a technical nature.

11. Amendment of the following articles of the *Regulations for the General Shareholders' Meeting*: (A) articles 1, 6, 13, and 14, to formalise the Company's commitment to the sustainable management of the General Shareholders' Meeting as an event and to promote environmentally-friendly channels of communication; (B) article 16, to regulate the gift for the General Shareholders' Meeting; and (C) articles 22 and 32, to make improvements of a technical nature.

Item relating to the reduction in share capital:

12. Approval of a reduction in share capital by means of the retirement of 157,197,000 own shares representing 2.46 % of the share capital. Delegation of powers to the Board of Directors, with express power of substitution, to, among other things, amend the article of the *By-Laws* setting the share capital.

Item relating to general matters:

13. Delegation of powers to formalise and implement all resolutions adopted by the shareholders at the General Shareholders' Meeting, for conversion thereof into a public instrument, and for the interpretation, correction, and supplementation thereof, further elaboration thereon, and registration thereof.

Item relating to the resolution submitted to a consultative vote:

14. Consultative vote regarding the *Annual Director Remuneration Report* for financial year 2015.

Shareholder's Guide

In order to encourage the informed participation of the shareholders during **Shareholder Day**, and particularly in the **General Shareholders' Meeting**, the Board of Directors has prepared a *Shareholder's Guide* available on the corporate website (www.iberdrola.com).

Attendance Bonus

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

Participation: Attendance, Proxy Representation, and Absentee Voting

The Company does not require a minimum number of shares in order to be able to participate in the General Shareholders' Meeting. Therefore, all holders of voting shares who have caused such shares to be registered in their name in the corresponding book-entry register not later than 3 April or 4 April 2016, depending on whether the General Shareholders' Meeting is held on first or second call, respectively, may attend the General Shareholders' Meeting, vote, and take part in the deliberations thereof.



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The Company wants all of its shareholders to be able to participate in the General Shareholders' Meeting. To this end, the proceedings will 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 shareholders preferring to use Euskera, English, or Portuguese during the General Shareholders' Meeting. The Company will also adopt the measures necessary for shareholders with mobility, auditory, or visual limitations to participate in the General Shareholders' Meeting, and will provide a children's playroom supervised by qualified professionals, including staff for the care of infants.

All shareholders having the right to attend may be represented at the General Shareholders' Meeting by another person, even though not a shareholder.

All shareholders having the right to attend may grant a proxy or cast an absentee vote on the proposals relating to items included in the agenda of the call to meeting by electronic communication using the software application available on the corporate website (www.iberdrola.com), by sending a duly completed attendance, proxy, and absentee voting card to the offices of the Company or the premises made available for such purpose to be announced on the corporate website (www.iberdrola.com), as well as by sending the card to the Company via postal correspondence (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 24:00 on 7 April or 8 April 2016**, depending on whether the General Shareholders' Meeting is held on first or second call, respectively.

Available Information and Documentation

Until 3 April 2016, inclusive, shareholders may request in writing the information or clarifications that they deem are required, or ask the written questions they deem 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, i.e. since 27 March 2015, and the audit reports on the individual annual accounts and management reports of the Company and on the annual accounts and management reports of the Company consolidated with those of its subsidiaries for financial year 2015.

As from the date of publication of this announcement of the call to meeting, the following documents and information are made continuously available to the shareholders on the Company's corporate website (www.iberdrola.com): (1) this announcement of the call to meeting; (2) the form of attendance, proxy, and absentee voting card; (3) the full text of the proposed resolutions corresponding to the items included in the agenda of the call to meeting, together with the respective reports of the Board of Directors required by law or otherwise deemed appropriate; (4) the individual annual accounts of the Company and the annual accounts of the Company consolidated with those of its subsidiaries for financial year 2015 and the respective audit reports; (5) the Company's individual management reports and the management reports of the Company consolidated with those of its subsidiaries for financial year 2015; (6) the directors' statement of responsibility provided for in section 118 of the *Securities Market Act (Ley del Mercado de Valores)*, which, together with the documents set forth in the two preceding items, constitute the *Annual Financial Report* for financial year 2015; (7) the *Report on the Independence of the Auditor in Relation to the Audit Report for Financial Year 2015*; (8) the *Annual Corporate Governance Report* for financial year 2015; (9) the *Annual Director Remuneration Report* for financial year 2015; (10) the *Annual Activities Report of the Consultative Committees of the Board of Directors* for financial year 2015; (11) the *Report on Related-Party Transactions with Directors and Significant Shareholders*; (12) the *Annual Report on the Application of the Shareholder Engagement Policy and the Policy regarding Communication and Contacts with Shareholders, Institutional Investors, and Proxy Advisors*; (13) the *Sustainability Report* for financial year 2015; (14) the current restated texts of the *By-Laws*, the *Corporate Policies*, the *Regulations for the General Shareholders' Meeting*, the *Regulations of the Board of Directors*, and the other documents making up the Corporate Governance System (in a full-text or summarised version); (15) the *Rules of Implementation for the Management of the General Shareholders' Meeting*; (16) the *Shareholder's Guide*; and (17) information regarding the total number of shares and voting rights on the date of publication of this announcement of call to meeting. Furthermore, a few days after the publication of the announcement of the call to meeting, there will be made available to the shareholders on the corporate website (18) the *Integrated Report*, summarising the key operating and financial figures of the annual reports for financial year 2015 –based on the financial statements submitted for approval by the shareholders at the General Shareholders' Meeting– and which reflects future prospects and the strategic positioning of the Company.

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Furthermore, the shareholders have the right to examine at the registered office and to 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 annual accounts and management reports of the Company and of the annual accounts and management reports of the Company consolidated with those of its subsidiaries, together with the respective audit reports, for financial year 2015, of the proposed resolutions, including the proposed amendments to the By-Laws, of the mandatory director reports, 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 request through the corporate website (www.iberdrola.com) that this announcement be sent in Braille.

Finally, information regarding the following is made available to the shareholders on the corporate website (www.iberdrola.com) as from the adoption of the corresponding resolutions: (1) the implementation, on 20 July 2015 and 26 January 2016, of the **two increases in capital by means of scrip issues** for the free-of-charge allocation of ordinary shares to the shareholders of the Company, approved by the shareholders at the General Shareholders' Meeting of 27 March 2015 under paragraphs A and B of item six on the agenda, and the respective amendments of the *By-Laws*; (2) the implementation, on 28 April 2015, of the **reduction in capital** through the retirement of own shares of the Company approved by the shareholders at the same General Shareholders' Meeting under item eleven on the agenda and the resulting amendment of the *By-Laws*; (3) the **Mission, Vision, and Values of the Iberdrola group** approved by the Company's Board of Directors on 23 February 2016; and (4) the **amendments of the Regulations of the Board of Directors** approved by such body.

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, provided such new items are accompanied by the rationale therefor or, if appropriate, by a duly substantiated proposal for a resolution, and submit well-founded proposed resolutions on matters already included or that must be included in the agenda of the call to meeting. Such rights must be exercised by duly authenticated notice that must be received at the registered office of the Company within the legal deadline, which expires on 2 March 2016.

Common Provisions Applicable to the Rights of the Shareholders

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 proposals for resolutions shall be exercised as provided by law, the **Corporate Governance System**, and the **Rules of Implementation for the Management of the General Shareholders' Meeting**, available both on the corporate website (www.iberdrola.com) and at the Office of the Shareholder.

Other Significant Aspects relating to the Meeting

The Board of Directors has resolved to request the presence of a **notary public to draw up the minutes of the General Shareholders' Meeting**.

To facilitate the viewing and appropriate dissemination thereof, 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).

Additional Information

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** (address: Plaza Euskadi número 5, 48009 Bilbao and calle Tomás Redondo número 1, 28033 Madrid / phone: (+34) 900 100 019 (hours: Monday to Friday, from 09:00 to 19:00) / e-mail: accionistas@iberdrola.com).



Announcement of the Call to Meeting

Bilbao, 23 February 2016

The secretary of the Board of Directors

Sustainable Management

The **Basque Government**, through its public owned company Ihobe, and **AENOR** have issued certificates verifying that the Company has complied with **the criteria on environmental sustainability of events in the Basque Country** and with the **UNE-ISO 20121 standard for sustainable event management**, respectively, in the management of the General Shareholders' Meeting. More information is available on the corporate website (www.iberdrola.com) regarding the Company's **Sustainability Policy**.

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.



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Proposed Resolutions



Proposed Resolutions

ITEM NUMBER ONE ON THE AGENDA

Approval of the individual annual accounts of the Company and of the annual accounts of the Company consolidated with those of its subsidiaries for financial year 2015.

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 2015, which were finalised by the Board of Directors at its meeting held on 23 February 2016.



Proposed Resolutions

ITEM NUMBER TWO ON THE AGENDA

Approval of the individual management reports of the Company and of the management reports of the Company consolidated with those of its subsidiaries for financial year 2015.

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 2015, which were finalised by the Board of Directors at its meeting held on 23 February 2016.



Proposed Resolutions

ITEM NUMBER THREE ON THE AGENDA

Approval of the management and activities of the Board of Directors during financial year 2015.

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 2015.



Proposed Resolutions

ITEM NUMBER FOUR ON THE AGENDA

Re-election of Ernst & Young, S.L. as auditor of the Company and of its consolidated group for financial year 2016.

RESOLUTION

To re-elect Ernst & Young, S.L. as auditor of IBERDROLA, S.A. and of its consolidated group to carry out the audit for financial year 2016, 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 adopted at the proposal of the Board of Directors and upon a prior proposal, in turn, of the Audit and Risk Supervision Committee.

Ernst & Young, S.L. has its registered office in Madrid, at Plaza Pablo Ruiz Picasso, 1, Edificio Torre Picasso, 28020, Tax Identification Number B-78970506. It is registered with the Madrid Commercial Registry at folio 1, volume 1,225, page M-23123, and with the Official Auditors' Registry (*Registro Oficial de Auditores de Cuentas*) (ROAC) under number S0530.

It is recalled that, after a tender led by the Audit and Risk Supervision Committee, the Board of Directors resolved on 15 December 2015 to propose to the shareholders at the General Shareholders' Meeting for financial year 2017 the appointment of KPMG Auditores, S.L. as auditors of the Company for financial years 2017 to 2019.



Proposed Resolutions

ITEM NUMBER FIVE ON THE AGENDA

Approval of the proposed allocation of profits/losses and distribution of dividends for financial year 2015.

RESOLUTION

To approve the proposed allocation of profits/losses and distribution of dividends prepared by the Board of Directors at its meeting held on 23 February 2016, which is described below:

To distribute, with a charge to the results for the financial year ended on 31 December 2015, 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 2016.

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:	5,470,986,121.67
Profits for financial year 2015:	116,612,892.52
TOTAL:	5,587,599,014.19

DISTRIBUTION:

To legal reserve (minimum amount):	-
To dividends (maximum amount to distribute corresponding to a fixed dividend of 0.03 euro (gross) per share for all of the 6,397,197,000 ordinary shares outstanding on the date hereof):	191,915,910.00
To remainder:	5,395,683,104.19
TOTAL:	5,587,599,014.19



Proposed Resolutions

ITEM NUMBER SIX ON THE AGENDA

Approval of two increases in share capital by means of scrip issues for two new editions of the “Iberdrola Flexible Dividend” system for the free-of-charge allocation of new shares to the shareholders of the Company in the following amounts: (A) a first increase in share capital by means of a scrip issue at a maximum reference market value of 855 million euros, and (B) a second increase in share capital by means of a scrip issue at a maximum reference market value of 985 million euros. Each of the increases provides for: (i) an offer to the shareholders of the acquisition of their free-of-charge allocation rights at a guaranteed fixed price, and (ii) delegation of powers to the Board of Directors, with express power of substitution, including, among others, the power to set the date on which the increases must be implemented and to amend the article of the *By-Laws* setting the share capital.

RESOLUTIONS

A.- Approval of a first increase in share capital by means of a scrip issue at a maximum reference market value of 855 million euros.

To increase share capital upon the terms and conditions described in the section “*Common Terms and Conditions of Resolutions A and B*” below, with a maximum reference market value for the New Shares (as this term is defined in heading 1 below) of 855 million euros.

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, including the powers set out in heading 11 below.

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.

The date on which this increase in capital is expected to be implemented will be close to July 2016.

B.- Approval of a second increase in share capital by means of a scrip issue at a maximum reference market value of 985 million euros.

To increase share capital upon the terms and conditions described in the section “*Common Terms and Conditions of Resolutions A and B*” below, with a maximum reference market value for the New Shares (as this term is defined in heading 1 below) of 985 million euros.

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, including the powers set out in heading 11 below.

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.

The date on which this increase in capital is expected to be implemented will be close to the months of December 2016 or January 2017.

Common Terms and Conditions of Resolutions A and B.

1. Principal Characteristics of the Two Increases in Capital

The amount of each of the two increases in capital (the “**Increases in Capital**”) being submitted to the shareholders for approval at the General Shareholders’ Meeting in A and B above 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



Proposed Resolutions

set forth in section 2 below, on the date of implementation of each of the 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 market reference value of the New Shares corresponding to each of the Increases in Capital may not exceed the maximum market reference values indicated in A and B above.

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 this resolution, 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 compensation 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:

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

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 A and B above (i.e. 855 and 985 euros, respectively).



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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 in accordance with applicable law.

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 described 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 rights, as is established by the Board of Directors, with express power of substitution. For such purposes, it is hereby resolved to authorise the Company to acquire 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 applicable law, excluding such rights as have been transferred on the market; or



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- (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 2015, 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



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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.



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(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 new amount of share capital and the number of outstanding shares resulting from the implementation of each of the Increases 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 public or private entities or agencies, whether domestic or foreign, 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.



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ITEM NUMBER SEVEN ON THE AGENDA

Authorisation to the Board of Directors, with express power of substitution, to increase the share capital upon the terms and within the limits set out in section 297.1.b) of the *Companies Act*, with the power to exclude pre-emptive rights, limited to a maximum nominal amount of 20% of the share capital, including such amount as may arise from the approval and implementation of the proposed resolution set forth in item 8 of the agenda.

RESOLUTION

To authorise the Board of Directors to increase the share capital on one or more occasions and at any time upon the terms and within the limits set out in section 297.1.b) of the *Companies Act*, i.e. within a term of five years from the date of approval of this resolution and by up to one-half of the current share capital.

Increases in share capital under this authorisation shall be carried out through the issuance and flotation of new shares –with or without a premium– the consideration for which shall be cash contributions.

In each increase, the Board of Directors shall decide whether the new shares to be issued are ordinary, preferred, redeemable, non-voting, or any other kinds of shares among those permitted by law.

As to all matters not otherwise contemplated, the Board of Directors may establish the terms and conditions of the increase in share capital and the characteristics of the shares, and may also freely offer the new shares that are not subscribed for within the period or periods for the exercise of pre-emptive rights. The Board of Directors may also resolve that, in the event of incomplete subscription, the share capital shall be increased only by the amount of the subscriptions made and amend the article of the *By-Laws* relating to share capital.

In connection with the increases in share capital that may be carried out under this authorisation, the Board of Directors is authorised to totally or partially exclude pre-emptive rights as permitted by section 506 of the *Companies Act*, provided, however, that such power shall be limited to increases in share capital carried out pursuant to this authorisation and to the authorisation contemplated in item 8 on the agenda up to a maximum amount equal, in the aggregate, to 20% of the current share capital of the Company.

The Company shall, when appropriate, make application for trading of the shares issued under this authorisation on Spanish or foreign, official or unofficial, organised or other secondary markets, and the Board of Directors shall be authorised to carry out all acts and formalities that may be required for admission to listing with the appropriate authorities of the various Spanish or foreign securities markets.

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



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ITEM NUMBER EIGHT ON THE AGENDA

Authorisation to the Board of Directors, with express power of substitution, for a term of five years, to issue debentures or bonds that are exchangeable for and/or convertible into shares of the Company or of other companies and warrants on newly-issued or outstanding shares of the Company or of other companies, with a maximum limit of five billion euros. The authorisation includes the delegation of such powers as may be required to: (i) determine the basis for and terms and conditions applicable to the conversion, exchange, or exercise; (ii) increase share capital to the extent required to accommodate requests for conversion; and (iii) exclude the pre-emptive rights of the shareholders in connection with the issues, limited to a maximum nominal amount of 20% of the share capital, including such amount as may arise from the approval and implementation of the proposed resolution set forth in item 7 of the agenda.

RESOLUTION

1. Authorisation to the Board of Directors to Issue Securities

To authorise the Board of Directors to issue debentures and bonds exchangeable for shares of the Company or of any other company and/or convertible into shares of the Company, as well as warrants (options to subscribe for new shares of the Company or to acquire outstanding shares of the Company or of any other company).

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

The maximum total amount of the issuance(s) of securities approved under this authorisation shall be five billion euros or the equivalent thereof in another currency. For purposes of calculation of the aforementioned limit, in the case of warrants, the sum of the premiums and exercise prices of the warrants on issuances approved under this authorisation shall be taken into account.

4. Scope

For each issuance, the Board of Directors shall be authorised to, among other things, determine the amount thereof, always within the above-mentioned overall quantitative limit, the place of issuance (in Spain or abroad) and the domestic or foreign currency and, in the case of foreign currency, its equivalence in euros; the specific instrument to be issued whether bonds or debentures, including subordinated bonds or debentures, warrants (which may in turn be settled by means of the physical delivery of the shares or, if applicable, through the payment of differences in price), or any other form permitted by law; the date or dates of issuance; the number of securities and the nominal value thereof, which, in the case of convertible and/or exchangeable bonds or debentures, shall not be less than the par value of the shares; in the case of warrants and similar securities, the issue price and/or premium, the exercise price (which may be fixed or variable) and the procedure, period, and other terms and conditions applicable to the exercise of the right to subscribe for the underlying shares or, if applicable, the exclusion of such right; the interest rate (whether fixed or variable); the dates and procedures for payment of the coupon; whether the instrument issued is perpetual or subject to repayment and, in the latter case, the period for repayment and the maturity date or dates; guarantees, reimbursement rate, premiums, and lots; the form of representation, as securities or book entries; the establishment of anti-dilution provisions; the rules applicable to subscription; the rank of the securities and the subordination clauses, if any; the law applicable to the issuance; the power to make application, where appropriate, for the trading of the securities to be issued on Spanish or foreign, official or unofficial, organised or other secondary markets, subject to the requirements established by applicable regulations in each case and, in general, any other terms of the issuance, as well as, if applicable, the appointment of the security-holders' syndicate representative (comisario) and the approval of the basic rules that are to govern the legal relations between the Company and the syndicate of holders of the securities to be issued in the event that such syndicate must or is decided to be created.



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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 issuances effected under this authorisation.

5. Basis for and Terms and Conditions Applicable to the Conversion and/or Exchange

In the case of issuance of convertible and/or exchangeable debentures or bonds, and for purposes of determining the terms and conditions for conversion and/or exchange, it is resolved to establish the following standards:

(a) The securities issued pursuant to this resolution shall be exchangeable for shares of the Company or of any other company and/or convertible into shares of the Company, in accordance with a fixed or variable conversion and/or exchange ratio determined or to be determined, with the Board of Directors being authorised to determine whether they are convertible and/or exchangeable, as well as to determine whether they are mandatorily or voluntarily convertible and/or exchangeable, and if voluntarily, at the option of the holder thereof or of the Company, at the intervals, and during the period established in the resolution providing for the issuance, which may not exceed thirty years from the date of issuance.

(b) In the event that the issue is convertible and exchangeable, the Board of Directors may also provide that the issuer reserves the right at any time to elect between conversion into new shares or the exchange thereof for outstanding shares of the Company, with the nature of the shares to be delivered being determined at the time of conversion or exchange, and may also elect to deliver a combination of newly-issued shares and existing shares of the Company and even to pay the difference in cash. In any event, the issuer shall afford equal treatment to all holders of fixed-income securities converting and/or exchanging their securities on the same date.

(c) For purposes of the conversion and/or exchange, the securities shall be valued at the nominal amount thereof and the shares at the fixed exchange ratio established in the resolution of the Board of Directors making use of this authorisation, or at the variable ratio to be determined on the date or dates specified in the resolution of the Board, based on the listing price of the Company's shares on the date(s) or during the period(s) used as a reference in such resolution. In any event, the fixed ratio thus determined may not be less than the average exchange ratio for the shares on the Bilbao, Madrid, Barcelona, and Valencia Stock Exchanges, through the Automated Quotation System (Continuous Market), in accordance with closing listing prices during a period to be set by the Board of Directors and which shall not be greater than three months or less than five calendar days prior to the date of approval by the Board of Directors of the resolution providing for the issuance of the fixed-income securities or prior to the date of payment of the securities by the subscribers, at a premium or at a discount, as the case may be, on such price per share, provided, however, that if a discount on the price per share is established, it shall not be greater than 25% of the value of the shares used as a reference as set forth above.

(d) It may also be resolved that the convertible and/or exchangeable fixed-income securities be issued at a variable conversion and/or exchange ratio. In such case, the price of the shares for purposes of the conversion and/or exchange shall be the arithmetic mean of the closing prices of the shares of the Company on the Continuous Market during a period to be determined by the Board of Directors, which shall not be greater than three months or less than five calendar days prior to the date of conversion and/or exchange, at a premium or at a discount, as the case may be, on such price per share. The premium or discount may be different for each date of conversion and/or exchange of each issuance (or for each tranche of an issuance, if any), provided, however, that if a discount is established on the price per share, it shall not be greater than 25% of the value of the shares used as a reference as set forth above.

(e) Whenever a conversion and/or exchange is admissible, any fractional shares to be delivered to the holder of the debentures shall be rounded downwards by default to the immediately lower integer, and each holder shall receive in cash, if so provided in the terms of issuance, any difference that may arise in such case.

(f) In no event may the value of the shares for purposes of the ratio for conversion of debentures into shares be less than the par value thereof. Furthermore, debentures may not be converted into shares if the nominal value of the former is less than that of the latter.



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(g) When approving an issuance of convertible and/or exchangeable debentures or bonds under the authorisation granted in this resolution, the Board of Directors shall issue a directors' report, elaborating on and specifying, on the basis of the standards described above, the basis and terms and conditions for conversion that are specifically applicable to the respective issuance. This report shall be accompanied by the corresponding audit report as provided by law.

6. Basis for and Terms and Conditions Applicable to the Exercise of Warrants and Other Similar Securities

In the case of issuance of warrants, it is resolved to establish the following standards:

(a) In the case of issuances of warrants, to which the provisions of the Companies Act on convertible debentures shall apply by analogy, the Board of Directors is authorised to determine, in the broadest terms, in connection with the basis for and terms and conditions applicable to the exercise of such warrants, the standards applicable to the exercise of rights to subscribe for or acquire shares of the Company or of another company, or to a combination thereof, arising from the securities of this kind issued under this authorisation. The standards set forth in section 5 above shall apply to such issuances, with such adjustments as may be necessary in order to bring them into compliance with the legal and financial rules governing these kinds of securities.

(b) The preceding standards shall apply, with any changes that may be required and to the extent applicable, to the issuance of fixed-income securities (or warrants) that are exchangeable for shares of other companies. Where appropriate, all references to the Spanish Stock Exchanges shall be deemed made to the markets, if any, on which the respective shares are listed.

7. Admission to Trading

The Company shall, when appropriate, make application for trading of the convertible and/or exchangeable debentures and/or bonds or warrants issued by the Company under 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 to carry out all acts and formalities that may be required for admission to listing with the appropriate authorities of the various Spanish or foreign securities markets.

It is expressly stated for the record that if application is subsequently made for delisting, it shall be made in compliance with the same formalities as the application for listing, to the extent any such formalities are required, and in such case, the interests of the shareholders or debenture-holders opposing or not voting in favour of 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 listing, and delisting.

8. Guarantee in Support of Issuances of Convertible and/or Exchangeable Fixed-income Securities or Warrants by Subsidiaries

The Board of Directors is also authorised to guarantee, on behalf of the Company and within the limits set forth above, new issuances of convertible and/or exchangeable fixed-income securities or warrants carried out by subsidiaries during the effective period of this resolution.

9. Delegation of Powers to the Board of Directors

This authorisation to the Board of Directors also includes, without limitation, the delegation thereto of the following powers:

(a) The power of the Board of Directors, pursuant to the provisions of section 511 of the Companies Act, to totally or partially exclude the pre-emptive rights of the shareholders. In any event, if the Board of Directors decides to exclude the pre-emptive rights of the shareholders in connection with any specific issuance of convertible bonds or debentures, warrants, and other securities similar thereto that it ultimately decides to effect under this authorisation, the Board shall issue, at the time of approval of the issuance and pursuant to applicable laws and regulations, a report setting forth the specific reasons based on the corporate interest that justify such measure, on which there shall be



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prepared the corresponding report of an auditor, other than the Company's auditor and appointed by the Commercial Registry, mentioned in sections 414 and 511 of the Companies Act. Both such reports shall be made available to the shareholders and disclosed at the first General Shareholders' Meeting that is held following approval of the resolution providing for the issuance.

This power shall in any event be limited to those increases in capital carried out pursuant to this authorisation and to the authorisation contemplated in item 7 on the agenda up to a maximum amount equal, in the aggregate, to 20% of the share capital on the date of adoption of this resolution.

(b) The power to increase share capital to the extent required to accommodate requests for conversion and/or for exercise of the right to subscribe for shares. Such power may only be exercised to the extent that the Board of Directors, adding the increase in capital effected to accommodate the issuance of convertible debentures, warrants, and other similar securities and the other increases in capital approved under authorisations granted by the shareholders at this General Shareholders' Meeting, does not exceed the limit of one-half of the amount of the share capital provided by section 297.1(b) of the Companies Act. This authorisation to increase capital includes the authorisation to issue and float, on one or more occasions, the shares representing such capital that are necessary to carry out the conversion and/or to exercise the right to subscribe for shares, as well as the power to amend the article of the *By-Laws* relating to the amount of the share capital and, if appropriate, to cancel the portion of such increase in capital that was not required for the conversion and/or the exercise of the right to subscribe for shares.

(c) The power to elaborate on and specify the basis for and terms and conditions applicable to the conversion, exchange, and/or exercise of the rights to subscribe for and/or acquire shares arising from the securities to be issued, taking into account the standards set out in sections 5 and 6 above.

(d) The delegation to the Board of Directors includes the powers required in order to interpret, apply, implement, and develop the resolutions providing for the issuance of securities that are convertible into or exchangeable for shares of the Company, on one or more occasions, and to carry out the corresponding increase in capital, as well as the power to correct and supplement such resolutions as to all matters that may be necessary and to comply with all legal requirements for the successful implementation thereof. To such end the Board of Directors may correct any omissions or defects in the aforementioned resolutions that may be identified by any Spanish or foreign authorities, officials, or bodies, and may also adopt all such resolutions and execute all such public or private documents as it may deem necessary or appropriate in order to adjust the preceding resolutions for the issuance of convertible or exchangeable securities and the corresponding increase in capital to the oral or written assessment of the Commercial Registrar or, in general, of any other competent Spanish or foreign authorities, officials, or entities.

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

10. Revocation of Current Authorisation

This resolution deprives of effect the authorisation to issue debentures or bonds that are exchangeable for and/or convertible into shares of the Company and warrants on newly-issued or outstanding shares of the Company granted to the Board of Directors by the shareholders at the General Shareholders' Meeting held on 27 May 2011 under item nine on the agenda.



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ITEM NUMBER NINE ON THE AGENDA

Re-election of the following directors: (A) Mr Iñigo Víctor de Oriol Ibarra, as other external director; (B) Ms Inés Macho Stadler, as independent director; (C) Mr Braulio Medel Cámara, as independent director; and (D) Ms Samantha Barber, as independent director; and appointment of (E) Mr Xabier Sagredo Ormaza, as other external director.

RESOLUTIONS

A.- Re-election of Mr Iñigo Víctor de Oriol Ibarra.

To re-elect Mr Iñigo Víctor de Oriol Ibarra as director, after a report from the Appointments Committee, for the by-law mandated four-year term, with the status of other external director.

B.- Re-election of Ms Inés Macho Stadler.

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

C.- Re-election of Mr Braulio Medel Cámara.

To re-elect Mr Braulio Medel Cámara as director, upon the proposal of the Appointments Committee, for the by-law mandated four-year term, with the status of independent director.

D.- Re-election of Ms Samantha Barber.

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

E.- Appointment of Mr Xabier Sagredo Ormaza.

To appoint Mr Xabier Sagredo Ormaza as director, after a report from the Appointments Committee, for the by-law mandated four-year term, with the status of other external director.

It is stated for the record that the sole transitional provision of the *Regulations of the Board of Directors* provides that, if re-elected as directors, Mr Iñigo Víctor de Oriol Ibarra and Ms Inés Macho Stadler will tender their resignation to the Board of Directors at the meeting it holds to call the General Shareholders' Meeting to be held in 2018, in order to not exceed the maximum term of twelve years to be classified as an independent director, as provided in section 529. *duodecies. 4. i)* of the Companies Act, and that Mr Braulio Medel Cámara will tender his resignation to the Board of Directors at the first meeting it holds after reaching the age of seventy years, in August 2017.



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ITEM NUMBER TEN ON THE AGENDA

Amendment of the following articles of the By-Laws: (A) articles 2, 3, 5, 6, 7, 8, 9, and 32, to formalise the inclusion of the Mission, Vision, and Values of the Iberdrola group within the Corporate Governance System and to stress the Company's commitment to its corporate values, to social return, and to the engagement of all stakeholders, and creation of a new Preliminary Title; (B) article 12, to refer to the indirect participation of the shareholders of IBERDROLA, S.A. in the other companies of the Iberdrola group, and restructuring of Title I; and (C) articles 34, 37, 38, 39, 40, 41, 42, 43, 44, and 45, to clarify the distribution of the powers of the Appointments Committee and of the Remuneration Committee, and to make other improvements of a technical nature.

RESOLUTIONS

A.- Amendment of articles 2, 3, 5, 6, 7, 8, 9, and 32 of the By-Laws and creation of a new Preliminary Title.

To amend articles 2, 3, 5, 6, 7, 8, 9, and 32 of the By-Laws to formalise the inclusion of the *Mission, Vision, and Values of the Iberdrola group* within the Corporate Governance System and to stress the Company's commitment to its corporate values, to social return, and to the engagement of all stakeholders. These provisions shall hereafter read as follows:

"Article 2. Registered Office

1. *The registered office of the Company is in Bilbao (Biscay) at Plaza Euskadi número 5.*
2. *The registered office may be transferred to another location within the same municipal area by resolution of the Board of Directors.*

Article 3. Duration

The duration of the Company is indefinite, its operations having commenced on 19 July 1901, the date of formalisation of its deed of incorporation.

Article 4. The Iberdrola Group

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

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

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



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

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

Article 6. Corporate Interest

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

Article 7. Social Return, Corporate Values, and Ethical Principles

1. *The Mission, Vision, and Values of the Iberdrola group 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.*
2. *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.*
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.*
4. *The Board of Directors has approved a Code of Ethics that further develops the bylaw-mandated commitment of the Company to its corporate values and ethical principles.*

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 object of the Company and the fulfilment of the corporate interest.*
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 internal corporate governance rules, which include the Regulations for the General Shareholders' 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.*
4. *Full or summarised versions of the rules making up the Corporate Governance System can be viewed on the Company's corporate website.*
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*



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

Article 9. Stakeholder Relations, Corporate Websites, and Presence on Social Media

1. *The Company and the other entities belonging to the Group seek to engage all stakeholders in its business enterprise in accordance with a policy on relations with all of them based on two-way communication and on principles of transparency, active listening, and equal treatment, which allows for all of their legitimate interests to be taken into consideration and to effectively disclose information regarding the activities and businesses of the Group. The Company's Board of Directors is responsible for approving this policy and coordinating and supervising the application thereof.*
2. *The Company's corporate website, its presence on social media, and its digital communication strategy generally are channels of communication serving the stakeholder relations policy. The ultimate goal thereof is to encourage the stakeholders' engagement, reinforce their sense of belonging, strengthen the Iberdrola brand, and favour the development of the businesses of the Group and the digital transformation thereof.*
3. *The Board of Directors shall promote the use of the corporate website to facilitate the exercise of the shareholders' rights to receive information and to participate in connection with the General Shareholders' Meeting and the corporate governance of the Company, upon the terms provided by law and the Corporate Governance System.*
4. *The corporate websites and the presence on social media of the country subholding companies and of the head of business companies contribute to the Company's digital communication strategy and are one of the principal means for engaging their respective stakeholders. The structure and content thereof shall conform to the Company's stakeholder relations policy and to the general guidelines approved by its Board of Directors.*
5. *All companies of the Group shall promote the accessibility of their respective corporate websites."*

"Article 32. Powers of the Board of Directors

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



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5. *The Regulations of the Board of Directors shall specify the powers reserved to such body, which may not be entrusted to the representative decision-making bodies or to the senior management of the Company.”*

It is also resolved to create a new Preliminary Title, which groups together articles 1 to 9, both inclusive, under the title “IBERDROLA, S.A. and its group” and to renumber the current article 4 regarding the object of the Company, which becomes the new article 5.

B.- Amendment of article 12 of the *By-Laws* and restructuring of Title I.

To amend article 12 of the *By-Laws* to refer to the indirect participation of the shareholders of IBERDROLA, S.A. in other companies of the Iberdrola group. This provision shall hereafter read as follows:

“Article 12. Shareholder Status

1. *Each share of the Company confers upon its legitimate holder the status of shareholder, and vests such holder with the rights and obligations established by law and by the Corporate Governance System. The shareholders also participate indirectly, through the Company, in the other companies of the Group.*
2. *The Company shall acknowledge as a shareholder any party that appears entitled thereto as owner in the entries of the corresponding book-entry register.*
3. *The Company may, as legally allowed, access the information needed to fully identify its shareholders, including addresses and means of contact for communication with them.”*

It is also resolved to restructure Title I, such that it groups together articles 10 to 14 under the title “Share Capital and Shareholders”, divided into two chapters: the first entitled “Share Capital and Shares”, which groups together articles 10 and 11, and the second entitled “Shareholders”, which groups together articles 12 to 14, both inclusive.

C.- Amendment of articles 34, 37, 38, 39, 40, 41, 42, 43, 44, and 45 of the *By-Laws* to clarify the regulation of the powers of the Appointments Committee and of the Remuneration Committee, and to make other improvements of a technical nature.

To amend articles 34, 37, 38, 39, 40, 41, 42, 43, 44, and 45 of the *By-Laws* to reflect the split of the Appointments and Remuneration Committee into two different committees and to clarify the distribution of the powers between the Appointments Committee and the Remuneration Committee, and to make other improvements of a technical nature. These provisions shall hereafter read as follows:

“Article 34. Types of Directors

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



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

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

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

Article 37. Committees of the Board of Directors

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

Article 38. Executive Committee

1. *If created, the Executive Committee shall have all the powers inherent to the Board of Directors, except for those powers that may not be delegated pursuant to law or the Corporate Governance System.*
2. *The Executive Committee shall be composed of the number of directors decided by the Board of Directors upon a proposal of the Appointments Committee, with a minimum of four and a maximum of eight.*
3. *The appointment of the members of the Executive Committee and the delegation of powers thereto shall be carried out by the Board of Directors with the favourable vote of at least two-thirds of the members thereof. The renewal thereof shall be carried out at the time and in the form and numbers decided by the Board of Directors with such majority.*
4. *The chairman of the Board of Directors and the chief executive officers shall in all cases form part of the Executive Committee.*
5. *Meetings of the Executive Committee shall be chaired by the chairman of the Board of Directors, and in the absence thereof, by one of the vice-chairs who are members of the Executive Committee, if any, or by the lead independent director (consejero coordinador), if a member of the Executive Committee. In the absence of all of the foregoing, they shall be chaired by the director member of the Executive Committee having the longest length of service in office, and if equal lengths of service, by the oldest. The secretary of the Board of Directors or, in the*



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absence thereof, any of the deputy secretaries or, in the absence of all of them, the director that the Executive Committee appoints from among its members in attendance shall serve as secretary.

6. Resolutions of the Executive Committee shall be adopted by an absolute majority of votes cast in person or by proxy. In the event of a tie, the chair of the Executive Committee shall have the tie-breaking vote.

Article 39. Audit and Risk Supervision Committee

1. The Board of Directors shall create a permanent Audit and Risk Supervision Committee, an internal informational and consultative body without executive duties, with information, advisory, and proposal-making powers within its scope of action.
2. The Audit and Risk Supervision Committee shall be composed of a minimum of three and a maximum of five directors appointed by the Board of Directors upon a proposal of the Appointments Committee from among the non-executive directors who are not members of the Executive Committee. A majority of such directors shall be independent.
3. The Board of Directors shall appoint a chair of the Audit and Risk Supervision Committee from among the independent directors forming part thereof, as well as its secretary, who need not be a director. The chair of the Audit and Risk Supervision Committee shall hold office for a maximum period of four years, after which period the chair may not be re-elected until the passage of at least one year from ceasing to act as such, without prejudice to the continuance or re-election thereof as a member of the committee.
4. The Audit and Risk Supervision Committee shall have the powers set forth in the Regulations of the Board of Directors and in its own regulations and in any event those established by law, except for that of reporting on related-party transactions, which power is assigned to the Appointments Committee.

Article 40. Appointments Committee and Remuneration Committee

1. The Board of Directors shall create a permanent Appointments Committee and a permanent Remuneration Committee (or a single Appointments and Remuneration Committee, in which case reference in these By-Laws to the Appointments Committee and the Remuneration Committee shall be deemed made to the same committee), which shall be internal informational and consultative bodies without executive duties, with information, advisory, and proposal-making powers within their respective scopes of action.
2. The Appointments Committee and the Remuneration Committee shall each be composed of a minimum of three and a maximum of five directors appointed by the Board of Directors upon a proposal of the Appointments Committee, from among the non-executive directors, and the majority of their respective members must be classified as independent.
3. The Board of Directors shall appoint the chairs of both committees from among the independent directors forming part of each of them, as well as their secretaries, who need not be directors.
4. The Appointments Committee and the Remuneration Committee shall have the powers set forth in the Regulations of the Board of Directors and in their own regulations and in any event those established by law as well as those corresponding to each of them due to the nature thereof.

In particular, the Appointments Committee shall have the power to report on related-party transactions.

Article 41. Corporate Social Responsibility Committee

1. If created, the Corporate Social Responsibility Committee shall be deemed an internal informational and consultative body without executive duties, with information, advisory, and proposal-making powers within its scope of action.



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2. *The Corporate Social Responsibility Committee shall be composed of a minimum of three and a maximum of five directors appointed by the Board of Directors upon a proposal of the Appointments Committee, from among the non-executive directors, and the majority thereof must be classified as independent.*
3. *The Board of Directors shall appoint a chair of the Corporate Social Responsibility Committee from among the independent directors forming part thereof, as well as its secretary, who need not be a director.*
4. *The Corporate Social Responsibility Committee shall have the powers set forth in the Regulations of the Board of Directors and in its own regulations.*

Article 42. Chairman and Vice-Chair or Vice-Chairs

1. *The Board of Directors, following a report from the Appointments Committee, shall appoint a chairman from among its members. The Board of Directors may also appoint one or more honorary chairs of the Company.*
2. *The chairman of the Board of Directors shall have the status of president of the Company and of chair of all of the corporate decision-making bodies of which the chairman is a member, which he shall permanently represent with the broadest powers, having the duty to carry out the resolutions thereof and being authorised in urgent cases to adopt such measures as the chairman deems advisable in furtherance of the corporate interest.*
3. *The chairman of the Board of Directors undertakes the senior management and representation of the Company, as well as leadership of the Board of Directors.*
4. *The chairman of the Board of Directors exercises the powers conferred upon him by law and the Corporate Governance System, and particularly the following:*
 - a) *To call and preside over meetings of the Board of Directors and the Executive Committee, setting the agenda for the meetings and directing the discussion and debate.*
 - b) *To chair the General Shareholders' Meeting and exercise thereat the duties attributed thereto by the Corporate Governance System.*
 - c) *To bring to the Board of Directors those proposals that the chairman deems appropriate for the efficient running of the Company, particularly those corresponding to the operation of the Board of Directors itself and other governance decision-making bodies, as well as to propose the persons, if any, who will hold office as vice-chair, chief executive officer, secretary and deputy secretary of the Board of Directors and of the committees thereof, without prejudice to the reporting powers belonging to the Appointments Committee.*
 - d) *To ensure, with the collaboration of the secretary of the Board of Directors, that the directors receive in advance information sufficient to deliberate on the items on the agenda.*
 - e) *To stimulate the debate and active participation of the directors during meetings, safeguarding their freedom to take positions.*
5. *The Board of Directors, upon a proposal of its chairman and after a report from the Appointments Committee, may elect from among its members one or more vice-chairs who shall temporarily replace the chairman of the Board of Directors in the event of vacancy, absence, illness, or disqualification.*
6. *If there is more than one vice-chair of the Board of Directors, the one that is expressly appointed by the Board of Directors for such purpose shall replace the chairman of the Board of Directors; in default of the foregoing, the vice-chair having the longest length of service in office; in case of equal lengths of service, the oldest. If a vice-chair has not been appointed, the chairman shall be replaced by the lead independent director; in the absence thereof, by the director with the longest length of service in office, and in case of equal lengths, by the oldest.*



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7. *If the chairman must be replaced on a definitive basis due to removal, notice of resignation, disability, or death, the preceding sections shall apply and the vice-chair or director appointed as a provisional replacement shall lead the process for electing a new chairman, in accordance with the succession plan approved by the Board of Directors.*
8. *The same procedure shall be followed to decide the removal of a vice-chair.*

Article 43. Chief Executive Officer

1. *The Board of Directors, upon a proposal of the chairman thereof, after a report from the Appointments Committee and with the favourable vote of at least two-thirds of the directors, may appoint one or more chief executive officers (consejeros delegados) with the powers it deems appropriate and which may be delegated pursuant to law and the Corporate Governance System.*
2. *In the event of vacancy, absence, illness, or disqualification of all of the chief executive officers, the duties entrusted thereto shall be temporarily assumed by the chairman of the Board of Directors or, in the absence thereof, by the vice-chair or director designated in accordance with the provisions of section 6 of the preceding article, who shall call a meeting of the Board of Directors to deliberate and decide upon the appointment, if appropriate, of one or more new chief executive officers.*

Article 44. Secretary and Deputy Secretary or Deputy Secretaries of the Board of Directors

1. *The Board of Directors, upon a proposal of the chairman thereof and after a report from the Appointments Committee, shall appoint a secretary, who need not be a director, and, if appropriate, one or more deputy secretaries, who also need not be directors, and who shall replace the secretary in the event of vacancy, absence, illness, or disqualification. The same procedure shall be followed to decide the removal of the secretary and, if applicable, each deputy secretary.*
2. *If there is more than one deputy secretary, the secretary of the Board of Directors shall be replaced by the corresponding one among them in accordance with the order established at the time of their appointment. In the absence of a secretary and deputy secretaries, the director that the Board of Directors itself appoints from among the attendees at the meeting in question shall serve as such.*
3. *The secretary of the Board of Directors shall perform the duties assigned thereto by law and the Corporate Governance System.*
4. *The secretary of the Board of Directors or, if applicable, the deputy secretary or one of the deputy secretaries if several, may also hold the position of general secretary if so decided by the Board of Directors, with the duties assigned thereto by the Corporate Governance System.*

Article 45. Checks and Balances System: Lead Independent Director

1. *The Corporate Governance System shall provide the measures necessary to ensure that neither the chairman of the Board of Directors nor the Executive Committee nor the chief executive officers have a decision-making power that is not subject to appropriate checks and balances.*
2. *The Board of Directors shall adopt the measures necessary to ensure that both the chairman of the Board of Directors and the Executive Committee and the chief executive officers are under its effective supervision.*
3. *The appointment of an executive director as chairman of the Board of Directors shall require the favourable vote of at least two-thirds of the directors.*
4. *If the chairman of the Board of Directors has the status of executive director, the Board of Directors, upon a proposal of the Appointments Committee and with the abstention of the executive directors, must necessarily*



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appoint from among the independent directors a lead independent director (consejero coordinador), who shall be especially empowered, when the lead independent director deems it appropriate, to:

- a) *Ask the chairman of the Board of Directors to call a meeting thereof and to participate with the chairman in the planning of the annual schedule of meetings.*
 - b) *Participate in the preparation of the agenda for each meeting of the Board of Directors and request the inclusion of matters on the agenda for meetings of the Board of Directors that have already been called.*
 - c) *Coordinate, gather, and reflect the concerns of the non-executive directors.*
 - d) *Direct the periodic evaluation of the chairman of the Board of Directors and lead any process for the succession thereof.*
5. *The lead independent director may also maintain contacts with shareholders when so decided by the Board of Directors.”*



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ITEM NUMBER ELEVEN ON THE AGENDA

11. Amendment of the following articles of the *Regulations for the General Shareholders' Meeting*: (A) articles 1, 6, 13, and 14, to formalise the Company's commitment to the sustainable management of the General Shareholders' Meeting as an event and to promote environmentally-friendly channels of communication; (B) article 16, to regulate the gift for the General Shareholders' Meeting; and (C) articles 22 and 32, to make improvements of a technical nature.

RESOLUTIONS

A.- Amendment of articles 1, 6, 13, and 14 of the *Regulations for the General Shareholders' Meeting*.

To amend articles 1, 6, 13, and 14 of the *Regulations for the General Shareholders' Meeting* to formalise the Company's commitment to the sustainable management of the General Shareholders' Meeting as an event and to promote environmentally-friendly channels of communication. These provisions shall hereafter read as follows:

“Article 1. Purpose

1. *The Regulations for the General Shareholders' Meeting (the “Regulations”) contain the principles for conducting the General Shareholders' Meeting of IBERDROLA, S.A. (the “Company”), as well as the basic rules for the call, preparation, and holding thereof.*
2. *The Regulations seek to achieve greater transparency, efficiency, and impetus to the functions of deliberation and decision-making by the shareholders at the General Shareholders' Meeting, to guarantee equal treatment of all shareholders in the same situation with respect to information, participation, and the exercise of voting rights at the General Shareholders' Meeting, and particularly to promote the maximum participation of the shareholders and their engagement in the life of the Company.*
3. *The recommendations on good governance generally recognised in the international markets and the best practices regarding the sustainable management of events have been taken into account in the preparation hereof.*

Article 6. Shareholder's Guide, Rules of Implementation, and Management Framework for the General Shareholders' Meeting

1. *In order to promote and facilitate the informed participation of the shareholders, upon the call to the General Shareholders' Meeting the Board of Directors shall make available thereto a Shareholder's Guide that clearly explains the most significant aspects regarding the operation thereof and the procedures established for the exercise of their rights at the General Shareholders' Meeting.*
2. *The Board of Directors may approve rules of implementation that systematise, adapt, and specify the provisions of the Corporate Governance System regarding the General Shareholders' Meeting and the rights of the shareholders related thereto, within the framework of the corporate interest.*
3. *The Board of Directors shall also entrust to the secretary thereof the preparation and ongoing update of a management framework to coordinate and facilitate the monitoring of all activities necessary for the planning, preparation, call, holding, and formalisation of the resolutions at each General Shareholders' Meeting.*
4. *Pursuant to the provisions of the Sustainability Policy, the Company shall endeavour to ensure that all actions relating to the organisation of the General Shareholders' Meeting comply with the best sustainable event management practices.*

Article 13. Availability of Information

2016 General Shareholders' Meeting



Look after the environment.
Print in black and white, and only if necessary.



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1. *The Company shall endeavour to encourage the use of the most environmentally-friendly channels of information, prioritising the use of digital media whenever the law so allows.*
2. *When the shareholders are to deal with an amendment to the By-Laws, besides the statements required by law in each case, the announcement of the call to meeting must make clear the right of all shareholders to examine at the Company's registered office the complete text of the proposed amendment and the report thereon and to request that such documents be delivered or sent to them without charge.*
3. *In all cases in which the law so requires, such information and additional documentation as is mandatory shall be made available to the shareholders.*

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 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; and 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 the 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.*
 - g) *The annual reports that 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.*
 - i) *The activities reports or integrated activities report of the consultative committees of the Board of Directors.*
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*



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the General Shareholders' Meeting. In the event of a discrepancy between the Spanish and English versions, the former shall prevail.

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."

B.- Amendment of article 16 of the Regulations for the General Shareholders' Meeting.

To amend article 16 of the Regulations for the General Shareholders' Meeting to regulate the gift for the General Shareholders' Meeting. This provision shall hereafter read as follows:

"Article 16. Participation

The Board of Directors shall adopt appropriate measures to encourage maximum participation of the shareholders at the General Shareholders' Meeting, including the ability to deliver promotional material or gifts with symbolic value to the shareholders participating in the General Shareholders' Meeting or in the holding of similar promotions. Any items remaining from the promotions shall be used for social welfare purposes."

C.- Amendment of articles 22 and 32 of the Regulations for the General Shareholders' Meeting to make improvements of a technical nature.

To amend articles 22 and 32 to make improvements of a technical nature. These provisions shall hereafter read as follows:

"Article 22. Infrastructure, Means of Communication, and Services Available at the Premises

1. The premises to be used to hold the General Shareholders' Meeting shall have the personnel, technical equipment, and safety, assistance, and emergency measures commensurate with the nature and location of the property and with the importance of the event. In addition, the premises for holding the General Shareholders' Meeting shall have the emergency and evacuation measures required by law, as well other measures deemed appropriate in light of the circumstances.
2. The Company may make available other furnished premises with similar characteristics where the General Shareholders' Meeting can be held in the event of an emergency.
3. Appropriate controls and surveillance and protection measures, as well as systems for controlling access to the meeting, shall be established in order to ensure the safety of the attendees and the orderly conduct of the General Shareholders' Meeting.
4. Once the General Shareholders' Meeting has commenced, the attendees are prohibited from using voice amplification instruments, mobile phones, photographic equipment, audio and/or video recording, and/or transmission equipment and, in general any instrument that might alter the visibility, sound, or lighting conditions of the proceedings, except to the extent authorised by the chair thereof.
5. The proceedings of the General Shareholders' Meeting shall be the subject of audiovisual recording, unless the chair of the General Shareholders' Meeting decides otherwise. They may also be the subject of storage and live or recorded broadcast by any means, including over the internet, and dissemination on social media. Entering the premises where the General Shareholders' Meeting is to be held signifies the consent of the shareholders, their proxy representatives, and other attendees to the capture of their image (including voice) and the processing of their personal data. The owner of the data shall have the rights of access, rectification, objection, or erasure of the data collected by the Company, upon the terms provided by law, by sending a letter to the Company at its registered office.



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6. *Whenever reasonably possible, the Company shall endeavour to ensure that the premises at which the General Shareholders' Meeting is held has the means to allow access by persons with reduced mobility and the simultaneous interpretation of the proceedings into Euskera (Basque), English, and those other languages that the Board of Directors deems appropriate. The Company shall also establish measures that facilitate participation in the General Shareholders' Meeting by attendees with auditory or visual limitations.*
7. *The Company shall also make available to the shareholders any additional information that facilitates following the General Shareholders' Meeting, such as programmes for the meeting or any other documentation deemed useful for such purpose.*

Article 32. Reports

1. *Once the list of attendees has been prepared and they have been informed regarding the publications of the announcement of the call to meeting, there shall be a presentation of any relevant reports by the executive directors or senior officers or persons designated for such purpose by the Board of Directors. In particular, the shareholders shall be informed of the main aspects highlighted in the Annual Corporate Governance Report regarding corporate governance, emphasising the changes that have occurred since the last General Shareholders' Meeting and any non-compliance with corporate governance recommendations that the Company has described in said report.*
2. *If the annual accounts have qualifications, the Board of Directors may resolve that the chair of the Audit and Risk Supervision Committee and the Company's auditor explain them to the shareholders at the General Shareholders' Meeting."*



Proposed Resolutions

ITEM NUMBER TWELVE ON THE AGENDA

Approval of a reduction in share capital by means of the retirement of 157,197,000 own shares representing 2.46% of the share capital. Delegation of powers to the Board of Directors, with express power of substitution, to, among other things, amend the article of the *By-Laws* setting the share capital.

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:

(a) 111,634,370.25 euros, through the retirement of 148,845,827 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

(b) the aggregate nominal value, up to the maximum amount of 6,263,379.75 euros, of the own shares of the Company, each with a nominal value of seventy-five euro cents, up to a maximum of 8,351,173 own shares, that are acquired for their retirement under the buy-back programme approved by the Board of Directors on 23 February 2016 under the provisions of Commission Regulation (EC) No 2273/2003 of 22 December 2003, and in effect, at the latest, through [31 May 2016] (the “**Buy-back Programme**”).

Consequently, the maximum amount of the reduction in capital (the “**Reduction in Capital**”) would be 117,897,750 euros, through the retirement of a maximum of 157,197,000 own shares, each with a nominal value of seventy-five euro cents, representing not more than 2.46% 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 23 February 2016, the Company may acquire a maximum number of 8,351,173 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 0.13% 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 on such terms as to price and volume as are established in article 5 of Commission Regulation (EC) No 2273/2003 of 22 December 2003.

In accordance with the foregoing, pursuant to section 340.3 of the Companies Act, if the Company fails to acquire the maximum number of 8,351,173 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 under 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 Commission



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Regulation (EC) No 2273/2003 of 22 December 2003, 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 and the effectiveness period, 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 Commission Regulation (EC) No 2273/2003 of 22 December 2003.

(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 new amount of share capital and the number of outstanding shares resulting from the implementation of the Reduction in Capital.



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(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 public or private, Spanish or foreign 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 contemplated in this resolution.



Proposed Resolutions

ITEM NUMBER THIRTEEN ON THE AGENDA

Delegation of powers to formalise and implement all resolutions adopted by the shareholders at the General Shareholders' Meeting, for conversion thereof into a public instrument, and for the interpretation, correction, and supplementation thereof, further elaboration thereon, and registration thereof.

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, may implement 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 its members all or part of the powers of the Board of Directors that they deem appropriate, including those vested in the Board of Directors and those that have been expressly granted to them by the shareholders acting at this General Shareholders' Meeting, whether jointly or severally.
- (e) 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, formalise the required documents, and 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.



Proposed Resolutions

ITEM NUMBER FOURTEEN ON THE AGENDA

Consultative vote regarding the *Annual Director Remuneration Report* for financial year 2015.

RESOLUTION

To approve, on a consultative basis, the *Annual Director Remuneration Report* for financial year 2015, 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.



General Shareholders' Meeting / 2016

REPORT SUBMITTED BY THE BOARD OF
DIRECTORS REGARDING THE TWO
PROPOSED INCREASES IN CAPITAL BY
MEANS OF SCRIP ISSUES



REPORT SUBMITTED BY THE BOARD OF DIRECTORS REGARDING THE TWO PROPOSED INCREASES IN CAPITAL BY MEANS OF SCRIP ISSUES

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 SIX ON THE AGENDA FOR THE GENERAL SHAREHOLDERS' MEETING CALLED TO BE HELD ON 8 AND 9 APRIL 2016, 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 six –sections A and B– 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

The Company has traditionally compensated its shareholders by paying cash dividends, and it plans to maintain a policy whereby shareholders may, if they so wish, continue to receive their entire compensation in cash. Notwithstanding the foregoing, in order to improve its dividend payment 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 2015. Given its good reception, 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 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 six –sections A and B– on the agenda, which consist of offering the Company's shareholders the option to receive their



REPORT SUBMITTED BY THE BOARD OF DIRECTORS REGARDING THE TWO PROPOSED INCREASES IN CAPITAL BY MEANS OF SCRIP ISSUES

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 as 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 five 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 855 million euros in the first Increase in Capital and of 985 million euros in the second Increase in Capital.

It is expected that the first Increase in Capital will be implemented on dates around the month of July 2016, while the second Increase in Capital is planned for dates around the months of December 2016 or January 2017.

In each Increase in Capital

(a) 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 855 million euros, and in the case of the second Increase in Capital, may not exceed 985 million euros).

(b) 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,



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S.A. Unipersonal" (IBERCLEAR) on the relevant date in accordance with applicable law, 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.

(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 resolution 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 compensation 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 compensation (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 five on the agenda.

2.4 Amount of the Option in each Increase in Capital

The structure of the proposals 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.

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.



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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 855 million euros in the first Increase in Capital and of 985 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, 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

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:

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



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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 in accordance with applicable law. 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, a sufficient number of free-of-charge allocation rights may be acquired on the market in the proportion required to receive new shares.³

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).

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).



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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 listing, 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-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 2015, 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 one on the agenda.



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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 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 (*territorio común*) 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, will enter into force on 1 January 2017.

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:

- For purposes of the IRPF and the IRNR on non-residents without a permanent establishment in Spain, the amount obtained for the transfer of the free-of-charge allocation rights on the market is subject to the same treatment that tax regulations provide for pre-emptive rights. Accordingly, in 2016, the amount obtained for the transfer of the free-of-charge allocation rights reduces the acquisition value for tax purposes of the shares from which such rights derive.

Thus, if the amount obtained for the aforementioned transfer is larger than the acquisition value of the securities from which they derive, the difference will be deemed to be a financial profit earned by the transferor in the tax period in which the transfer is effected, 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.

As from 1 January 2017, the amount obtained from transfers of free-of-charge allocation rights in 2017 shall be considered financial profit in the IRPF (including the IRPF applicable to individual shareholders residing in the Chartered Community of Navarre) and in the IRNR for non-residents without a permanent establishment in Spain, all without prejudice to the potential application to persons subject to the IRNR without a permanent establishment of



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international treaties, including the treaties signed by Spain for the avoidance of double taxation and for the prevention of tax evasion in the area of Income Tax and to which they might be entitled, and the exemptions established in the IRNR rules.

In addition, for individual shareholders subject to the IRPF applicable within the common regions of Spain, the amount obtained in the transfers of free-of-charge allocation rights shall be subject to the corresponding withholding on account of this tax as from 1 January 2017. The withholding shall 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).

In the case of shareholders who are individuals and residents of the Historical Territories of the Basque Country, the amount obtained for the transfer of the free-of-charge allocation rights is regarded as a financial profit, both in 2016 and in 2017.

- 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 refrain from implementing 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.



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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:

(a) 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.

(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 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:

"Approval of two increases in share capital by means of scrip issues for two new editions of the "Iberdrola Flexible Dividend" system for the free-of-charge allocation of new shares to the shareholders of the Company in the following amounts: (A) a first increase in share capital by means of a scrip issue at a maximum reference market value of 855 million euros, and (B) a second increase in share capital by means of a scrip issue at a maximum reference market value of 985 million euros. Each of the increases provides for: (i) an offer to the shareholders of the acquisition of their free-of-charge allocation rights at a guaranteed fixed price, and (ii) delegation of powers to the Board of Directors, with express power of substitution, including, among others, the power to set the date on which the increases must be implemented and to amend the article of the By-Laws setting the share capital."

RESOLUTIONS

A.- Approval of a first increase in share capital by means of a scrip issue at a maximum reference market value of 855 million euros.

To increase share capital upon the terms and conditions described in the section "Common Terms and Conditions of Resolutions A and B" below, with a maximum reference market value for the New Shares (as this term is defined in heading 1 below) of 855 million euros.



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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, including the powers set out in heading 11 below.

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.

The date on which this increase in capital is expected to be implemented will be close to July 2016.

B.- Approval of a second increase in share capital by means of a scrip issue at a maximum reference market value of 985 million euros.

To increase share capital upon the terms and conditions described in the section "Common Terms and Conditions of Resolutions A and B" below, with a maximum reference market value for the New Shares (as this term is defined in heading 1 below) of 985 million euros.

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, including the powers set out in heading 11 below.

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.

The date on which this increase in capital is expected to be implemented will be close to the months of December 2016 or January 2017.

Common Terms and Conditions of Resolutions A and B.

1. Principal Characteristics of the Two Increases in Capital

The amount of each of the two increases in capital (the "**Increases in Capital**") being submitted to the shareholders for approval at the General Shareholders' Meeting in A and B above 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 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 market reference value of the New Shares corresponding to each of the Increases in Capital may not exceed the maximum market reference values indicated in A and B above.

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 this resolution, 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



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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 compensation 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 A and B above (i.e. 855 and 985 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*).



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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 in accordance with applicable law.

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 described 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 rights, as is established by the Board of Directors, with express power of substitution. For such purposes, it is hereby resolved to authorise the Company to acquire 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 applicable law, 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.



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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 2015, 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).



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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.



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(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 new amount of share capital and the number of outstanding shares resulting from the implementation of each of the Increases 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 public or private entities or agencies, whether domestic or foreign, 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.

* * *

Bilbao, 23 February 2016



REPORT SUBMITTED BY THE BOARD OF DIRECTORS REGARDING THE TWO PROPOSED INCREASES IN CAPITAL BY MEANS OF SCRIP ISSUES

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 855 million euros.
- The TNShrs. is 6,397,197,000.
- A ListPri of 6.045 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 18 February 2016 has been used as a reference).

Therefore:

Provisional number of shares = Amount of the Option / ListPri	$855,000,000 / 6.045 = 141,439,205.9553350 =$ 141,439,205 shares (rounded downwards)
Num. rights = TNShrs. / Provisional number of shares	$6,397,197,000 / 141,439,205 = 45.2293054 =$ 46 rights (rounded upwards)
NNS = TNShrs. / Num. rights	$6,397,197,000 / 46 = 139,069,500$ shares
Purchase Price = ListPri / (Num. rights + 1)	$6.045 / (46 + 1) = 0.1286170 =$ 0.129 euros (rounded to the closest one-thousandth part)

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.



REPORT SUBMITTED BY THE BOARD OF DIRECTORS REGARDING THE TWO PROPOSED INCREASES IN CAPITAL BY MEANS OF SCRIP ISSUES

Thus, the maximum number of new shares to be issued in the first Increase in Capital would be 139,069,500, (ii) the maximum nominal value of the first Increase in Capital would come to 104,302,125 euros (139,069,500 x 0.75) and (iii) 46 free-of-charge allocation rights (or existing shares) would be required for the allocation of one new share⁵.

* * *

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 / 2016

REPORT OF THE BOARD OF DIRECTORS REGARDING THE PROPOSED CAPITAL INCREASE AUTHORISATION



Sustainable Event Certificate
ISO 20121 / AENOR

Erronka Garbia certificate for
environmental sustainability of
events / **Basque Government**



REPORT OF THE BOARD OF DIRECTORS REGARDING THE PROPOSED AUTHORISATION FOR AN INCREASE IN CAPITAL

REPORT SUBMITTED BY THE BOARD OF DIRECTORS OF IBERDROLA, S.A. REGARDING THE PROPOSED CAPITAL INCREASE AUTHORISATION INCLUDED IN ITEM SEVEN ON THE AGENDA FOR THE GENERAL SHAREHOLDERS' MEETING CALLED TO BE HELD ON 8 AND 9 APRIL 2016, 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. (hereinafter, "Iberdrola" or the "Company") pursuant to the provisions of sections 286, 297.1.b), and 506 of the *Companies Act* in order to provide a rationale for the proposal regarding authorisation to the Board of Directors of the Company to increase the share capital, within a term of five years, by up to one-half of the share capital existing at the time of the authorisation, on one or more occasions and at the time and in the amount it deems appropriate, with the power to exclude pre-emptive rights as provided in section 506 of the *Companies Act*.

2. Purpose of and Rationale for the Proposals

Pursuant to section 297.1.b) of the *Companies Act*, the shareholders at the General Shareholders' Meeting may, by complying with the requirements established for the amendment of the *By-Laws*, delegate to the Board of Directors the power to resolve, on one or more occasions, to increase the share capital up to a given amount, at the time and in the amount the Board decides. The aforementioned legal provision establishes that the aggregate amount of such capital increases may under no circumstances exceed one-half of the share capital of the Company at the time of the authorisation and that they must be made by means of cash contributions within a maximum period of five years from the date that the resolution is adopted by the shareholders at the General Shareholders' Meeting.

The Board of Directors believes that the proposed resolution submitted for approval by the shareholders at the General Shareholders' Meeting is justified by the advisability of making use of the mechanism contemplated by current corporate laws and regulations whereby this body may approve one or more increases in share capital without the need to call and hold a new General Shareholders' Meeting for such purpose. Thus, the aim is to give the Company's Board of Directors the greater responsiveness required to operate in an environment in which the success of a strategic initiative frequently depends on the ability to deal with it quickly, without incurring the delays and costs associated with holding a General Shareholders' Meeting.

In addition, section 506 of the *Companies Act* provides that, at listed companies, when the shareholders at the General Shareholders' Meeting delegate the power to increase the share capital as permitted by section 297.1.b), the Board of Directors may also be given the power to exclude pre-emptive rights when the circumstances described in such section are present.

In this case, the par value of the shares to be issued plus any share premium must be equal to the fair value of the shares of the Company as set forth in the report to be prepared, at the request of the Board of Directors, by an auditor other than the auditor of the Company, appointed for such purpose by the Commercial Registry on each occasion that the Board exercises the power to exclude pre-emptive rights.

The Board of Directors believes that the power to exclude pre-emptive rights, as a supplement to the power to increase share capital, is justified for several reasons. First, it tends to entail a relative reduction in the costs associated with the transaction (including, in particular, the fees of the financial institutions participating in the issuance) as compared to an issuance with pre-emptive rights. Second, it appreciably increases the promptness of action and responsiveness of the Board of Directors, such that the Company may thus take advantage of the times when market conditions are more favourable.

In addition, the exclusion of pre-emptive rights may allow the Company to optimise the financial conditions of the transaction and, in particular, the issue price of the new shares, as it may bring it closer to the expectations of the



REPORT OF THE BOARD OF DIRECTORS REGARDING THE PROPOSED AUTHORISATION FOR AN INCREASE IN CAPITAL

qualified investors to whom such capital increases are customarily addressed, while reducing execution risks through a lower exposure of the transaction to changes in market conditions.

Finally, it mitigates the effect of distortion in the trading of the Company's shares during the issuance period, which is normally shorter than in the case of an issuance with pre-emptive rights.

In sum, it is a device the use of which in a specific capital increase transaction can be critical to its success and the exclusion of which might entail the loss of manoeuvring capacity and a significant advantage vis-à-vis other companies competing with Iberdrola in raising funds on primary markets.

In any event, the ability to exclude pre-emptive rights is a power that the shareholders acting at the General Shareholders' Meeting delegate to the Board of Directors, and it is within the purview of the Board to decide in each case, in view of the specific circumstances and the corporate interest and in compliance with legal requirements, whether or not such rights should effectively be excluded.

In the event that the Board of Directors decides to make use of the power to exclude pre-emptive rights in connection with a specific capital increase that it may ultimately approve in exercise of the authorisation granted by the shareholders at the General Shareholders' Meeting, a directors' report and an auditor's report shall be prepared as required by section 308 of the *Companies Act*, which shall be made available to the shareholders on the corporate website of the Company and report to the shareholders at the first General Shareholders' Meeting held after the resolution approving the increase in capital.

On the other hand, pursuant to the provisions of article 10 of the Company's *General Corporate Governance Policy* and in view of the best internationally recognised corporate governance practices, the authorisation to totally or partially exclude pre-emptive rights shall be limited to increases in capital carried out pursuant to this authorisation and to the authorisation contemplated in item 8 on the agenda up to a maximum amount equal, in the aggregate, to 20% of the current share capital of the Company.

The proposal also contemplates making application, when appropriate, for listing of the shares to be issued by the Company under the delegation of powers on Spanish or foreign, official or unofficial, organised or other secondary markets, authorising the Board of Directors to carry out all acts and formalities that may be required for admission to listing with the appropriate authorities of the various Spanish or foreign securities markets.

Finally, it is proposed to expressly authorise the Board of Directors to further delegate the powers contemplated in this proposed resolution.

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:

***“Authorisation to the Board of Directors, with express power of substitution, to increase the share capital upon the terms and within the limits set out in section 297.1.b) of the Companies Act, with the power to exclude pre-emptive rights, limited to a maximum nominal amount of 20% of the share capital, including such amount as may arise from the approval and implementation of the proposed resolution set forth in item 8 of the agenda.*”**



REPORT OF THE BOARD OF DIRECTORS REGARDING THE PROPOSED AUTHORISATION FOR AN INCREASE IN CAPITAL

RESOLUTION

To authorise the Board of Directors to increase the share capital on one or more occasions and at any time upon the terms and within the limits set out in section 297.1.b) of the Companies Act, i.e. within a term of five years from the date of approval of this resolution and by up to one-half of the current share capital.

Increases in share capital under this authorisation shall be carried out through the issuance and flotation of new shares –with or without a premium– the consideration for which shall be cash contributions.

In each increase, the Board of Directors shall decide whether the new shares to be issued are ordinary, preferred, redeemable, non-voting, or any other kinds of shares among those permitted by law.

As to all matters not otherwise contemplated, the Board of Directors may establish the terms and conditions of the increase in share capital and the characteristics of the shares, and may also freely offer the new shares that are not subscribed for within the period or periods for the exercise of pre-emptive rights. The Board of Directors may also resolve that, in the event of incomplete subscription, the share capital shall be increased only by the amount of the subscriptions made and amend the article of the By-Laws relating to share capital.

In connection with the increases in share capital that may be carried out under this authorisation, the Board of Directors is authorised to totally or partially exclude pre-emptive rights as permitted by section 506 of the Companies Act, provided, however, that such power shall be limited to increases in share capital carried out pursuant to this authorisation and to the authorisation contemplated in item 8 on the agenda up to a maximum amount equal, in the aggregate, to 20% of the current share capital of the Company.

The Company shall, when appropriate, make application for listing of the shares issued under this authorization on Spanish or foreign, official or unofficial, organized or other secondary markets, and the Board of Directors shall be authorized to carry out all acts and formalities that may be required for admission to listing with the appropriate authorities of the various Spanish or foreign securities markets.

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

* * *

Bilbao, 23 February 2016



General Shareholders' Meeting / 2016

**REPORT SUBMITTED BY THE BOARD OF
DIRECTORS REGARDING THE PROPOSED
AUTHORISATION TO ISSUE CONVERTIBLE
DEBENTURES**



**Sustainable Event Certificate
ISO 20121 / AENOR**

**Erronka Garbia certificate for
environmental sustainability of
events / Basque Government**



REPORT SUBMITTED BY THE BOARD OF DIRECTORS REGARDING THE PROPOSED AUTHORISATION TO ISSUE CONVERTIBLE DEBENTURES

REPORT SUBMITTED BY THE BOARD OF DIRECTORS OF IBERDROLA, S.A. REGARDING THE PROPOSED AUTHORISATION TO ISSUE CONVERTIBLE OR EXCHANGEABLE DEBENTURES AND BONDS INCLUDED IN ITEM EIGHT ON THE AGENDA FOR THE GENERAL SHAREHOLDERS' MEETING CALLED TO BE HELD ON 8 AND 9 APRIL 2016, ON FIRST AND SECOND CALL, RESPECTIVELY

1. Purpose of the Report

This report has been drawn up by the Board of Directors of Iberdrola, S.A. ("Iberdrola" or the "Company") pursuant to the provisions of sections 511 of the *Companies Act (Ley de Sociedades de Capital)* and 319 of the Regulations of the Commercial Registry (*Reglamento del Registro Mercantil*), applying the provisions of section 297.1.(b) of the Companies Act by analogy, to provide a rationale for the proposal regarding authorisation to the Board of Directors, with express power of substitution, to issue debentures or bonds that are convertible into and/or exchangeable for shares of the Company or of other companies within or outside of the group of companies of which the Company is the controlling entity, within the meaning established by law (the "Group"), and warrants on newly-issued shares or outstanding shares of the Company or of other companies within or outside of its Group.

2. Purpose of and Rationale for the Proposals

The Board of Directors regards it as highly desirable to have the delegated powers allowed by current legislation in order to be at all times in a position to raise, on the primary securities markets, the funds that are necessary to satisfy the corporate interest.

The purpose of this delegation is to provide the decision-making body of the Company with the manoeuvrability and responsiveness required by the competitive environment in which the Company operates, and 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. The Board of Directors of the Company will thus be empowered, if necessary, to raise a significant volume of funds within a short period of time. This flexibility and agility is especially desirable in the current economic environment, where changing market circumstances make it advisable for the Company's Board of Directors to have the necessary means to have recourse, at any time, to the different sources of financing available, in order to obtain the most advantageous financial terms.

The issuance of debentures that are convertible into and/or exchangeable for shares is one of the instruments for the financing of companies by raising third-party funds. On the one hand, these securities provide an advantage to both Iberdrola and the investor in that they offer investors the possibility of converting their receivables from the Company into shares of the Company, receiving a potential return in excess of that offered by other debt instruments. As for Iberdrola, they may allow it to increase its equity. In addition, the convertible or exchangeable nature thereof means that the coupon on these debentures is generally lower than the cost of simple fixed-income securities and of bank financing, because the interest rate of the debentures reflects the value of the investors' option to convert them into shares of the Company.

For such purpose, pursuant to the provisions of section 319 of the Regulations of the Commercial Registry and of the general rules regarding issuance of debentures, and in accordance with article 17.1.p) of the *By-Laws* which gives the shareholders at the General Shareholders' Meeting the ability to delegate to the Board of Directors the power to issue the negotiable securities covered by the proposal, the resolution proposed under item eight of the agenda is submitted to the shareholders for consideration at the General Shareholders' Meeting.

The proposal specifically grants the Board of Directors the power to issue, on one or more occasions, convertible and/or exchangeable debentures or bonds and warrants entitling the holders thereof to subscribe for newly-issued shares or to acquire shares of the Company that may then be outstanding and to resolve, when appropriate, to effect the increase in share capital required to accommodate the conversion or the exercise of the option to subscribe for the shares, provided such increase, individually or added to any increases resolved to be carried out in reliance on other authorisations proposed by the Board of Directors to the shareholders at a General Shareholders' Meeting



REPORT SUBMITTED BY THE BOARD OF DIRECTORS REGARDING THE PROPOSED AUTHORISATION TO ISSUE CONVERTIBLE DEBENTURES

pursuant to the provisions of section 297.1.b) of the *Companies Act*, does not exceed 50% of the share capital on the date of the resolution. The amount of the increases in capital, if any, carried out to accommodate the conversion or exchange of debentures, warrants or other securities pursuant to this delegation will be deemed to be included within the limit available at any time to increase the share capital.

The proposed resolution submitted to the shareholders for approval at the General Shareholders' Meeting also establishes the standards to determine the terms and conditions applicable to the conversion and/or exchange, although it entrusts to the Board of Directors, in the event that it resolves to use this authorisation, the specific determination of some of such terms and conditions in respect of each specific issuance within the limits and in accordance with the standards established by the shareholders at the General Shareholders' Meeting. The Board of Directors shall thus be responsible for determining the specific ratio for conversion and, for such purpose, upon approving an issuance of convertible and/or exchangeable securities in reliance on the authorisation granted by the shareholders at the General Shareholders' Meeting, it shall prepare a directors' report describing the specific applicable terms and conditions, on which the related audit report mentioned in sections 414 and 511 of the *Companies Act* shall be prepared.

Specifically, the proposed resolution submitted by the Board of Directors for approval by the shareholders at the General Shareholders' Meeting provides that, for purposes of the conversion and/or exchange, the securities issued pursuant to the delegation shall be valued at their nominal amount and the shares at the fixed (determined or determinable) or variable ratio established in the respective resolution of the Board of Directors on the date(s) indicated in the resolution itself, based on the listing price of the Company's shares on the date(s) or during the period(s) referred to in the resolution.

In any event, the value may not be less than the average exchange ratio for the Company's shares on the Continuous Market of the Bilbao, Madrid, Barcelona, and Valencia Stock Exchanges, through the Automated Quotation System (Continuous Market) in accordance with closing listing prices during a period to be set by the Board of Directors and which shall not be greater than three months or less than five calendar days prior to the date of approval by the Board of Directors of the relevant resolution providing for the issuance of the fixed-income securities or prior to the date of payment for the securities by the subscribers. A premium or discount, as appropriate, on such price per share may also be set.

It may also be resolved that the convertible and/or exchangeable fixed-income securities be issued at a variable conversion and/or exchange ratio. In such case, the price of the shares for purposes of the conversion and/or exchange shall be the arithmetic mean of the closing prices of the shares of the Company on the Bilbao, Madrid, Barcelona, and Valencia Stock Exchanges, through the Automated Quotation System (Continuous Market) during a period to be determined by the Board of Directors, which shall not be greater than three months or less than five calendar days prior to the date of conversion and/or exchange. A premium or discount, as appropriate, may also be set on such price per share in this case.

In any of the cases described in the two preceding paragraphs, it is provided that, if a discount on the price per share is established, such discount may not exceed 25%.

The Board of Directors thus considers it is given an adequate degree of flexibility to set the value of the shares for purposes of the conversion on the basis of market conditions and other applicable considerations.

Similar standards shall be used, with any changes that may be required and to the extent applicable, for the issue of debentures (or warrants) exchangeable for shares of other companies (in this case, any references to the Spanish Stock Exchanges shall be deemed to be references to the markets where such shares are listed).

In the case of warrants on newly-issued shares, the rules on convertible debentures set forth in the proposed resolution shall apply, to the extent that they are consistent with the nature thereof.

Furthermore, and as provided in section 415.2 of the *Companies Act*, the resolution delegating to the Board of Directors the power to issue convertible securities provides, for purposes of the conversion thereof, that the nominal value of the debentures may not be less than the par value of the shares. Convertible debentures may likewise not be issued for an amount lower than the nominal value thereof.



REPORT SUBMITTED BY THE BOARD OF DIRECTORS REGARDING THE PROPOSED AUTHORISATION TO ISSUE CONVERTIBLE DEBENTURES

In addition, it is stated for the record that the authorisation to issue convertible and/or exchangeable securities as well as warrants or similar securities that may carry the right, directly or indirectly, to subscribe for or acquire shares of the Company includes, pursuant to the provisions of section 511 of the *Companies Act*, the grant to the Board of Directors of the power to totally or partially exclude the pre-emptive rights of the shareholders when so required to raise funds on the markets or otherwise justified by the corporate interest.

The Board of Directors believes that the exclusion of pre-emptive rights allows for a significant reduction in the financial cost and the costs associated with the transaction (including, in particular, the fees of the financial institutions participating in the issuance), as compared to an issue with pre-emptive rights, while causing less distortion in the trading of the shares of the Company during the issuance period.

In sum, the use of the tool within the framework of a specific issue could be crucial to the success thereof, and a failure to provide it could entail the loss of a significant advantage over companies competing with Iberdrola in raising funds on the primary markets.

In any event, pursuant to the provisions of section 511 of the *Companies Act*, in the event that the Board of Directors decides to exclude the pre-emptive rights of the shareholders in connection with a specific issue, it must, when adopting the respective resolution to effect the issue, issue a report specifying the reasons of corporate interest that justify such measure, on which there shall also be prepared a corresponding report of an auditor appointed by the Commercial Registry that is not the Company's auditor. This report must contain a technical opinion regarding the reasonableness of the data contained in the Board of Directors' report and regarding the fairness of the conversion ratio and, if applicable, of the adjustment formulas to offset a possible dilution of the financial interest of the shareholders.

In case of the exercise of such power to totally or partially exclude pre-emptive rights, pursuant to the provisions of section 506 of the *Companies Act* and the Company's *General Corporate Governance Policy*, the two reports mentioned in the preceding paragraph shall be made available to the shareholders on the Company's corporate website and disclosed to them at the first General Shareholders' Meeting held after the capital increase resolution is adopted.

On the other hand, pursuant to the provisions of article 10 of the Company's *General Corporate Governance Policy* and in view of the best internationally recognised corporate governance practices, the authorisation to totally or partially exclude pre-emptive rights shall be limited to increases in capital carried out pursuant to this authorisation and to the authorisation contemplated in item seven on the agenda up to a maximum amount equal, in the aggregate, to 20% of the current share capital of the Company.

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.

Furthermore, it may sometimes be desirable to issue the securities under this proposed resolution through a subsidiary, with the Company acting as guarantor. 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 issuances of convertible and/or exchangeable fixed-income securities or warrants as may be made by subsidiaries 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 issuances of securities in such manner as may be most appropriate in the circumstances.

All the powers to be granted to the Board of Directors if the resolution proposed herein is adopted shall be granted with the express power of substitution, so as to further contribute to achieving the purpose of expediting the proposed transactions.

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:



REPORT SUBMITTED BY THE BOARD OF DIRECTORS REGARDING THE PROPOSED AUTHORISATION TO ISSUE CONVERTIBLE DEBENTURES

“Authorisation to the Board of Directors, with express power of substitution, for a term of five years, to issue debentures or bonds that are exchangeable for and/or convertible into shares of the Company or of other companies and warrants on newly-issued or outstanding shares of the Company or of other companies, with a maximum limit of five billion euros. The authorisation includes the delegation of such powers as may be required to: (i) determine the basis for and terms and conditions applicable to the conversion, exchange, or exercise; (ii) increase share capital to the extent required to accommodate requests for conversion; and (iii) exclude the pre-emptive rights of the shareholders in connection with the issues, limited to a maximum nominal amount of 20% of the share capital, including such amount as may arise from the approval and implementation of the proposed resolution set forth in item 7 of the agenda.

RESOLUTION

1. **Authorisation to the Board of Directors to Issue Securities**

To authorise the Board of Directors to issue debentures and bonds exchangeable for shares of the Company or of any other company and/or convertible into shares of the Company, as well as warrants (options to subscribe for new shares of the Company or to acquire outstanding shares of the Company or of any other company).

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**

The maximum total amount of the issuance(s) of securities approved under this authorisation shall be five billion euros or the equivalent thereof in another currency. For purposes of calculation of the aforementioned limit, in the case of warrants, the sum of the premiums and exercise prices of the warrants on issuances approved under this authorisation shall be taken into account.

4. **Scope**

For each issuance, the Board of Directors shall be authorised to, among other things, determine the amount thereof, always within the above-mentioned overall quantitative limit, the place of issuance (in Spain or abroad) and the domestic or foreign currency and, in the case of foreign currency, its equivalence in euros; the specific instrument to be issued whether bonds or debentures, including subordinated bonds or debentures, warrants (which may in turn be settled by means of the physical delivery of the shares or, if applicable, through the payment of differences in price), or any other form permitted by law; the date or dates of issuance; the number of securities and the nominal value thereof, which, in the case of convertible and/or exchangeable bonds or debentures, shall not be less than the par value of the shares; in the case of warrants and similar securities, the issue price and/or premium, the exercise price (which may be fixed or variable) and the procedure, period, and other terms and conditions applicable to the exercise of the right to subscribe for the underlying shares or, if applicable, the exclusion of such right; the interest rate (whether fixed or variable); the dates and procedures for payment of the coupon; whether the instrument issued is perpetual or subject to repayment and, in the latter case, the period for repayment and the maturity date or dates; guarantees, reimbursement rate, premiums, and lots; the form of representation, as securities or book entries; the establishment of anti-dilution provisions; the rules applicable to subscription; the rank of the securities and the subordination clauses, if any; the law applicable to the issuance; the power to make application, where appropriate, for the trading of the securities to be issued on Spanish or foreign, official or unofficial, organised or other secondary markets, subject to the requirements established by applicable regulations in each case and, in general, any other terms of the issuance, as well as, if applicable, the appointment of the security-holders' syndicate representative (comisario) and the approval of the basic rules that are to govern the legal relations between the Company and the syndicate of holders of the securities to be issued in the event that such syndicate must or is decided to be created.



REPORT SUBMITTED BY THE BOARD OF DIRECTORS REGARDING THE PROPOSED AUTHORISATION TO ISSUE CONVERTIBLE DEBENTURES

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 issuances effected under this authorisation.

5. Basis for and Terms and Conditions Applicable to the Conversion and/or Exchange

In the case of issuance of convertible and/or exchangeable debentures or bonds, and for purposes of determining the terms and conditions for conversion and/or exchange, it is resolved to establish the following standards:

(a) *The securities issued pursuant to this resolution shall be exchangeable for shares of the Company or of any other company and/or convertible into shares of the Company, in accordance with a fixed or variable conversion and/or exchange ratio determined or to be determined, with the Board of Directors being authorised to determine whether they are convertible and/or exchangeable, as well as to determine whether they are mandatorily or voluntarily convertible and/or exchangeable, and if voluntarily, at the option of the holder thereof or of the Company, at the intervals, and during the period established in the resolution providing for the issuance, which may not exceed thirty years from the date of issuance.*

(b) *In the event that the issue is convertible and exchangeable, the Board of Directors may also provide that the issuer reserves the right at any time to elect between conversion into new shares or the exchange thereof for outstanding shares of the Company, with the nature of the shares to be delivered being determined at the time of conversion or exchange, and may also elect to deliver a combination of newly-issued shares and existing shares of the Company and even to pay the difference in cash. In any event, the issuer shall afford equal treatment to all holders of fixed-income securities converting and/or exchanging their securities on the same date.*

(c) *For purposes of the conversion and/or exchange, the securities shall be valued at the nominal amount thereof and the shares at the fixed exchange ratio established in the resolution of the Board of Directors making use of this authorisation, or at the variable ratio to be determined on the date or dates specified in the resolution of the Board, based on the listing price of the Company's shares on the date(s) or during the period(s) used as a reference in such resolution. In any event, the fixed ratio thus determined may not be less than the average exchange ratio for the shares on the Bilbao, Madrid, Barcelona, and Valencia Stock Exchanges, through the Automated Quotation System (Continuous Market), in accordance with closing listing prices during a period to be set by the Board of Directors and which shall not be greater than three months or less than five calendar days prior to the date of approval by the Board of Directors of the resolution providing for the issuance of the fixed-income securities or prior to the date of payment of the securities by the subscribers, at a premium or at a discount, as the case may be, on such price per share, provided, however, that if a discount on the price per share is established, it shall not be greater than 25% of the value of the shares used as a reference as set forth above.*

(d) *It may also be resolved that the convertible and/or exchangeable fixed-income securities be issued at a variable conversion and/or exchange ratio. In such case, the price of the shares for purposes of the conversion and/or exchange shall be the arithmetic mean of the closing prices of the shares of the Company on the Continuous Market during a period to be determined by the Board of Directors, which shall not be greater than three months or less than five calendar days prior to the date of conversion and/or exchange, at a premium or at a discount, as the case may be, on such price per share. The premium or discount may be different for each date of conversion and/or exchange of each issuance (or for each tranche of an issuance, if any), provided, however, that if a discount is established on the price per share, it shall not be greater than 25% of the value of the shares used as a reference as set forth above.*

(e) *Whenever a conversion and/or exchange is admissible, any fractional shares to be delivered to the holder of the debentures shall be rounded downwards by default to the immediately lower integer, and each holder shall receive in cash, if so provided in the terms of issuance, any difference that may arise in such case.*

(f) *In no event may the value of the shares for purposes of the ratio for conversion of debentures into shares be less than the par value thereof. Furthermore, debentures may not be converted into shares if the nominal value of the former is less than that of the latter.*



REPORT SUBMITTED BY THE BOARD OF DIRECTORS REGARDING THE PROPOSED AUTHORISATION TO ISSUE CONVERTIBLE DEBENTURES

(g) When approving an issuance of convertible and/or exchangeable debentures or bonds under the authorisation granted in this resolution, the Board of Directors shall issue a directors' report, elaborating on and specifying, on the basis of the standards described above, the basis and terms and conditions for conversion that are specifically applicable to the respective issuance. This report shall be accompanied by the corresponding audit report as provided by law.

6. Basis for and Terms and Conditions Applicable to the Exercise of Warrants and Other Similar Securities

In the case of issuance of warrants, it is resolved to establish the following standards:

(a) In the case of issuances of warrants, to which the provisions of the Companies Act on convertible debentures shall apply by analogy, the Board of Directors is authorised to determine, in the broadest terms, in connection with the basis for and terms and conditions applicable to the exercise of such warrants, the standards applicable to the exercise of rights to subscribe for or acquire shares of the Company or of another company, or to a combination thereof, arising from the securities of this kind issued under this authorisation. The standards set forth in section 5 above shall apply to such issuances, with such adjustments as may be necessary in order to bring them into compliance with the legal and financial rules governing these kinds of securities.

(b) The preceding standards shall apply, with any changes that may be required and to the extent applicable, to the issuance of fixed-income securities (or warrants) that are exchangeable for shares of other companies. Where appropriate, all references to the Spanish Stock Exchanges shall be deemed made to the markets, if any, on which the respective shares are listed.

7. Admission to Trading

The Company shall, when appropriate, make application for trading of the convertible and/or exchangeable debentures and/or bonds or warrants issued by the Company under 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 to carry out all acts and formalities that may be required for admission to listing with the appropriate authorities of the various Spanish or foreign securities markets.

It is expressly stated for the record that if application is subsequently made for delisting, it shall be made in compliance with the same formalities as the application for listing, to the extent any such formalities are required, and in such case, the interests of the shareholders or debenture-holders opposing or not voting in favour of 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 listing, and delisting.

8. Guarantee in Support of Issuances of Convertible and/or Exchangeable Fixed-income Securities or Warrants by Subsidiaries

The Board of Directors is also authorised to guarantee, on behalf of the Company and within the limits set forth above, new issuances of convertible and/or exchangeable fixed-income securities or warrants carried out by subsidiaries during the effective period of this resolution.

9. Delegation of Powers to the Board of Directors

This authorisation to the Board of Directors also includes, without limitation, the delegation thereto of the following powers:

(a) The power of the Board of Directors, pursuant to the provisions of section 511 of the Companies Act, to totally or partially exclude the pre-emptive rights of the shareholders. In any event, if the Board of Directors decides to exclude the pre-emptive rights of the shareholders in connection with any specific issuance of convertible bonds or debentures, warrants, and other securities similar thereto that it ultimately decides to effect under this authorisation, the Board shall issue, at the time of approval of the issuance and pursuant to applicable laws and regulations, a report



REPORT SUBMITTED BY THE BOARD OF DIRECTORS REGARDING THE PROPOSED AUTHORISATION TO ISSUE CONVERTIBLE DEBENTURES

setting forth the specific reasons based on the corporate interest that justify such measure, on which there shall be prepared the corresponding report of an auditor, other than the Company's auditor and appointed by the Commercial Registry, mentioned in sections 414 and 511 of the Companies Act. Both such reports shall be made available to the shareholders and disclosed at the first General Shareholders' Meeting that is held following approval of the resolution providing for the issuance.

This power shall in any event be limited to those increases in capital carried out pursuant to this authorisation and to the authorisation contemplated in item 7 on the agenda up to a maximum amount equal, in the aggregate, to 20% of the share capital on the date of adoption of this resolution.

(b) The power to increase share capital to the extent required to accommodate requests for conversion and/or for exercise of the right to subscribe for shares. Such power may only be exercised to the extent that the Board of Directors, adding the increase in capital effected to accommodate the issuance of convertible debentures, warrants, and other similar securities and the other increases in capital approved under authorisations granted by the shareholders at this General Shareholders' Meeting, does not exceed the limit of one-half of the amount of the share capital provided by section 297.1(b) of the Companies Act. This authorisation to increase capital includes the authorisation to issue and float, on one or more occasions, the shares representing such capital that are necessary to carry out the conversion and/or to exercise the right to subscribe for shares, as well as the power to amend the article of the By-Laws relating to the amount of the share capital and, if appropriate, to cancel the portion of such increase in capital that was not required for the conversion and/or the exercise of the right to subscribe for shares.

(c) The power to elaborate on and specify the basis for and terms and conditions applicable to the conversion, exchange, and/or exercise of the rights to subscribe for and/or acquire shares arising from the securities to be issued, taking into account the standards set out in sections 5 and 6 above.

(d) The delegation to the Board of Directors includes the powers required in order to interpret, apply, implement, and develop the resolutions providing for the issuance of securities that are convertible into or exchangeable for shares of the Company, on one or more occasions, and to carry out the corresponding increase in capital, as well as the power to correct and supplement such resolutions as to all matters that may be necessary and to comply with all legal requirements for the successful implementation thereof. To such end the Board of Directors may correct any omissions or defects in the aforementioned resolutions that may be identified by any Spanish or foreign authorities, officials, or bodies, and may also adopt all such resolutions and execute all such public or private documents as it may deem necessary or appropriate in order to adjust the preceding resolutions for the issuance of convertible or exchangeable securities and the corresponding increase in capital to the oral or written assessment of the Commercial Registrar or, in general, of any other competent Spanish or foreign authorities, officials, or entities.

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

10. Revocation of Current Authorisation

This resolution deprives of effect the authorisation to issue debentures or bonds that are exchangeable for and/or convertible into shares of the Company and warrants on newly-issued or outstanding shares of the Company granted to the Board of Directors by the shareholders at the General Shareholders' Meeting held on 27 May 2011 under item nine on the agenda."

* * *

Bilbao, 23 February 2016



General Shareholders' Meeting / 2016

MASTER AND INDIVIDUAL REPORTS REGARDING THE PROPOSED APPOINTMENT AND RE-ELECTION OF DIRECTORS



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MASTER AND INDIVIDUAL REPORTS REGARDING THE PROPOSED APPOINTMENTS AND RE-ELECTIONS OF DIRECTORS

MASTER REPORT SUBMITTED BY THE BOARD OF DIRECTORS OF IBERDROLA, S.A. REGARDING THE PROPOSED APPOINTMENT AND RE-ELECTION OF DIRECTORS INCLUDED IN ITEM NINE ON THE AGENDA FOR THE GENERAL SHAREHOLDERS' MEETING CALLED TO BE HELD ON 8 AND 9 APRIL 2016, 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 re-election of Mr Iñigo Víctor de Oriol Ibarra, Ms Inés Macho Stadler, Mr Braulio Medel Cámara, and Ms Samantha Barber as directors, as well as regarding the proposed appointment as director of Mr Xabier Sagredo Ormaza, as other external director.

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 proposals for re-election as directors of Ms Inés Macho Stadler, Mr Braulio Medel Cámara, and Ms Samantha Barber, who must be assigned to the class of independent directors, is submitted to the shareholders at the General Shareholders' Meeting upon a proposal of the Appointments Committee.

The proposed re-election as director of Mr Iñigo Víctor de Oriol Ibarra and the proposed appointment of Mr Xabier Sagredo Ormaza, both assigned to the class of other external 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 re-elected as directors, which include the information referred to in article 14.2.d) of the *Regulations for the General Shareholders' Meeting*.



MASTER AND INDIVIDUAL REPORTS REGARDING THE PROPOSED APPOINTMENTS AND RE-ELECTIONS OF DIRECTORS

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 and the Iberdrola group given that the terms of the five directors indicated above will end during this financial year 2016.

The conclusion of this analysis is that it would be appropriate for the Board of Directors to have members with extensive experience in the industrial and financial sectors, as well as the energy sector, from both the business and the academic fields.

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 five directors whose terms expire in 2016, 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 especially their level of performance through the date hereof.

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, if applicable, past performance in their positions by the directors whose appointment or re-election 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.

As a whole, the proposed appointment and re-election of directors submitted to the shareholders at the General Shareholders' Meeting contributes to maintaining a high percentage of independent directors and entails a strengthening of the high qualitative level existing in the composition thereof.

Finally, the Appointments Committee has verified that Mr Iñigo Víctor de Oriol Ibarra, Ms Inés Macho Stadler, Mr Braulio Medel Cámara, Ms Samantha Barber, and Mr Xabier Sagredo Ormaza 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.

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MASTER AND INDIVIDUAL REPORTS REGARDING THE PROPOSED APPOINTMENTS AND RE-ELECTIONS OF DIRECTORS

Bilbao, 23 February 2016



MASTER AND INDIVIDUAL REPORTS REGARDING THE PROPOSED APPOINTMENTS AND RE-ELECTIONS OF DIRECTORS

INDIVIDUAL REPORT SUBMITTED BY THE BOARD OF DIRECTORS OF IBERDROLA, S.A. REGARDING THE PROPOSED RE-ELECTION OF MR IÑIGO VÍCTOR DE ORIOL IBARRA INCLUDED IN SECTION A OF ITEM NINE ON THE AGENDA FOR THE GENERAL SHAREHOLDERS' MEETING CALLED TO BE HELD ON 8 AND 9 APRIL 2016, 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 re-election of Mr Iñigo Víctor de Oriol Ibarra as director.

This proposal in turn forms part of the proposed appointment and re-election of other directors of the Company, which has been evaluated collectively in a master report.

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

2. Report of the Appointments Committee

Attached to this report as an annex is the report prepared by the Appointments Committee regarding the proposed re-election of Mr de Oriol Ibarra on February 19, 2016.

3. Background and professional experience

Bachelor of Arts in International Business from Schiller International University (Madrid), a graduate of the Executive Corporate Management Program of IESE Business School, and Certified European Financial Analyst (CEFA) from Instituto Español de Analistas Financieros.

He boasts a long professional career with the Iberdrola Group, which gives him broad and rigorous knowledge of the Company. During his career as a senior officer at Iberdrola, he has chaired the boards of directors of electric companies in which the Group has an interest in various countries (2001-2006). He was chair of Electricidad de La Paz, S.A. (Bolivia), of Empresa de Luz y Fuerza Eléctrica de Oruro, S.A. (Bolivia), and of Iberoamericana de Energía Ibener, S.A. (Chile), as well as a member of the board of Neoenergía, S.A. (Brazil) and of Empresa Eléctrica de Guatemala, S.A.

Between 2001 and 2006 he was chair of the board of Empresa de Servicios Sanitarios de Los Lagos, S.A. (ESSAL) in Chile.

He has held the position of director of Corporate Governance for the Americas (2001-2006), promoting adherence by subsidiaries and investee companies in such region to the principles and values embodied in Iberdrola's Corporate Governance System.

He has also served in the positions of director of management control at Amara, S.A. (1989-1992) and financial analyst within the Financial Division (1992-1997) and within the International Division (1997-2001) of Iberdrola, S.A.

4. Membership on Other Boards of Directors

He has been a member of the board of Empresa de Alumbrado Eléctrico de Ceuta, S.A. since 1993.



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5. Category to Which the Director Should Belong

The relations of what was formerly the company connected to Mr de Oriol, Soil Tratamiento de Aguas Industriales, S.L., with companies belonging to the Iberdrola group, a description of which is set forth in the Company's *Annual Corporate Governance Report* for financial year 2014, gives him the status of other external.

During financial year 2015, neither Mr Iñigo Víctor de Oriol Ibarra nor any company connected to the director has initiated any new business relationship with companies of the Iberdrola group that could be considered significant.

Nor is it expected that the director -or any company connected thereto- will maintain any significant business relationship with companies of the Iberdrola group during 2016.

Therefore, it can be expected that Mr de Oriol Ibarra will be re-qualified as independent director during financial year 2016 unless any other circumstance occurs that prevents said re-qualification.

6. Availability

The effective availability of the candidate for re-election to provide the dedication required to perform the duties of the position has been verified with the candidate.

7. Date of First Appointment as Director of the Company and Positions Held within the Board of Directors

Appointed on an interim basis as a director of the Company by its Board of Directors at the meeting held on 26 April 2006, subsequently ratified and re-elected as a director at the General Shareholders' Meeting on 29 March 2007, and last re-elected at the General Shareholders' Meeting held on 22 June 2012.

In relation to the foregoing, it should be noted that the sole transitional provision of the *Regulations of the Board of Directors* provides that Mr Iñigo Víctor de Oriol Ibarra will tender his resignation to the Board of Directors at the meeting during which it is resolved to call the Annual General Shareholders' Meeting to be held in 2018, when he would complete twelve years as a director of the Company.

He is a member of the Appointments Committee and of the Remuneration Committee.

8. 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 Iñigo Víctor de Oriol Ibarra is the direct holder of 1,223,862 shares of the Company.

9. Proposed Resolution

The Board of Directors has concluded that Mr Iñigo Víctor de Oriol Ibarra's profound knowledge of the activities carried out by the Company and the Iberdrola group, as well as of the energy (domestic and international) and financial sectors, will allow him to continue contributing quite positively to the operation of the Board of Directors.

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 Iñigo Víctor de Oriol Ibarra set out in this report, the proposed resolution submitted to the shareholders for approval at the General Shareholders' Meeting reads as follows:

"A.- Re-election of Mr Iñigo Víctor de Oriol Ibarra.



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To re-elect Mr Iñigo Víctor de Oriol Ibarra as director, after a report from the Appointments Committee, for the by-law mandated four-year term, with the status of other external director.”

* * *

Bilbao, 23 February 2016



MASTER AND INDIVIDUAL REPORTS REGARDING THE PROPOSED APPOINTMENTS AND RE-ELECTIONS OF DIRECTORS

ANNEX

REPORT PREPARED BY THE APPOINTMENTS COMMITTEE REGARDING THE PROPOSED RE-ELECTION OF MR IÑIGO VÍCTOR DE ORIOL IBARRA

1. Introduction

Pursuant to the provisions of article 5.c) of the *Regulations of the Appointments Committee* of IBERDROLA, S.A. (“**Iberdrola**” or the “**Company**”), it is the responsibility of the Appointments Committee (the “**Committee**”) to examine, prior to the end of the term for which a director has been appointed, the advisability of the director’s re-election, as well as the director’s continuance, if applicable, on the committees of the Board of Directors of which such director is a member, to verify that the director to be re-elected continues to comply with the general requirements applicable to all directors of the Company pursuant to law and the Company’s Corporate Governance System, as well as to evaluate the quality of work and dedication to office of the director in question during the preceding term of office and, specifically, such director’s respectability, capability, expertise, competence, experience, qualifications, availability, and commitment to the duties entrusted thereto, and to submit to the Board of Directors its proposal (in the case of independent directors) or report (in the case of other directors) regarding the re-election of directors.

Mr Iñigo Víctor de Oriol Ibarra was last re-elected as a director of Iberdrola for the by-law mandated term of four years at the General Shareholders’ Meeting held on 22 June 2012.

Given the fact that the term for which Mr de Oriol was appointed as a director of Iberdrola ends this financial year 2016, the Committee has examined the appropriateness of the re-election thereof and has engaged in the verifications and evaluations referred to in the article of the regulation cited above.

The purpose of this report is to gather the results of the work performed by the Committee relating to the potential re-election of Mr de Oriol and, based on the classification of the director as other external, submit the corresponding report to the Board of Directors.

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 to determine the appropriateness of re-electing Mr Iñigo Víctor de Oriol Ibarra in particular to the position of director, 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 the energy (domestic and international) and financial sectors, with a deep knowledge of the internal operation of the Iberdrola group –acquired during the exercise of his responsibilities within the companies of the group– such as that provided by Mr de Oriol.

In particular, the Committee quite favourably views the knowledge and experience of the candidate for re-election acquired during his long professional career and as a director of the Company, for which reason it finds the re-election and the continued membership thereof on the Remuneration Committee and Appointments Committee to be appropriate.

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

The Committee has verified that the director proposed as a candidate for re-election continues to meet the general requirements for all directors of the Company as provided by law and the Corporate Governance System.



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Specifically, the Committee has verified that the conduct and professional history of the candidate for re-election is 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 has not incurred any grounds for disqualification from or impediment to the holding of the position.

4. Evaluation of the Director's Quality of Work and Dedication to the Position

The Committee has quite positively assessed the quality of work and dedication to office of the director proposed as a candidate for re-election during the preceding term of office and, specifically, such director's respectability, capability, expertise, competence, experience, qualifications, availability, and commitment to the duties entrusted thereto.

The results of the evaluation of the director in consultation with an external advisor are outstanding.

This particularly includes the work of the director as a member of the Remuneration Committee and Appointments Committee and the contribution and work thereof on both committees.

5. Conclusion

The Committee has unanimously decided to report favourably on the re-election of Mr Iñigo Víctor de Oriol Ibarra as a director of the Company, with the classification of other external director, and to propose that he continue to serve on the Remuneration Committee and Appointments Committee.

Pursuant to article 16 of the *Regulations of the Appointments Committee*, the absence and abstention of Mr Iñigo Víctor de Oriol Ibarra from the discussion and voting on the re-election thereof is noted for the record for appropriate purposes.



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INDIVIDUAL REPORT SUBMITTED BY THE BOARD OF DIRECTORS OF IBERDROLA, S.A. REGARDING THE PROPOSED RE-ELECTION OF MS INÉS MACHO STADLER INCLUDED IN SECTION B OF ITEM NINE ON THE AGENDA FOR THE GENERAL SHAREHOLDERS' MEETING CALLED TO BE HELD ON 8 AND 9 APRIL 2016, 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 re-election of Ms Inés Macho Stadler as director.

This proposal in turn forms part of the proposed appointment and re-election of other directors of the Company, which has been evaluated collectively in a master report.

This report individually assesses the background and professional experience of the candidate for re-election 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 prepared by the Appointments Committee regarding the re-election of Ms Macho Stadler on February 19, 2016.

3. Background and professional experience

Degree in Economics from Universidad del País Vasco, Master in Economics from l'École des Hautes études en Sciences Sociales, and a Doctorate in Economics (Ph.D.) from the same academic institution and from l'École Nationale de la Statistique et de l'Administration Économique (ENASE) (Paris, France).

From 2009 to 2014 she was a member of the International Scientific Advisory Committee of the Basque Centre for Climate Change (bc3) (climate change research centre linked to Ikerbasque) and chair of the Scientific Committee of the 2011 Conference of the Asociación Española para la Economía Energética (the Spanish affiliate of the International Association for Energy Economics – IAEE).

In the academic field, she is Professor of Economics in the Economics and Economic History Department of Universidad Autónoma de Barcelona, as well as Professor of the Barcelona Graduate School of Economics, where she has taught post-graduate courses within the “Competition and Market Regulation Programme”. She has been a visiting professor at universities in America, Europe, and Asia.

She is also an honorary member of the European Economic Association and of the Asociación Española de Economía.

She has been president of the Spanish Economics Association, coordinator of the National Agency for Quality Evaluation and Accreditation (Agencia Nacional de Evaluación y Prospectiva), and representative at the European Science Foundation, as well as a member-elect of the Council of the European Economic Association (2006-2010) and a member of the Executive Committee of the European Association for Research in Industrial Economics (2008-2015). She has been a member of the Advisory Board of the Research Service of Caja de Ahorros y Pensiones de Barcelona, “la Caixa” (2008-2011).



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She is an expert in scientific research on incentives and contracts, business strategy and industrial organisation, which are areas of specific interest for the positions she holds on the Executive and Remuneration committees and to which she has dedicated various publications (including "Competition for Managers and Market Efficiency" and "Mergers, Investment Decisions and Internal Organization").

4. Membership on Other Boards of Directors

She has been a member of the Board of the French Economic Observatory (OFCE) since 2013.

5. Category to Which the Director Should Belong

Ms Inés Macho Stadler has been proposed on the basis of her personal and professional qualifications and can discharge her duties without being constrained by relationships with the Company, its significant shareholders, or its directors and officers, which makes her worthy of the status of independent director.

6. Availability

The effective availability of the candidate for re-election to provide the dedication required to perform the duties of the position has been verified with the candidate.

7. Date of First Appointment as Director of the Company and Positions Held within the Board of Directors

Appointed on an interim basis as an independent director of the Company by its Board of Directors at the meeting held on 7 June 2006, subsequently ratified and re-elected as a director at the General Shareholders' Meeting on 29 March 2007, and last re-elected at the General Shareholders' Meeting held on 22 June 2012.

In relation to the foregoing, it should be noted that the sole transitional provision of the *Regulations of the Board of Directors* provides that Ms. Inés Macho Stadler will tender her resignation to the Board of Directors at the meeting during which it is resolved to call the Annual General Shareholders' Meeting to be held in 2018, when she would complete twelve years as a director of the Company.

She is lead independent director, chair of the Remuneration Committee, and a member of the Executive Committee.

8. 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, Ms Inés Macho Stadler is the direct holder of 59,146 shares of the Company.

9. Proposed Resolution

The Board of Directors has concluded that Ms Inés Macho Stadler's academic experience –as regards the energy sector and the study of climate change– and extensive knowledge in the field of remuneration policy will allow her to continue contributing quite positively to the operation of the Board of Directors.

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 Ms Inés Macho Stadler set out in this report, the proposed resolution submitted to the shareholders for approval at the General Shareholders' Meeting reads as follows:

"B.- Re-election of Ms Inés Macho Stadler.



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To re-elect Ms Inés Macho Stadler as director, upon the proposal of the Appointments Committee, for the by-law mandated four-year term, with the status of independent director.”

* * *

Bilbao, 23 February 2016



MASTER AND INDIVIDUAL REPORTS REGARDING THE PROPOSED APPOINTMENTS AND RE-ELECTIONS OF DIRECTORS

ANNEX

PROPOSAL PREPARED BY THE APPOINTMENTS COMMITTEE REGARDING THE RE-ELECTION OF MS INÉS MACHO STADLER

1. Introduction

Pursuant to the provisions of article 5.c) of the *Regulations of the Appointments Committee* of IBERDROLA, S.A. (“**Iberdrola**” or the “**Company**”), it is the responsibility of the Appointments Committee (the “**Committee**”) to examine, prior to the end of the term for which a director has been appointed, the advisability of the director’s re-election, as well as the director’s continuance, if applicable, on the committees of the Board of Directors of which such director is a member, to verify that the director to be re-elected continues to comply with the general requirements applicable to all directors of the Company pursuant to law and the Company’s Corporate Governance System, as well as to evaluate the quality of work and dedication to office of the director in question during the preceding term of office and, specifically, such director’s respectability, capability, expertise, competence, experience, qualifications, availability, and commitment to the duties entrusted thereto, and to submit to the Board of Directors its proposal (in the case of independent directors) or report (in the case of other directors) regarding the re-election of directors.

Ms Inés Macho Stadler was last re-elected as a director of Iberdrola for the by-law mandated term of four years at the General Shareholders’ Meeting held on 22 June 2012.

Given the fact that the term for which Ms Macho was appointed as a director of Iberdrola ends this financial year 2016, the Committee has examined the appropriateness of the re-election thereof and has engaged in the verifications and evaluations referred to in the article of the regulation cited above.

The purpose of this report is to gather the results of the work performed by the Committee relating to the potential re-election of Ms Macho and, based on the classification of the director as independent, submit the corresponding proposal to the Board of Directors.

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 to determine the appropriateness of re-electing Ms Inés Macho Stadler in particular to the position of director, 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 the area of remuneration policy, with strong links to the academic world.

Furthermore, in line with the provisions of the *Director Candidate Selection Policy*, the Committee positively values the contribution to the goal of gender diversity on the Board of Directors represented by the re-election of the candidate.

In particular, the Committee quite favourably views the knowledge and experience acquired by the candidate for re-election during her long professional and academic career –in relation to the energy sector, on matters like the study of climate change– and as a director of the Company, for which reason it finds the re-election and the continued membership thereof on the Executive Committee and on the Remuneration Committee to be appropriate.



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

The Committee has verified that the director proposed as a candidate for re-election continues to meet 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 re-election is 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 has not incurred any grounds for disqualification from or impediment to the holding of the position.

The Committee has also verified that Ms Inés Macho Stadler can discharge her duties without being constrained by relationships with the Company, its significant shareholders, or its directors and officers, which makes her worthy of the status of independent director.

4. Evaluation of the Director's Quality of Work and Dedication to the Position

The Committee has quite positively assessed the quality of work and dedication to office of the director proposed as a candidate for re-election during the preceding term of office and, specifically, such director's respectability, capability, expertise, competence, experience, qualifications, availability, and commitment to the duties entrusted thereto.

The results of the evaluation of the director in consultation with an external advisor are outstanding.

This particularly includes her work as lead independent director, as chair of the Remuneration Committee, and as a member of the Executive Committee, as well as the contribution and work thereof on both committees.

5. Conclusion

The Committee has unanimously decided to propose the re-election of Ms Inés Macho Stadler as a director of the Company, with the classification of independent, which would entail, if it occurs, her continuing in the position of lead independent director pursuant to the provisions of article 15.3 of the Regulations of the Board of Directors, to favourably report on her continuing to serve on the Executive Committee, and to propose her continuing as a member of the Remuneration Committee.



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INDIVIDUAL REPORT SUBMITTED BY THE BOARD OF DIRECTORS OF IBERDROLA, S.A. REGARDING THE PROPOSED RE-ELECTION OF MR BRAULIO MEDEL CÁMARA INCLUDED IN SECTION C OF ITEM NINE ON THE AGENDA FOR THE GENERAL SHAREHOLDERS' MEETING CALLED TO BE HELD ON 8 AND 9 APRIL 2016, 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 re-election of Mr Braulio Medel Cámara as director.

This proposal in turn forms part of the proposed appointment and re-election of other directors of the Company, which has been evaluated collectively in a master report.

This report individually assesses the background and professional experience of the candidate for re-election 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 prepared by the Appointments Committee regarding the re-election of Mr Medel Cámara on February 19, 2016.

3. Background and professional experience

Degree in Economics and Business Administration from Universidad Complutense de Madrid and Doctorate in Economics and Business Administration from Universidad de Málaga.

He was a member of the board of Compañía Sevillana de Electricidad, S.A. from 1997 through 2001, and of Retevisión from 1997 through 2004. He was a member of the board of Abertis Infraestructuras, S.A. from 2005 through 2010.

He has been executive chair of Monte de Piedad y Caja de Ahorros de Ronda, Cádiz, Almería, Málaga, Antequera y Jaén (Unicaja) since 1991, and led the process of transformation of the Bank and its adaptation to the new regulatory framework until its transformation into Fundación Bancaria Unicaja, of which he is the chair. He is also currently the executive chair of Unicaja Banco, S.A., as well as the chair of Hidralia, S.A., of Alteria Corporación Unicaja, and of Federación de Cajas de Ahorros de Andalucía. He is vice-chair of Confederación Española de Cajas de Ahorros (CECA), of which he was CEO until 1998. He has been chair of Ahorro Corporación, S.A. and a member of the board of Centros Comerciales Carrefour, S.A., and has been a member of the governance bodies of the World Savings and Retail Banking Institute and of the European Savings and Retail Banking Group, of which he was vice-chair between 1992 and 1998.

He also has experience in areas connected to his position as a member of the Corporate Social Responsibility Committee. He is an active member of various boards of trustees and foundations for social and cultural purposes and has been vice chairman of Fundación CIEDES (Centro de Investigaciones Estratégicas y Desarrollo Económico y Social), and a member of Fundación Tres Culturas del Mediterráneo, Fundación El Legado Andalusi, and Fundación Doñana 21.

He has served as Deputy Minister for Economy and Finance of the Autonomous Government of Andalusia (1984-1987) and as chair of Consejo Andaluz de Colegios de Economistas (2003-2009).



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Professor of Public Finance at the Universidad de Málaga and has published over a hundred scientific works, including many books and articles in specialised publications.

4. Membership on Other Boards of Directors

He has been a member of the board of the listed company Acerinox, S.A. since 2008 and a member of the board of Caja de Seguros Reunidos, Compañía de Seguros y Reaseguros, S.A.

5. Category to Which the Director Should Belong

Mr Braulio Medel Cámara 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 re-election to provide the dedication required to perform the duties of the position has been verified with the candidate.

7. Date of First Appointment as Director of the Company and Positions Held within the Board of Directors

Appointed on an interim basis as an independent director of the Company by its Board of Directors at the meeting held on 7 June 2006, subsequently ratified and re-elected as a director at the General Shareholders' Meeting on 29 March 2007, and last re-elected at the General Shareholders' Meeting held on 22 June 2012.

In relation to the foregoing, it should be noted that the sole transitional provision of the *Regulations of the Board of Directors* provides that Mr Braulio Medel Cámara will tender his resignation to the Board of Directors at the first meeting it holds after reaching the age of seventy years, in August 2017.

He is a member of the Corporate Social Responsibility Committee.

8. 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 Braulio Medel Cámara is the direct holder of 26,633 shares of the Company.

9. Proposed Resolution

The Board of Directors has concluded that Mr Braulio Medel Cámara's knowledge of the industrial and banking sectors, as well as his experience in the design and management of the social responsibility strategy of the entity he presides, will allow him to provide a complete view of this key area for Iberdrola.

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 Braulio Medel Cámara set out in this report, the proposed resolution submitted to the shareholders for approval at the General Shareholders' Meeting reads as follows:

"C.- Re-election of Mr Braulio Medel Cámara.

To re-elect Mr Braulio Medel Cámara as director, upon the proposal of the Appointments Committee, for the by-law mandated four-year term, with the status of independent director. "



MASTER AND INDIVIDUAL REPORTS REGARDING THE PROPOSED APPOINTMENTS AND RE-ELECTIONS OF DIRECTORS

* * *

Bilbao, 23 February 2016



MASTER AND INDIVIDUAL REPORTS REGARDING THE PROPOSED APPOINTMENTS AND RE-ELECTIONS OF DIRECTORS

ANNEX

PROPOSAL PREPARED BY THE APPOINTMENTS COMMITTEE REGARDING THE RE-ELECTION OF MR BRAULIO MEDEL CÁMARA

1. Introduction

Pursuant to the provisions of article 5.c) of the *Regulations of the Appointments Committee* of IBERDROLA, S.A. (“**Iberdrola**” or the “**Company**”), it is the responsibility of the Appointments Committee (the “**Committee**”) to examine, prior to the end of the term for which a director has been appointed, the advisability of the director’s re-election, as well as the director’s continuance, if applicable, on the committees of the Board of Directors of which such director is a member, to verify that the director to be re-elected continues to comply with the general requirements applicable to all directors of the Company pursuant to law and the Company’s Corporate Governance System, as well as to evaluate the quality of work and dedication to office of the director in question during the preceding term of office and, specifically, such director’s respectability, capability, expertise, competence, experience, qualifications, availability, and commitment to the duties entrusted thereto, and to submit to the Board of Directors its proposal (in the case of independent directors) or report (in the case of other directors) regarding the re-election of directors.

Mr Braulio Medel Cámara was last re-elected as a director of Iberdrola for the by-law mandated term of four years at the General Shareholders’ Meeting held on 22 June 2012.

Given the fact that the term for which Mr Medel was appointed as a director of Iberdrola ends this financial year 2016, the Committee has examined the appropriateness of the re-election thereof and has engaged in the verifications and evaluations referred to in the article of the regulation cited above.

The purpose of this report is to gather the results of the work performed by the Committee relating to the potential re-election of Mr Medel and, based on the classification of the director as independent, submit the corresponding proposal to the Board of Directors.

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 to determine the appropriateness of re-electing Mr. Braulio Medel Cámara in particular to the position of director, 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 the industrial and financial sectors, and particularly in the banking area, such as that provided by Mr Medel.

In particular, the Committee quite favourably views the knowledge and experience acquired by the candidate for re-election during his long professional career –especially in relation to the design and management of the social responsibility strategy of the entity he presides– and as a director of the Company, for which reason it finds the re-election and the continued membership thereof on the Corporate Social Responsibility Committee to be appropriate.

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

The Committee has verified that the director proposed as a candidate for re-election continues to meet 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 re-election is 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*.



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Vision, and Values of the Iberdrola group and has not incurred any grounds for disqualification from or impediment to the holding of the position.

The Committee has also verified that Mr. Braulio Medel Cámara 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.

4. Evaluation of the Director's Quality of Work and Dedication to the Position

The Committee has quite positively assessed the quality of work and dedication to office of the director proposed as a candidate for re-election during the preceding term of office and, specifically, such director's respectability, capability, expertise, competence, experience, qualifications, availability, and commitment to the duties entrusted thereto.

The results of the evaluation of the director in consultation with an external advisor are outstanding.

This particularly includes the work of the director as a member of the Corporate Social Responsibility Committee and the contribution and work thereof on this committee.

5. Conclusion

The Committee has unanimously decided to propose the re-election of Mr. Braulio Medel Cámara as a director of the Company, with the classification of independent, and for him to remain on the Corporate Social Responsibility Committee.



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INDIVIDUAL REPORT SUBMITTED BY THE BOARD OF DIRECTORS OF IBERDROLA, S.A. REGARDING THE PROPOSED RE-ELECTION OF MS SAMANTHA BARBER INCLUDED IN SECTION D OF ITEM NINE ON THE AGENDA FOR THE GENERAL SHAREHOLDERS' MEETING CALLED TO BE HELD ON 8 AND 9 APRIL 2016, 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 re-election of Ms Samantha Barber as director.

This proposal in turn forms part of the proposed appointment and re-election of other directors of the Company, which has been evaluated collectively in a master report.

This report individually assesses the background and professional experience of the candidate for re-election 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 prepared by the Appointments Committee regarding the re-election of Ms Barber on February 19, 2016.

3. Background and professional experience

Bachelor of Arts in Applied Foreign Languages and European Politics from the University of Northumbria, Newcastle (England, United Kingdom). She has also studied for three years at various French universities, obtaining degrees that include a Post-Graduate Degree in EU Law from the University of Nancy (France).

In 2014 and 2013, she was selected as one of the “Top 100 Women to Watch” according to the FTSE list and Cranfield University. In addition, she was a finalist and earned second place in the annual Director of the Year Awards 2012 of IoD Scotland NED.

She possesses management experience at business organisations that promote corporate social responsibility. She began her professional career as a consultant within the European Parliament, providing support to the Economic and Monetary Affairs Committee, a position she held for four years. She was subsequently appointed as a board member of Business for Scotland (1998-2000), and was also the chief executive of Scottish Business in the Community (2000-2009), an organisation chaired by HRH The Prince of Wales.

Between 2007 and 2008 she was a member of the Advisory Council of Scottish Power Ltd. following the integration of the Scottish company into the Iberdrola Group.

For nine years, she was a member of the Board of Directors of Right Track Scotland, an organisation dedicated to advancing educational, training, and employment opportunities for youths at risk of social exclusion, which has given her broad experience in the area of corporate social responsibility.

She is the chair of Scottish Ensemble, vice-chair of Scotland's 2020 Climate Group, and performs advisory and business coaching work.



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4. Membership on Other Boards of Directors

She is a member of the Advisory Board of Breakthrough Breast Cancer.

5. Category to Which the Director Should Belong

Ms Samantha Barber has been proposed on the basis of her personal and professional qualifications and can discharge her duties without being constrained by relationships with the Company, its significant shareholders, or its directors and officers, which makes her worthy of the status of independent director.

6. Availability

The effective availability of the candidate for re-election to provide the dedication required to perform the duties of the position has been verified with the candidate.

7. Date of First Appointment as Director of the Company and Positions Held within the Board of Directors

Appointed on an interim basis as an independent director of the Company by its Board of Directors at the meeting held on 31 July 2008, subsequently ratified and re-elected as a director at the General Shareholders' Meeting on 19 March 2009, and last re-elected at the General Shareholders' Meeting held on 22 June 2012.

She is chair of the Corporate Social Responsibility Committee.

8. 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, Ms Samantha Barber is the direct holder of 1,697 shares of the Company.

9. Proposed Resolution

The Board of Directors has concluded that Ms Samantha Barber's knowledge of the Scottish market and in the area of corporate social responsibility will allow her to provide a complete view of this key area for Iberdrola.

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 Ms Samantha Barber set out in this report, the proposed resolution submitted to the shareholders for approval at the General Shareholders' Meeting reads as follows:

"D.- Re-election of Ms Samantha Barber.

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

* * *

Bilbao, 23 February 2016



MASTER AND INDIVIDUAL REPORTS REGARDING THE PROPOSED APPOINTMENTS AND RE-ELECTIONS OF DIRECTORS

ANNEX

PROPOSAL PREPARED BY THE APPOINTMENTS COMMITTEE REGARDING THE RE-ELECTION OF MS SAMANTHA BARBER

1. Introduction

Pursuant to the provisions of article 5.c) of the *Regulations of the Appointments Committee* of IBERDROLA, S.A. (“**Iberdrola**” or the “**Company**”), it is the responsibility of the Appointments Committee (the “**Committee**”) to examine, prior to the end of the term for which a director has been appointed, the advisability of the director’s re-election, as well as the director’s continuance, if applicable, on the committees of the Board of Directors of which such director is a member, to verify that the director to be re-elected continues to comply with the general requirements applicable to all directors of the Company pursuant to law and the Company’s Corporate Governance System, as well as to evaluate the quality of work and dedication to office of the director in question during the preceding term of office and, specifically, such director’s respectability, capability, expertise, competence, experience, qualifications, availability, and commitment to the duties entrusted thereto, and to submit to the Board of Directors its proposal (in the case of independent directors) or report (in the case of other directors) regarding the re-election of directors.

Ms Samantha Barber was last re-elected as a director of Iberdrola for the by-law mandated term of four years at the General Shareholders’ Meeting held on 22 June 2012.

Given the fact that the term for which Ms Barber was appointed as a director of Iberdrola ends this financial year 2016, the Committee has examined the appropriateness of the re-election thereof and has engaged in the verifications and evaluations referred to in the article of the regulation cited above.

The purpose of this report is to gather the results of the work performed by the Committee relating to the potential re-election of Ms Barber and, based on the classification of the director as independent, submit the corresponding proposal to the Board of Directors.

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 re-electing Ms Samantha Barber in particular to the position of director, 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 the Scottish market and in the area of corporate social responsibility, with strong links to the academic world.

Furthermore, in line with the provisions of the *Director Candidate Selection Policy*, the Committee positively values the contribution to the goal of diversity of gender, origin, and nationality on the Board of Directors represented by the re-election of the candidate.

In particular, the Committee quite favourably views the knowledge and experience of the candidate acquired during her long professional career and as a director of the Company, for which reason it finds the re-election and the continued membership thereof on the Corporate Social Responsibility Committee to be appropriate.

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

The Committee has verified that the director proposed as a candidate for re-election continues to meet the general requirements for all directors of the Company as provided by law and the Corporate Governance System.



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Specifically, the Committee has verified that the conduct and professional history of the candidate for re-election is 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 has not incurred any grounds for disqualification from or impediment to the holding of the position.

The Committee has also verified that Ms Samantha Barber can discharge her duties without being constrained by relationships with the Company, its significant shareholders, or its directors and officers, which makes her worthy of the status of independent director.

4. Evaluation of the Director's Quality of Work and Dedication to the Position

The Committee has quite positively assessed the quality of work and dedication to office of the director proposed as a candidate for re-election during the preceding term of office and, specifically, such director's respectability, capability, expertise, competence, experience, qualifications, availability, and commitment to the duties entrusted thereto.

The results of the evaluation of the director in consultation with an external advisor are outstanding.

This particularly includes the work of the director as chair of the Corporate Social Responsibility Committee and the contribution and work thereof on this committee.

5. Conclusion

The Committee has unanimously decided to propose the re-election of Ms Samantha Barber as a director of the Company, with the classification of independent, and for her to remain on the Corporate Social Responsibility Committee.



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INDIVIDUAL REPORT SUBMITTED BY THE BOARD OF DIRECTORS OF IBERDROLA, S.A. REGARDING THE PROPOSED RE-APPOINTMENT OF MR XABIER SAGREDO ORMAZA INCLUDED IN SECTION E OF ITEM NINE ON THE AGENDA FOR THE GENERAL SHAREHOLDERS' MEETING CALLED TO BE HELD ON 8 AND 9 APRIL 2016, 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 Xabier Sagredo Ormaza as director.

This proposal in turn forms part of the proposed appointment and re-election of other directors of the Company, which has been evaluated collectively in a master report.

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. Report of the Appointments Committee

Attached to this report as an annex is the report prepared by the Appointments Committee regarding the proposed appointment of Mr Sagredo Ormaza on February 19, 2016.

3. Background and professional experience

Degree in Economic Sciences from Universidad del País Vasco, at the Faculty of Sarriko, specialising in the financial area.

He has obtained various post-graduate degrees, including Master's degrees in taxation and finance and an advanced degree in Occupational Risk Prevention.

He began his professional career at the credit institution Ipar Kutxa, where he headed the Expansion Area until 2007.

He participated in the creation and organisation of the concession company Transitia, where he held the position of General Manager until 2012.

He has been a member of the board of the Port Authority of Bilbal, as well as of other boards and associations.

Throughout his professional career he has harmonised his work with teaching in various fields.

In November 2013 he was appointed president of the Board of Trustees of Bilbao Bizkaia Kutxa Fundación Bancaria.

He has been a member of the board of Iberdrola Generación, S.A. and of Iberdrola Distribución Eléctrica, S.A., within the latter holding the position of chair of its Audit and Compliance Committee.



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4. Membership on Other Boards of Directors

He is chair of the Board of Trustees of Bilbao Bizkaia Kutxa Fundación Bancaria.

5. Category to Which the Director Should Belong

Mr Xabier Sagredo Ormaza is classified as other external director since he does not fulfil the requisites set forth in the law and in the corporate governance System to be classified as independent nor proprietary 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 Xabier Sagredo Ormaza does not hold any shares of the Company.

8. Proposed Resolution

The Board of Directors has concluded that Mr Xabier Sagredo Ormaza knowledge in the financial sector and in the area of corporate social responsibility generally, and in the banking sector and the social work of bank foundations in particular, will allow him to provide a complete view of this key sector for Iberdrola.

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 Xabier Sagredo Ormaza set out in this report, the proposed resolution submitted to the shareholders for approval at the General Shareholders' Meeting reads as follows:

"E.- Appointment of Mr Xabier Sagredo Ormaza.

To appoint Mr Xabier Sagredo Ormaza as director, after a report from the Appointments Committee, for the by-law mandated four-year term, with the status of other external director."

* * *

Bilbao, 23 February 2016



MASTER AND INDIVIDUAL REPORTS REGARDING THE PROPOSED APPOINTMENTS AND RE-ELECTIONS OF DIRECTORS

ANNEX

REPORT PREPARED BY THE APPOINTMENTS COMMITTEE REGARDING THE PROPOSED RE-ELECTION OF MR XABIER SAGREDO ORMAZA

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, is to report on the proposed appointment of directors for submission to the shareholders at a General Shareholders’ Meeting.

The purpose of this report is to report on the proposal of the chairman of the Board of Directors to appoint Mr Xabier Sagredo Ormaza as a director of the Company, with the classification of other external, for submission to the shareholders at the General Shareholders’ Meeting, in order to fulfil the vacant caused by the resignation of Mr Xabier de Irala Estévez to this charge of director of the Company, that is foreseen to occur with the celebration of such meeting.

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 Sagredo Ormaza in particular to the position of director, 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 the financial sector, and –particularly in the banking area–.

Additionally, the commission values positively the knowledge by Mr Sagredo Ormaza of the businesses of energy generation and distribution of the Iberdrola group acquired during the discharge of his positions of director of Iberdrola Generación, S.A. first and of director and chairman of the audit and compliance committee of Iberdrola Distribución Eléctrica, S.A.

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

The Committee has verified that the director to be appointed as a 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 to be appointed director 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 has not incurred any grounds for disqualification from or impediment to the holding of the position.

4. Conclusion

The Committee has unanimously decided to report favourably on the proposed appointment of Mr Xabier Sagredo Ormaza as a director of the Company, with the classification of other external director.



General Shareholders' Meeting / 2016

REPORT OF THE BOARD OF DIRECTORS REGARDING THE AMENDMENT OF THE *BY- LAWS*



REPORT OF THE BOARD OF DIRECTORS REGARDING THE AMENDMENT OF THE BY-LAWS

REPORT SUBMITTED BY THE BOARD OF DIRECTORS OF IBERDROLA, S.A. REGARDING THE PROPOSED AMENDMENTS OF THE BY-LAWS INCLUDED IN ITEM TEN OF THE AGENDA FOR THE GENERAL SHAREHOLDERS' MEETING CALLED TO BE HELD ON 8 AND 9 APRIL 2016, 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 10 –sections A, B, and C– of 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

Iberdrola has always set itself apart from the other companies in its environment due to its leadership in the area of corporate governance.

In order to reach and cement this position, it has systematically developed a strategy for review and ongoing improvement of its Corporate Governance System, i.e. its internal system of rules configured in accordance with applicable law in the exercise of corporate autonomy supported thereby and which applies to the group of companies of which Iberdrola is the controlling entity, within the meaning established by law (the **"Group"**).

During financial years 2014 and 2015, the Company undertook an ambitious reform of its Corporate Governance System with a primary focus on the shareholders: their rights were strengthened, their guarantees were enhanced, and a strong regulatory framework was created in order to encourage their participation in Iberdrola and, ultimately, to foster their engagement in the life of the Company. Such reform culminated with the by-law amendments approved by the shareholders at the General Shareholders' Meeting held in 2015.

Since then, the Company has continued working on the improvement of its Corporate Governance System with a view to finding a response to the numerous corporate governance challenges raised by the Group's call for leadership, the continuous internationalisation of its activities, and its increasingly significant role in the life of groups that are growing each day in size and diversity: its stakeholders.

Iberdrola is fully aware of its importance as a business, institutional, and social reality, and it cannot ignore, nor does it want to ignore, the challenges posed by its position as the controlling entity of one of the leading global groups in the electricity industry. The responsibilities arising from this reality extend beyond the strictly economic field and fully expand into the social arena.



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Along these lines, the efforts implemented by Iberdrola's Board of Directors since the General Shareholders' Meeting held in 2015 have been channelled into reflecting upon the relations that the Company and the Group should maintain with all of their stakeholders, beyond the shareholders and the financial community, namely, their workforce, regulatory entities, their customers, their suppliers, the media, society in general, and the environment, among others.

Specifically, in October 2015 the Board of Directors carried out an in-depth review of the Group's mission, vision, and values to better conform them to a complex business group that has a desire for leadership in all areas of activity (not only in the economic field but also and especially in the social field), under a new approach that focuses on the creation of value in a sustainable manner and lays emphasis on the social impact of its activities.

The content of the new mission, vision, and values of the Group has been included in a new rule that is part of the Corporate Governance System: the *Mission, Vision, and Values of the Iberdrola group*, which reflects the corporate philosophy of the Group, inspires and takes form in the *Corporate Policies* and in the other rules of the Corporate Governance System, governs the day-to-day activities of all companies of the Group, and guides their strategy and all of their actions.

As will be explained below, the formal inclusion in the *By-Laws* of the Company's commitment to the *Mission, Vision, and Values of the Iberdrola group* and the review of its relations with the stakeholders are the two focal points of the amendments proposed.

In summary, this amendment is one more step along Iberdrola's strategy of dialogue and engagement with all relevant groups with a view to the success of its business enterprise, which cannot be complete if the Company does not take into account and does not strive to satisfy the legitimate interests and the expectations of its stakeholders.

2.2 Purpose of the Proposals

Within the framework of the foregoing, the main purpose of the proposed by-law amendments submitted to the shareholders for approval at the General Shareholders' Meeting is to formalise in the Company's foundational document its commitment to the *Mission, Vision, and Values of the Iberdrola group*, to social return, corporate values, and ethical principles, as well as its broad conception of the corporate interest and its framework for relations with its stakeholders, grounded in the engagement and recognition of all legitimate interests, by adopting a policy on relations with them based on two-way communication and on principles of transparency, active listening, and equal treatment.

Moreover, the reform seeks to highlight the features that make up Iberdrola's identity, update the regulation of the Group affecting the special framework for strengthened autonomy of its listed companies after the completion of the merger of UIL Holdings Corporation, which has resulted in the public listing on the New York Stock Exchange of Avangrid, Inc., the Group's country subholding company in the United States.

Finally, other improvements are introduced that are primarily of a technical nature, such as those aimed at reflecting the separation of the Appointments and Remuneration committees in March 2015, in line with recommendations and best practices in the area of corporate governance.

2.3 Structure of the Proposed Amendments

Inasmuch as the same changes affect several articles, the proposed amendments have been grouped into three independent blocks for voting purposes 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*:

- A) The first block groups together the articles included in the new preliminary title proposed to be created (articles 2, 3, 4, 6, 7, 8, and 9), as well as the amendment of article 32.
- B) The second block refers to the amendment of article 12 and to the reorganisation of title I and the chapters of which it is comprised.



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- C) The third block includes the changes aimed at reflecting the separation of the Appointments and Remuneration committees and at making other technical improvements, which affect articles 34, 37, 38, 39, 40, 41, 42, 43, 44, and 45.

Below is a description of the main amendments submitted to the shareholders for approval at the General Shareholders' Meeting, grouped in accordance with the three voting blocks set forth above:

2.4 New Preliminary Title and Amendment of Article 32

First, it is proposed to include a new Preliminary Title comprising those articles that set out the main features of the Company's identity.

Thus, the first provisions to be included would be those defining what Iberdrola is: the articles on company name, its registered office (–in Bilbao, Biscay–), its duration and date of incorporation (–1901–), and its nature as the holding company of a multinational group of companies.

The foregoing is followed by the articles that establish the purposes and goals pursued by Iberdrola: the object of the Company (–the text of which is not amended–), its concept of corporate interest, as well as its corporate values and ethical principles.

The new Preliminary Title finishes with those provisions that establish the foundations for the regulatory framework governing the Company (–the article on applicable legal provisions and Corporate Governance System–) and how it relates to its environment (–the regulation of relations with stakeholders, presence on the Internet, and social media–).

Specifically, it is proposed to amend the current article 5 (which becomes the new article 3), on duration of the Company, to include an express reference to the date on which the Company's deed of incorporation was formalised.

In the current article 7 (which becomes the new article 4) it is proposed to make a number of amendments to update the text thereof after the completion of the merger of UIL Holdings Corporation, which has resulted in the public listing on the New York Stock Exchange of Avangrid, Inc., the Group's country subholding company in the United States. Along these lines, it is proposed to include a reference to the special framework for strengthened autonomy of the listed companies of the Group, which ensures the protection of the interests of minority shareholders and which are currently laid out in detail in the *Policy for the Definition and Coordination of the Iberdrola Group and Foundations of Corporate Organisation*–.

It is also proposed to include a reference to the Group's non-energy head of business company ("Iberdrola Participaciones, S.A. (Sociedad Unipersonal)"), which currently groups together the head of business companies for the engineering and construction business and the real estate business, the activities of which are carried out in several countries (unlike those of the energy head of business companies).

Finally, the proposed reform of the Group's *By-Laws* includes a reference to the existence of a corporate interest and of corporate values that are common to all of the companies within the Group.

The text of article 4 (which becomes article 5), concerning the object of the Company, remains unchanged.

The new articles 6 and 7 contain the main changes proposed and illustrate the primary purpose of the by-law amendment:

The text of the new article 6 seeks to broaden the concept of the Company's corporate interest, retaining the reference to the common interest of all shareholders of an independent company and focusing on the Company's commitment to the creation of sustainable value and on the *Mission, Vision, and Values of the Iberdrola group* as a guiding rule laying the groundwork for the fulfilment of Iberdrola's interest.



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The proposed text of the new article 7 sets forth the Company's commitment to the *Mission, Vision, and Values of the Iberdrola group*, emphasising its role as the rule that must govern the day-to-day activities of all companies of the Group, as well as its corporate values: the creation of sustainable value, 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.

In article 8, it is proposed to modify the definition of the Corporate Governance System to include among its rules the *Mission, Vision, and Values of the Iberdrola group* approved by the Company's Board of Directors, and to make other technical improvements to the text.

It is also proposed to include a new article 9 as the last provision of the new Preliminary Title, which replaces the former article that governed the corporate website.

Such article lays the foundations for Iberdrola's stakeholder relations –which must be based on two-way communication with the stakeholders and must be guided by principles of transparency, active listening, and equal treatment– for the regulation and operation of the corporate website of the Company and of the other companies of the Group, and for the Group's presence on social media.

Consistently with the changes made in the new articles 7 and 9, it is proposed to amend article 32, which governs the powers of the Board of Directors, in order to give it the power to approve the *Mission, Vision, and Values of the Iberdrola group* and to make other improvements in the text to specify the scope of its powers in accordance with the update of the *Corporate Policies*.

2.5 Amendment of the Current Title I

Taking into account the creation of the new Preliminary Title, it is proposed to amend Title I such that it is limited to the regulation of the share capital and of the shareholders (articles 10 to 14), amending the chapters into which such title is divided, such that articles 10 and 11 become a part of the new Chapter I (called "Share Capital and Shares") and articles 12, 13, and 14 form a part of the new Chapter II (called "Shareholders").

In addition, it is proposed to amend the text of article 12 in order to highlight the notion that the shareholders participate indirectly in the other companies of the Group, a notion that has become increasingly significant as Iberdrola has moved toward the model of a holding company.

2.6 Amendment of Articles 34, 37, 38, 39, 40, 41, 42, 43, 44, and 45

In March 2015, the Board of Directors of Iberdrola resolved to split the then-called Appointments and Remuneration Committee into an Appointments Committee and a Remuneration Committee in order to comply with recommendation number 48 of the *Good Governance Code of Listed Companies*, which provides that large cap companies should have separate nomination and remuneration committees, and in line with best corporate governance practices.

This third block of amendments includes those that seek to conform the by-law rules to this separation, as well as other improvements that are primarily of a technical nature.

Specifically, in each of the articles proposed to be amended, the purpose of the changes is to replace the references to the Appointments and Remuneration Committee with specific references to one or the other committee, as appropriate, while providing for the possibility that in the future, if considered appropriate, such committees may be consolidated again without the need for a new by-law amendment.

Other technical or textual improvements have also been made in the aforementioned articles; including the amendments of articles 38 and 42, intended to provide for the possibility that the lead independent director (*consejero coordinador*) take over the duties of the chairman (in the absence thereof and of the vice-chairs) and to conform the



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rules on succession of the chairman to the plan established for such purpose in the *General Corporate Governance Policy*.

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

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

ITEM NUMBER TEN ON THE AGENDA

Amendment of the following articles of the By-Laws: (A) articles 2, 3, 5, 6, 7, 8, 9, and 32, to formalise the inclusion of the Mission, Vision, and Values of the Iberdrola group within the Corporate Governance System and to stress the Company's commitment to its corporate values, to social return, and to the engagement of all stakeholders, and creation of a new Preliminary Title; (B) article 12, to refer to the indirect participation of the shareholders of IBERDROLA, S.A. in the other companies of the Iberdrola group, and restructuring of Title I; and (C) articles 34, 37, 38, 39, 40, 41, 42, 43, 44, and 45, to clarify the distribution of the powers of the Appointments Committee and of the Remuneration Committee, and to make other improvements of a technical nature.

RESOLUTIONS

A.- Amendment of articles 2, 3, 5, 6, 7, 8, 9, and 32 of the By-Laws and creation of a new Preliminary Title.

To amend articles 2, 3, 5, 6, 7, 8, 9, and 32 of the By-Laws to formalise the inclusion of the Mission, Vision, and Values of the Iberdrola group within the Corporate Governance System and to stress the Company's commitment to its corporate values, to social return, and to the engagement of all stakeholders. These provisions shall hereafter read as follows:

“Article 2. Registered Office

1. *The registered office of the Company is in Bilbao (Biscay) at Plaza Euskadi número 5.*
2. *The registered office may be transferred to another location within the same municipal area by resolution of the Board of Directors.*

Article 3. Duration

The duration of the Company is indefinite, its operations having commenced on 19 July 1901, the date of formalisation of its deed of incorporation.

Article 4. The Iberdrola Group

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



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

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

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

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

Article 6. Corporate Interest

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

Article 7. Social Return, Corporate Values, and Ethical Principles

1. *The Mission, Vision, and Values of the Iberdrola group 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.*
2. *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.*
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.*
4. *The Board of Directors has approved a Code of Ethics that further develops the bylaw-mandated commitment of the Company to its corporate values and ethical principles.*

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 object of the Company and the fulfilment of the corporate interest.*
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 internal corporate governance rules, which include the Regulations for the*



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General Shareholders' 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.

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

Article 9. Stakeholder Relations, Corporate Websites, and Presence on Social Media

1. *The Company and the other entities belonging to the Group seek to engage all stakeholders in its business enterprise in accordance with a policy on relations with all of them based on two-way communication and on principles of transparency, active listening, and equal treatment, which allows for all of their legitimate interests to be taken into consideration and to effectively disclose information regarding the activities and businesses of the Group. The Company's Board of Directors is responsible for approving this policy and coordinating and supervising the application thereof.*
2. *The Company's corporate website, its presence on social media, and its digital communication strategy generally are channels of communication serving the stakeholder relations policy. The ultimate goal thereof is to encourage the stakeholders' engagement, reinforce their sense of belonging, strengthen the Iberdrola brand, and favour the development of the businesses of the Group and the digital transformation thereof.*
3. *The Board of Directors shall promote the use of the corporate website to facilitate the exercise of the shareholders' rights to receive information and to participate in connection with the General Shareholders' Meeting and the corporate governance of the Company, upon the terms provided by law and the Corporate Governance System.*
4. *The corporate websites and the presence on social media of the country subholding companies and of the head of business companies contribute to the Company's digital communication strategy and are one of the principal means for engaging their respective stakeholders. The structure and content thereof shall conform to the Company's stakeholder relations policy and to the general guidelines approved by its Board of Directors.*
5. *All companies of the Group shall promote the accessibility of their respective corporate websites.*

Article 32. Powers of the Board of Directors

1. *The Board of Directors has the power to adopt resolutions regarding all matters not assigned by law or the Corporate Governance System to the shareholders acting at a General Shareholders' Meeting.*
2. *Although the Board of Directors has the broadest powers and authority to manage and represent the Company, as a general rule of good governance, the Board of Directors shall focus its activities, pursuant to the Corporate Governance System, on the definition and supervision of the general guidelines to be followed by the Company and the Group, attending to the following matters, among others:*
 - a) *Establish, within legal limits, the policies, strategies, and guidelines of the Group, entrusting to the decision-making bodies and the management of the head of business companies of the Group the duties of day-to-day administration and effective management of each of the businesses thereof.*
 - b) *Supervise the general development of the aforementioned policies, strategies, and guidelines by the country subholding companies and by the head of business companies of the Group, establishing appropriate mechanisms of coordination and exchange of information in the interest of the Company and of the companies belonging thereto.*



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- c) *Decide on matters of strategic importance at the Group level.*
3. *The Board of Directors shall generally entrust to its chairman, to the chief executive officers, and to the senior officers the dissemination, coordination, and general implementation of the Group's management guidelines, acting in furtherance of the interests of each and every one of the companies belonging thereto.*
 4. *The Board of Directors shall design, evaluate, and review the Corporate Governance System on an ongoing basis. It shall approve the Mission, Vision, and Values of the Iberdrola group and shall pay special attention to the approval and updating of the Corporate Policies, which further develop the principles reflected in these By-Laws and in the other provisions of the Corporate Governance System and codify the guidelines that should govern the activities of the Company, its shareholders, and the Group.*
 5. *The Regulations of the Board of Directors shall specify the powers reserved to such body, which may not be entrusted to the representative decision-making bodies or to the senior management of the Company."*

It is also resolved to create a new Preliminary Title, which groups together articles 1 to 9, both inclusive, under the title "IBERDROLA, S.A. and its group" and to renumber the current article 4 regarding the object of the Company, which becomes the new article 5.

B.- Amendment of article 12 of the By-Laws and restructuring of Title I.

To amend article 12 of the By-Laws to refer to the indirect participation of the shareholders of IBERDROLA, S.A. in other companies of the Iberdrola group. This provision shall hereafter read as follows:

"Article 12. Shareholder Status

1. *Each share of the Company confers upon its legitimate holder the status of shareholder, and vests such holder with the rights and obligations established by law and by the Corporate Governance System. The shareholders also participate indirectly, through the Company, in the other companies of the Group.*
2. *The Company shall acknowledge as a shareholder any party that appears entitled thereto as owner in the entries of the corresponding book-entry register.*
3. *The Company may, as legally allowed, access the information needed to fully identify its shareholders, including addresses and means of contact for communication with them."*

It is also resolved to restructure Title I, such that it groups together articles 10 to 14 under the title "Share Capital and Shareholders", divided into two chapters: the first entitled "Share Capital and Shares", which groups together articles 10 and 11, and the second entitled "Shareholders", which groups together articles 12 to 14, both inclusive.

C.- Amendment of articles 34, 37, 38, 39, 40, 41, 42, 43, 44, and 45 of the By-Laws to clarify the regulation of the powers of the Appointments Committee and of the Remuneration Committee, and to make other improvements of a technical nature.

To amend articles 34, 37, 38, 39, 40, 41, 42, 43, 44, and 45 of the By-Laws to reflect the split of the Appointments and Remuneration Committee into two different committees and to clarify the distribution of the powers between the Appointments Committee and the Remuneration Committee, and to make other improvements of a technical nature. These provisions shall hereafter read as follows:

"Article 34. Types of Directors

1. *Those directors who perform management duties within the Company or its Group, whatever the legal relationship they maintain, shall be deemed executive directors.*
2. *All other directors of the Company, whether proprietary, independent, or other external, shall be deemed non-executive directors:*



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

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

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

Article 37. Committees of the Board of Directors

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

Article 38. Executive Committee

1. *If created, the Executive Committee shall have all the powers inherent to the Board of Directors, except for those powers that may not be delegated pursuant to law or the Corporate Governance System.*
2. *The Executive Committee shall be composed of the number of directors decided by the Board of Directors upon a proposal of the Appointments Committee, with a minimum of four and a maximum of eight.*



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3. *The appointment of the members of the Executive Committee and the delegation of powers thereto shall be carried out by the Board of Directors with the favourable vote of at least two-thirds of the members thereof. The renewal thereof shall be carried out at the time and in the form and numbers decided by the Board of Directors with such majority.*
4. *The chairman of the Board of Directors and the chief executive officers shall in all cases form part of the Executive Committee.*
5. *Meetings of the Executive Committee shall be chaired by the chairman of the Board of Directors, and in the absence thereof, by one of the vice-chairs who are members of the Executive Committee, if any, or by the lead independent director (consejero coordinador), if a member of the Executive Committee. In the absence of all of the foregoing, they shall be chaired by the director member of the Executive Committee having the longest length of service in office, and if equal lengths of service, by the oldest. The secretary of the Board of Directors or, in the absence thereof, any of the deputy secretaries or, in the absence of all of them, the director that the Executive Committee appoints from among its members in attendance shall serve as secretary.*
6. *Resolutions of the Executive Committee shall be adopted by an absolute majority of votes cast in person or by proxy. In the event of a tie, the chair of the Executive Committee shall have the tie-breaking vote.*

Article 39. Audit and Risk Supervision Committee

1. *The Board of Directors shall create a permanent Audit and Risk Supervision Committee, an internal informational and consultative body without executive duties, with information, advisory, and proposal-making powers within its scope of action.*
2. *The Audit and Risk Supervision Committee shall be composed of a minimum of three and a maximum of five directors appointed by the Board of Directors upon a proposal of the Appointments Committee from among the non-executive directors who are not members of the Executive Committee. A majority of such directors shall be independent.*
3. *The Board of Directors shall appoint a chair of the Audit and Risk Supervision Committee from among the independent directors forming part thereof, as well as its secretary, who need not be a director. The chair of the Audit and Risk Supervision Committee shall hold office for a maximum period of four years, after which period the chair may not be re-elected until the passage of at least one year from ceasing to act as such, without prejudice to the continuance or re-election thereof as a member of the committee.*
4. *The Audit and Risk Supervision Committee shall have the powers set forth in the Regulations of the Board of Directors and in its own regulations and in any event those established by law, except for that of reporting on related-party transactions, which power is assigned to the Appointments Committee.*

Article 40. Appointments Committee and Remuneration Committee

1. *The Board of Directors shall create a permanent Appointments Committee and a permanent Remuneration Committee (or a single Appointments and Remuneration Committee, in which case reference in these By-Laws to the Appointments Committee and the Remuneration Committee shall be deemed made to the same committee), which shall be internal informational and consultative bodies without executive duties, with information, advisory, and proposal-making powers within their respective scopes of action.*
2. *The Appointments Committee and the Remuneration Committee shall each be composed of a minimum of three and a maximum of five directors appointed by the Board of Directors upon a proposal of the Appointments Committee, from among the non-executive directors, and the majority of their respective members must be classified as independent.*



REPORT OF THE BOARD OF DIRECTORS REGARDING THE AMENDMENT OF THE BY-LAWS

3. *The Board of Directors shall appoint the chairs of both committees from among the independent directors forming part of each of them, as well as their secretaries, who need not be directors.*
4. *The Appointments Committee and the Remuneration Committee shall have the powers set forth in the Regulations of the Board of Directors and in their own regulations and in any event those established by law as well as those corresponding to each of them due to the nature thereof.*

In particular, the Appointments Committee shall have the power to report on related-party transactions.

Article 41. Corporate Social Responsibility Committee

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

Article 42. Chairman and Vice-Chair or Vice-Chairs

1. *The Board of Directors, following a report from the Appointments Committee, shall appoint a chairman from among its members. The Board of Directors may also appoint one or more honorary chairs of the Company.*
2. *The chairman of the Board of Directors shall have the status of president of the Company and of chair of all of the corporate decision-making bodies of which the chairman is a member, which he shall permanently represent with the broadest powers, having the duty to carry out the resolutions thereof and being authorised in urgent cases to adopt such measures as the chairman deems advisable in furtherance of the corporate interest.*
3. *The chairman of the Board of Directors undertakes the senior management and representation of the Company, as well as leadership of the Board of Directors.*
4. *The chairman of the Board of Directors exercises the powers conferred upon him by law and the Corporate Governance System, and particularly the following:*
 - a) *To call and preside over meetings of the Board of Directors and the Executive Committee, setting the agenda for the meetings and directing the discussion and debate.*
 - b) *To chair the General Shareholders' Meeting and exercise thereat the duties attributed thereto by the Corporate Governance System.*
 - c) *To bring to the Board of Directors those proposals that the chairman deems appropriate for the efficient running of the Company, particularly those corresponding to the operation of the Board of Directors itself and other governance decision-making bodies, as well as to propose the persons, if any, who will hold office as vice-chair, chief executive officer, secretary and deputy secretary of the Board of Directors and of the committees thereof, without prejudice to the reporting powers belonging to the Appointments Committee.*



REPORT OF THE BOARD OF DIRECTORS REGARDING THE AMENDMENT OF THE BY-LAWS

- d) *To ensure, with the collaboration of the secretary of the Board of Directors, that the directors receive in advance information sufficient to deliberate on the items on the agenda.*
 - e) *To stimulate the debate and active participation of the directors during meetings, safeguarding their freedom to take positions.*
5. *The Board of Directors, upon a proposal of its chairman and after a report from the Appointments Committee, may elect from among its members one or more vice-chairs who shall temporarily replace the chairman of the Board of Directors in the event of vacancy, absence, illness, or disqualification.*
 6. *If there is more than one vice-chair of the Board of Directors, the one that is expressly appointed by the Board of Directors for such purpose shall replace the chairman of the Board of Directors; in default of the foregoing, the vice-chair having the longest length of service in office; in case of equal lengths of service, the oldest. If a vice-chair has not been appointed, the chairman shall be replaced by the lead independent director; in the absence thereof, by the director with the longest length of service in office, and in case of equal lengths, by the oldest.*
 7. *If the chairman must be replaced on a definitive basis due to removal, notice of resignation, disability, or death, the preceding sections shall apply and the vice-chair or director appointed as a provisional replacement shall lead the process for electing a new chairman, in accordance with the succession plan approved by the Board of Directors.*
 8. *The same procedure shall be followed to decide the removal of a vice-chair.*

Article 43. Chief Executive Officer

1. *The Board of Directors, upon a proposal of the chairman thereof, after a report from the Appointments Committee and with the favourable vote of at least two-thirds of the directors, may appoint one or more chief executive officers (consejeros delegados) with the powers it deems appropriate and which may be delegated pursuant to law and the Corporate Governance System.*
2. *In the event of vacancy, absence, illness, or disqualification of all of the chief executive officers, the duties entrusted thereto shall be temporarily assumed by the chairman of the Board of Directors or, in the absence thereof, by the vice-chair or director designated in accordance with the provisions of section 6 of the preceding article, who shall call a meeting of the Board of Directors to deliberate and decide upon the appointment, if appropriate, of one or more new chief executive officers.*

Article 44. Secretary and Deputy Secretary or Deputy Secretaries of the Board of Directors

1. *The Board of Directors, upon a proposal of the chairman thereof and after a report from the Appointments Committee, shall appoint a secretary, who need not be a director, and, if appropriate, one or more deputy secretaries, who also need not be directors, and who shall replace the secretary in the event of vacancy, absence, illness, or disqualification. The same procedure shall be followed to decide the removal of the secretary and, if applicable, each deputy secretary.*
2. *If there is more than one deputy secretary, the secretary of the Board of Directors shall be replaced by the corresponding one among them in accordance with the order established at the time of their appointment. In the absence of a secretary and deputy secretaries, the director that the Board of Directors itself appoints from among the attendees at the meeting in question shall serve as such.*
3. *The secretary of the Board of Directors shall perform the duties assigned thereto by law and the Corporate Governance System.*



REPORT OF THE BOARD OF DIRECTORS REGARDING THE AMENDMENT OF THE BY-LAWS

4. *The secretary of the Board of Directors or, if applicable, the deputy secretary or one of the deputy secretaries if several, may also hold the position of general secretary if so decided by the Board of Directors, with the duties assigned thereto by the Corporate Governance System.*

Article 45. Checks and Balances System: Lead Independent Director

1. *The Corporate Governance System shall provide the measures necessary to ensure that neither the chairman of the Board of Directors nor the Executive Committee nor the chief executive officers have a decision-making power that is not subject to appropriate checks and balances.*
2. *The Board of Directors shall adopt the measures necessary to ensure that both the chairman of the Board of Directors and the Executive Committee and the chief executive officers are under its effective supervision.*
3. *The appointment of an executive director as chairman of the Board of Directors shall require the favourable vote of at least two-thirds of the directors.*
4. *If the chairman of the Board of Directors has the status of executive director, the Board of Directors, upon a proposal of the Appointments Committee and with the abstention of the executive directors, must necessarily appoint from among the independent directors a lead independent director (consejero coordinador), who shall be especially empowered, when the lead independent director deems it appropriate, to:

 - a) *Ask the chairman of the Board of Directors to call a meeting thereof and to participate with the chairman in the planning of the annual schedule of meetings.*
 - b) *Participate in the preparation of the agenda for each meeting of the Board of Directors and request the inclusion of matters on the agenda for meetings of the Board of Directors that have already been called.*
 - c) *Coordinate, gather, and reflect the concerns of the non-executive directors.*
 - d) *Direct the periodic evaluation of the chairman of the Board of Directors and lead any process for the succession thereof.**
5. *The lead independent director may also maintain contacts with shareholders when so decided by the Board of Directors."*

* * *

Bilbao, 23 February 2016



REPORT OF THE BOARD OF DIRECTORS REGARDING THE AMENDMENT OF THE BY-LAWS

ANNEX TO THE REPORT REGARDING THE PROPOSED AMENDMENT OF THE BY-LAWS INCLUDED IN ITEM TEN ON THE AGENDA

BY-LAWS

TITLE I. THE COMPANY, ITS SHARE CAPITAL, AND ITS SHAREHOLDERS

Chapter I. General Provisions

Article 6. Registered Office

1. The registered office of the Company is in Bilbao (Biscay) at Plaza Euskadi número 5.
2. Such registered office may be transferred to another location within the same municipal area by resolution of the Board of Directors.

Article 5. Duration

The duration of the Company is indefinite, its operations having commenced on the date of formalisation of its deed of incorporation.

Article 7. The Iberdrola Group

1. The Company is configured as a listed holding company and is the controlling entity of a multinational group of companies (the "Group").
2. The corporate and governance structure of the Company is defined based on the following:
 - a) The Company has duties relating to the design of the Corporate Governance System and to the establishment, supervision, and implementation of the policies and strategies of the Group, of the basic guidelines for the management thereof, and of decisions on matters of strategic importance at the Group level.
 - b) The country subholding companies, which are directly or indirectly subordinate to the Company, carry out the function of organisation and strategic coordination in those countries where the Board of Directors of the Company so decides.

BY-LAWS

PRELIMINARY TITLE I. THE COMPANY, ITS SHARE CAPITAL, IBERDROLA, S.A. AND ITS SHAREHOLDERS GROUP

Chapter I. General Provisions

Article ~~6.2~~ Registered Office

1. The registered office of the Company is in Bilbao (Biscay) at Plaza Euskadi número 5.
2. ~~Such~~The registered office may be transferred to another location within the same municipal area by resolution of the Board of Directors.

Article ~~5.3~~ Duration

The duration of the Company is indefinite, its operations having commenced on 19 July 1901, the date of formalisation of its deed of incorporation.

Article ~~7.4~~ The Iberdrola Group

1. The Company is configured as a listed holding company and is the controlling entity of a multinational group of companies (the "Group").
2. The corporate and governance structure of the Company is defined based on the following:
 - a) The Company has duties relating ~~to the design of the Corporate Governance System~~ and to the establishment, supervision, and implementation of the policies and strategies of the Group, of the basic guidelines for the management thereof, and of decisions on matters of strategic importance at the Group level, as well as the design of the Corporate Governance System.
 - b) The country subholding companies, ~~which are directly or indirectly subordinate to the Company~~, carry out the function of organisation and strategic coordination in those countries ~~where the~~ and at those businesses decided by the Company's Board



REPORT OF THE BOARD OF DIRECTORS REGARDING THE AMENDMENT OF THE BY-LAWS

These entities, which group together equity stakes in the head of business companies in the various countries in which the Group operates, are also responsible for disseminating, implementing, and ensuring compliance with the policies, strategies, and general guidelines of the Group in each of the countries in which it operates, taking into account the characteristics and unique aspects of such countries.

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

Article 4. Object of the Company

1. The Company's object is:
 - a) To carry out all manner of activities, works, and services inherent in or related to the business of production, transmission, switching, and distribution or supply of electric power or electricity by-products and applications thereof, and the raw material or energy needed for the generation thereof; energy, engineering, information-technology, telecommunications, and internet-related services; water treatment and distribution; the integral provision of urban and gas supply, as well as other gas storage, regasification, transportation, or distribution

of Directors ~~of the Company so decides.~~

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

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

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

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

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

Article ~~4~~5. Object of the Company

1. The Company's object is:
 - a) To carry out all manner of activities, works, and services inherent in or related to the business of production, transmission, switching, and distribution or supply of electric power or electricity by-products and applications thereof, and the raw material or energy needed for the generation thereof; energy, engineering, information-technology, telecommunications, and internet-related services; water treatment and distribution; the integral provision of urban and gas supply, as well as other gas storage, regasification, transportation, or distribution



REPORT OF THE BOARD OF DIRECTORS REGARDING THE AMENDMENT OF THE BY-LAWS

- activities, which will be carried out indirectly through the ownership of shares or equity interests in other companies that will not engage in the supply of gas.
- b) The distribution, representation, and marketing of all manner of goods and services, products, articles, merchandise, software programs, industrial equipment and machinery, tools, utensils, spare parts, and accessories.
 - c) The investigation, study, and planning of investment and corporate organisation projects, as well as the promotion, creation, and development of industrial, commercial, or service companies.
 - d) The provision of services assisting or supporting companies and businesses in which it has an interest or which are within its corporate group, for which purpose it may provide appropriate guarantees and bonds in favour thereof.
2. The aforementioned activities may be carried out in Spain as well as abroad, and may be carried out, in whole or in part, either directly by the Company or through the ownership of shares or equity interests in other companies, subject in all cases and at all times to applicable legal provisions for each industry, especially the electricity industry.

Article 3. Corporate Interest and Ethical Principles

1. The Company pursues the fulfilment of the corporate interest, which is understood as the common interest of all shareholders of an independent company oriented towards the sustainable exploitation of its corporate object and the creation of long-term value for the shareholders' benefit, taking into account other stakeholders related to its business activity and to its institutional reality, and especially the legitimate interests of the various communities and territories in which the Company acts and those of its employees.
2. The Company aspires for its conduct and that of the persons connected therewith to conform and adhere not only to applicable law and its Corporate Governance System but also to ethical principles and generally accepted principles of social responsibility. The Board of Directors has for such purpose approved a *Code of Ethics* that includes this commitment under the *By-Laws*.

- activities, which will be carried out indirectly through the ownership of shares or equity interests in other companies that will not engage in the supply of gas.
- b) The distribution, representation, and marketing of all manner of goods and services, products, articles, merchandise, software programs, industrial equipment and machinery, tools, utensils, spare parts, and accessories.
 - c) The investigation, study, and planning of investment and corporate organisation projects, as well as the promotion, creation, and development of industrial, commercial, or service companies.
 - d) The provision of services assisting or supporting companies and businesses in which it has an interest or which are within its corporate group, for which purpose it may provide appropriate guarantees and bonds in favour thereof.
2. The aforementioned activities may be carried out in Spain as well as abroad, and may be carried out, in whole or in part, either directly by the Company or through the ownership of shares or equity interests in other companies, subject in all cases and at all times to applicable legal provisions for each industry, especially the electricity industry.

Article ~~3-6~~ Corporate Interest ~~and Ethical Principles~~

1. ~~The Company pursues the fulfilment~~conceives of the corporate interest, ~~which is understood~~ as the common interest of all shareholders of an independent company ~~oriented towards~~focused on the sustainable ~~exploitation of~~creation of value by engaging in the activities included in its corporate object ~~and the creation of long-term value for the shareholders' benefit~~, taking into account other stakeholders related to its business activity and ~~to its institutional reality, and especially the legitimate interests of the various communities and territories in which~~in accordance with the ~~Company acts and those of its employees~~Mission, Vision, and Values of the Iberdrola group.
2. ~~The Company aspires for its conduct and that of the persons connected therewith to conform and adhere not only to applicable law and its Corporate Governance System but also to ethical principles and generally accepted principles of social responsibility. The Board of Directors has for such purpose approved a Code of Ethics that includes this commitment under the By-Laws.~~

Article 7. Social Return, Corporate Values, and Ethical



REPORT OF THE BOARD OF DIRECTORS REGARDING THE AMENDMENT OF THE BY-LAWS

Principles

1. The Mission, Vision, and Values of the Iberdrola group 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.
2. The Mission, Vision, and Values of the Iberdrola group 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.
3. 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.
4. 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.

Article 2. 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, configured in accordance with applicable law in the exercise of corporate autonomy supported thereby, and that applies to the entire group of companies controlled by the Company. It is intended to ensure through rule-making the best development of the corporate object of the Company, as an international business entity that operates in quite varied economic, legal, and social contexts, as well as

Article 2.8. 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 that~~ applies to the entire group of companies controlled by the Company Group. It is intended to ensure through rule-making the best development of the corporate object of the Company, ~~as an international business entity that operates in quite varied economic, legal, and social contexts, as well~~



REPORT OF THE BOARD OF DIRECTORS REGARDING THE AMENDMENT OF THE BY-LAWS

- the fulfilment of the corporate interest.
3. The Corporate Governance System is made up of these *By-Laws*, the *Corporate Policies*, the internal corporate governance rules, which include the *Regulations for the General Shareholders' Meeting*, the *Regulations of the Board of Directors* and those of its committees, and of the other internal codes and procedures approved by the competent decision-making bodies of the Company.
 4. The shareholders acting at a General Shareholders' Meeting and the Board of Directors, within their respective purview, develop, apply, and interpret the rules making up the Corporate Governance System in order to ensure compliance at all times with the purposes thereof and, particularly, the fulfilment of the corporate interest.

Article 9. Corporate Website

1. The Company maintains a corporate website, envisaged as an instrument for channelling its relations with shareholders and investors, which is intended to foster their involvement in corporate life.
2. Through the corporate website:
 - a) shareholders and investors are provided with the documents and information required by law and the Corporate Governance System and other information deemed appropriate, taking into

- ~~as~~ and the fulfilment of the corporate interest.
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 internal corporate governance rules, which include the *Regulations for the General Shareholders' 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.
 4. [Full or summarised versions of the rules making up the Corporate Governance System can be viewed on the Company's corporate website.](#)
 5. ~~4.~~—The shareholders acting at a General Shareholders' Meeting and the Board of Directors [of the Company](#), within their respective purview, develop, apply, and interpret the rules making up the Corporate Governance System in order to ensure compliance at all times with the purposes thereof and, particularly, the fulfilment of the corporate interest.

[Article 9. Stakeholder Relations, Corporate Website, and Presence on Social Media](#)

1. The Company ~~maintains a corporate website, envisaged as an instrument for channelling its relations with shareholders and investors, which is intended to foster their involvement in corporate life~~ [and the other entities belonging to the Group seek to engage all stakeholders in its business enterprise in accordance with a policy on relations with all of them based on two-way communication and on principles of transparency, active listening, and equal treatment, which allows for all of their legitimate interests to be taken into consideration and to effectively disclose information regarding the activities and businesses of the Group. The Company's Board of Directors is responsible for approving this policy and coordinating and supervising the application thereof.](#)
2. ~~Through the corporate website:~~
 - a) ~~shareholders and investors are provided with the documents and information required by law and the Corporate Governance System and other information deemed appropriate, taking into account the provisions of~~



REPORT OF THE BOARD OF DIRECTORS REGARDING THE AMENDMENT OF THE BY-LAWS

account the provisions of the preceding section;

- b) shareholders are provided with the means to exercise the rights to receive information and to participation in the General Shareholders' Meeting recognised by law and by the Corporate Governance System; and
- e) full or summarised versions of the rules making up the Corporate Governance System are published.

Article 8. Permanent Contact with Shareholders and Transparency

Permanent contact with its shareholders and ongoing attention to the transparency of corporate information and of relations with its shareholders and with the market generally, in accordance with the provisions of law and the Corporate Governance System, are primary objectives of the Company.

~~the preceding section;~~

- ~~b) ——— shareholders are provided with the means to exercise the rights to receive information and to participation in the General Shareholders' Meeting recognised by law and by the Corporate Governance System; and~~
- ~~e) ——— full or summarised versions of the rules making up the Corporate Governance System are published.~~

2. The Company's corporate website, its presence on social media, and its digital communication strategy generally are channels of communication serving the stakeholder relations policy. The ultimate goal thereof is to encourage the stakeholders' engagement, reinforce their sense of belonging, strengthen the Iberdrola brand, and favour the development of the businesses of the Group and the digital transformation thereof.

3. The Board of Directors shall promote the use of the corporate website to facilitate the exercise of the shareholders' rights to receive information and to participate in connection with the General Shareholders' Meeting and the corporate governance of the Company, upon the terms provided by law and the Corporate Governance System.

4. The corporate websites and the presence on social media of the country subholding companies and of the head of business companies contribute to the Company's digital communication strategy and are one of the principal means for engaging their respective stakeholders. The structure and content thereof shall conform to the Company's stakeholder relations policy and to the general guidelines approved by its Board of Directors.

5. All companies of the Group shall promote the accessibility of their respective corporate websites.

~~Article 8. Permanent Contact with Shareholders and Transparency~~

~~Permanent contact with its shareholders and ongoing attention to the transparency of corporate information and of relations with its shareholders and with the market generally, in accordance with the provisions of law and the Corporate Governance System, are primary objectives of the Company.~~



REPORT OF THE BOARD OF DIRECTORS REGARDING THE AMENDMENT OF THE BY-LAWS

Chapter II. Share Capital and Shares

Article 11. The Shares

1. The shares are represented in book-entry form.
2. If shares have not been entirely paid up, this circumstance shall be reflected in the corresponding book entry.
3. Unpaid subscriptions must be paid at the time fixed by the Board of Directors, within a period of five years from the date of the resolution approving the capital increase. The form and other circumstances of the payment shall be governed by the provisions of the resolution approving the capital increase, which may provide for cash as well as non-cash contributions.

Article 12. Shareholder Status

1. Each share of the Company confers upon its legitimate holder the status of shareholder, and vests such holder with the rights and obligations established by law and by the Corporate Governance System. In this regard, the Company shall acknowledge as a shareholder any party that appears entitled thereto as owner in the entries of the corresponding book-entry register.
2. The Company may, as legally allowed, access the information needed to fully identify its shareholders, including addresses and means of contact for communication with them.

Article 13. Involvement of the Shareholders

The Company shall foster continuous and appropriate

TITLE I. SHARE CAPITAL AND SHAREHOLDERS

Chapter III. Share Capital and Shares

Article 11. Shares

1. The shares are represented in book-entry form.
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3. Unpaid subscriptions must be paid at the time fixed by the Board of Directors, within a period of five years from the date of the resolution approving the increase in capital. The form and other circumstances of the payment shall be governed by the provisions of the resolution approving the increase in capital, which may provide for cash as well as non-cash contributions.

Chapter II. Shareholders

Article 12. Shareholder Status

1. Each share of the Company confers upon its legitimate holder the status of shareholder, and vests such holder with the rights and obligations established by law and by the Corporate Governance System. ~~In this regard, the Company shall acknowledge as a shareholder any party that appears entitled thereto as owner in the entries of the corresponding book-entry register.~~ The shareholders also participate indirectly, through the Company, in the other companies of the Group.
2. ~~The Company may, as legally allowed, access the information needed to fully identify its shareholders, including addresses and means of contact for communication with them.~~ The Company shall acknowledge as a shareholder any party that appears entitled thereto as owner in the entries of the corresponding book-entry register.
3. The Company may, as legally allowed, access the information needed to fully identify its shareholders, including addresses and means of contact for communication with them.

Chapter III. The Shareholders

Article 13. Involvement of the Shareholders

The Company shall foster continuous and appropriate



REPORT OF THE BOARD OF DIRECTORS REGARDING THE AMENDMENT OF THE BY-LAWS

information for its shareholders, permanent contact therewith, and their involvement in corporate life. For this purpose, the Board of Directors shall establish the channels for participation through which the Company will foster their involvement with appropriate guarantees and coordination mechanisms.

Article 14. The Shareholders and the Corporate Governance System

1. The ownership of shares entails consent to the Corporate Governance System and the duty to respect and comply with the legally adopted decisions of the governance bodies of the Company.
2. Shareholders must exercise their rights vis-à-vis the Company and the other shareholders, and must comply with their duties, acting with loyalty, in good faith, and transparently, within the framework of the corporate interest as the paramount interest ahead of the private interest of each shareholder and in accordance with the Corporate Governance System.

Article 32. Powers of the Board of Directors

1. The Board of Directors has the power to adopt resolutions regarding all matters not assigned by law or the Corporate Governance System to the shareholders acting at a General Shareholders' Meeting.
2. Although the Board of Directors has the broadest powers and authority to manage and represent the Company, as a general rule of good governance, the Board of Directors shall focus its activities, pursuant to the Corporate Governance System, on the definition and supervision of the general guidelines to be followed by the Company and the Group, attending to the following matters, among others:
 - a) Establish, within legal limits, the policies, strategies, and guidelines of the Group, entrusting to the decision-making bodies and the management of the head of business companies of the Group the duties of day-to-day administration and effective management of each of the businesses thereof.
 - b) Supervise the general development of the aforementioned policies, strategies, and guidelines by the country subholding companies and by the head of business companies of the Group, establishing

information for its shareholders, permanent contact therewith, and their engagement in corporate life. For this purpose, the Board of Directors shall establish the channels for participation through which the Company will foster their engagement with appropriate guarantees and coordination mechanisms.

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Article 32. Powers of the Board of Directors

1. The Board of Directors has the power to adopt resolutions regarding all matters not assigned by law or the Corporate Governance System to the shareholders acting at a General Shareholders' Meeting.
2. Although the Board of Directors has the broadest powers and authority to manage and represent the Company, as a general rule of good governance, the Board of Directors shall focus its activities, pursuant to the Corporate Governance System, on the definition and supervision of the general guidelines to be followed by the Company and the Group, attending to the following matters, among others:
 - a) Establish, within legal limits, the policies, strategies, and guidelines of the Group, entrusting to the decision-making bodies and the management of the head of business companies of the Group the duties of day-to-day administration and effective management of each of the businesses thereof.
 - b) Supervise the general development of the aforementioned policies, strategies, and guidelines by the country subholding companies and by the head of business companies of the Group, establishing



REPORT OF THE BOARD OF DIRECTORS REGARDING THE AMENDMENT OF THE BY-LAWS

appropriate mechanisms of coordination and exchange of information in the interest of the Company and of the companies belonging thereto.

- c) Decide on matters of strategic importance at the Group level.
3. The Board of Directors shall generally entrust to its chairman, to the chief executive officers, and to the senior officers the dissemination, coordination, and general implementation of the Group's management guidelines, acting in furtherance of the interests of each and every one of the companies belonging thereto.
 4. The Board of Directors shall design, evaluate, and review the Corporate Governance System on an ongoing basis. It shall pay special attention to the approval of the Corporate *Policies*, which further develop the principles reflected in these *By-Laws* and in the other provisions of the Corporate Governance System and codify the guidelines that should govern the activities of the Company and its shareholders and the activities of the Group.
 5. The *Regulations of the Board of Directors* shall specify the powers reserved to such body, which may not be entrusted to the representative decision-making bodies or to the senior management of the Company.

Article 34. Types of Directors

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

appropriate mechanisms of coordination and exchange of information in the interest of the Company and of the companies belonging thereto.

- c) Decide on matters of strategic importance at the Group level.
3. The Board of Directors shall generally entrust to its chairman, to the chief executive officers, and to the senior officers the dissemination, coordination, and general implementation of the Group's management guidelines, acting in furtherance of the interests of each and every one of the companies belonging thereto.
 4. The Board of Directors shall design, evaluate, and review the Corporate Governance System on an ongoing basis. It shall approve the Mission, Vision, and Values of the Iberdrola group and shall pay special attention to the approval and updating of the *Corporate Policies*, which further develop the principles reflected in these *By-Laws* and in the other provisions of the Corporate Governance System and codify the guidelines that should govern the activities of the Company and its shareholders, ~~and the activities of~~ the Group.
 5. The *Regulations of the Board of Directors* shall specify the powers reserved to such body, which may not be entrusted to the representative decision-making bodies or to the senior management of the Company.

Article 34. Types of Directors

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



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executive director.

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

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

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

Article 37. Committees of the Board of Directors

- 1. The Board of Directors must have an Audit and Risk Supervision Committee and an Appointments and Remuneration Committee (or two separate

the Group, such director shall be deemed an executive director.

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

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

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

Article 37. Committees of the Board of Directors

- 1. The Board of Directors must have an Audit and Risk Supervision Committee ~~and~~ an Appointments Committee, and a Remuneration Committee (or



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committees, an Appointments Committee and a Remuneration Committee), on a permanent basis.

2. The Board of Directors may also have an executive committee, called the Executive Committee (*Comisión Ejecutiva Delegada*), a consultative committee called the Corporate Social Responsibility Committee, and may create any other consultative committees with the powers that the Board of Directors determines, all of a voluntary nature.
3. The committees shall be governed by the provisions of the Corporate Governance System, including, the specific regulations thereof, when available, which must be approved by the Board of Directors and, by way of supplement and to the extent not incompatible with the nature thereof, by the provisions regarding the operation of the Board of Directors.

Article 38. Executive Committee

1. If created, the Executive Committee shall have all the powers inherent to the Board of Directors, except for those powers that may not be delegated pursuant to law or the Corporate Governance System.
2. The Executive Committee shall be composed of the number of directors decided by the Board of Directors upon a proposal of the Appointments and Remuneration Committee, with a minimum of four and a maximum of eight.
3. The appointment of the members of the Executive Committee and the delegation of powers thereto shall be carried out by the Board of Directors with the favourable vote of at least two-thirds of the members thereof. The renewal thereof shall be carried out at the time and in the form and numbers decided by the Board of Directors with such majority.
4. The chairman of the Board of Directors and the chief executive officers shall in all cases form part of the Executive Committee.
5. The meetings of the Executive Committee shall be chaired by the chairman of the Board of Directors, and in the absence thereof, by one of the vice-chairs who are members of the Executive Committee, and if none, by the director member of the Executive Committee having the

~~two separate committees, a~~ single Appointments ~~Committee and a~~ Remuneration Committee), on a permanent basis.

2. The Board of Directors may also have an executive committee, called the Executive Committee (*Comisión Ejecutiva Delegada*), a consultative committee called the Corporate Social Responsibility Committee, and may create any other consultative committees with the powers that the Board of Directors determines, all of a voluntary nature.
3. The committees shall be governed by the provisions of the Corporate Governance System, including, the specific regulations thereof, when available, which must be approved by the Board of Directors and, by way of supplement and to the extent not incompatible with the nature thereof, by the provisions regarding the operation of the Board of Directors.

Article 38. Executive Committee

1. If created, the Executive Committee shall have all the powers inherent to the Board of Directors, except for those powers that may not be delegated pursuant to law or the Corporate Governance System.
2. The Executive Committee shall be composed of the number of directors decided by the Board of Directors upon a proposal of the ~~Appointments and Remuneration~~ Committee, with a minimum of four and a maximum of eight.
3. The appointment of the members of the Executive Committee and the delegation of powers thereto shall be carried out by the Board of Directors with the favourable vote of at least two-thirds of the members thereof. The renewal thereof shall be carried out at the time and in the form and numbers decided by the Board of Directors with such majority.
4. The chairman of the Board of Directors and the chief executive officers shall in all cases form part of the Executive Committee.
5. Meetings of the Executive Committee shall be chaired by the chairman of the Board of Directors, and in the absence thereof, by one of the vice-chairs who are members of the Executive Committee, ~~and if none, if any, or by the lead~~



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longest length of service in office, and if equal lengths of service, by the oldest. The secretary of the Board of Directors or, in the absence thereof, any of the deputy secretaries or, in the absence of all of them, the director that the Executive Committee appoints from among its members in attendance, shall serve as secretary.

6. Resolutions of the Executive Committee shall be adopted by an absolute majority of votes cast in person or by proxy. In the event of a tie, the chair of the Executive Committee shall have the tie-breaking vote.

Article 39. Audit and Risk Supervision Committee

1. The Board of Directors shall create a permanent Audit and Risk Supervision Committee, an internal informational and consultative body without executive duties with information, advisory, and proposal-making powers within its scope of action.

2. The Audit and Risk Supervision Committee shall be composed of a minimum of three and a maximum of five directors appointed by the Board of Directors upon a proposal of the Appointments and Remuneration Committee from among the non-executive directors who are not members of the Executive Committee. A majority of such directors shall be independent.

3. The Board of Directors shall appoint a chair of the Audit and Risk Supervision Committee from among the independent directors forming part thereof, as well as its secretary, who need not be a director. The position of chair of the Audit and Risk Supervision Committee shall be held for a maximum period of four years, after which period the chair may not be re-elected until the passage of at least one year from ceasing to act as such, without prejudice to the continuance or re-election thereof as a member of the committee.

4. The Audit and Risk Supervision Committee shall have the powers set forth in the *Regulations of the Board of Directors* and in its own regulations and in any event those established by law, except for that of reporting on related-party transactions, which power is assigned to the Appointments and Remuneration Committee.

independent director (consejero coordinador), if a member of the Executive Committee. In the absence of all of the foregoing, they shall be chaired by the director member of the Executive Committee having the longest length of service in office, and if equal lengths of service, by the oldest. The secretary of the Board of Directors or, in the absence thereof, any of the deputy secretaries or, in the absence of all of them, the director that the Executive Committee appoints from among its members in attendance, shall serve as secretary.

6. Resolutions of the Executive Committee shall be adopted by an absolute majority of votes cast in person or by proxy. In the event of a tie, the chair of the Executive Committee shall have the tie-breaking vote.

Article 39. Audit and Risk Supervision Committee

1. The Board of Directors shall create a permanent Audit and Risk Supervision Committee, an internal informational and consultative body without executive duties, with information, advisory, and proposal-making powers within its scope of action.

2. The Audit and Risk Supervision Committee shall be composed of a minimum of three and a maximum of five directors appointed by the Board of Directors upon a proposal of the Appointments ~~and Remuneration~~ Committee from among the non-executive directors who are not members of the Executive Committee. A majority of such directors shall be independent.

3. The Board of Directors shall appoint a chair of the Audit and Risk Supervision Committee from among the independent directors forming part thereof, as well as its secretary, who need not be a director. The chair of the Audit and Risk Supervision Committee shall hold office for a maximum period of four years, after which period the chair may not be re-elected until the passage of at least one year from ceasing to act as such, without prejudice to the continuance or re-election thereof as a member of the committee.

4. The Audit and Risk Supervision Committee shall have the powers set forth in the *Regulations of the Board of Directors* and in its own regulations and in any event those established by law, except for that of reporting on related-party transactions, which power is assigned to the Appointments ~~and~~



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Article 40. Appointments and Remuneration Committee

1. The Board of Directors shall create a permanent Appointments and Remuneration Committee (or two separate committees, an Appointments Committee and a Remuneration Committee, in which case reference in these *By-Laws* to the Appointments and Remuneration Committee shall be deemed made to the corresponding committee), which shall be an internal informational and consultative body without executive duties, with information, advisory, and proposal-making powers within its scope of action.
2. The Appointments and Remuneration Committee shall be composed of a minimum of three and a maximum of five directors appointed by the Board of Directors upon a proposal of the Appointments and Remuneration Committee, from among the non-executive directors, and the majority thereof must be classified as independent.
3. The Board of Directors shall appoint a chair of the Appointments and Remuneration Committee from among the independent directors forming part thereof, as well as its secretary, who need not be a director.
4. The Appointments and Remuneration Committee shall have the powers set forth in the *Regulations of the Board of Directors* and in its own regulations and in any event those established by law as well as the power to report on related-party transactions.

Article 41. Corporate Social Responsibility Committee

1. If created, the Corporate Social Responsibility Committee shall be deemed an internal informational and consultative body without

Remuneration Committee.

Article 40. Appointments Committee and Remuneration Committee

1. The Board of Directors shall create a permanent Appointments Committee and a permanent Remuneration Committee (or ~~two separate committees, a single~~ Appointments Committee and ~~a~~ Remuneration Committee, in which case reference in these *By-Laws* to the Appointments Committee and the Remuneration Committee shall be deemed made to the ~~corresponding same~~ committee), ~~which~~ shall be ~~an~~ internal informational and consultative ~~body~~ bodies without executive duties, with information, advisory, and proposal-making powers within ~~its scope~~ their respective scopes of action.
2. The Appointments Committee and the Remuneration Committee shall each be composed of a minimum of three and a maximum of five directors appointed by the Board of Directors upon a proposal of the Appointments ~~and Remuneration~~ Committee, ~~from~~ among the non-executive directors, and the majority ~~thereof~~ their respective members must be classified as independent.
3. The Board of Directors shall appoint ~~a chair of the Appointments and Remuneration Committee~~ the chairs of both committees from among the independent directors forming part ~~thereof~~ of each of them, as well as ~~its secretary~~ their secretaries, who need not be ~~a director~~ directors.
4. The Appointments Committee and the Remuneration Committee shall have the powers set forth in the *Regulations of the Board of Directors* and in ~~its~~ their own regulations and in any event those established by law as well as ~~the power to report on related-party transactions~~ those corresponding to each of them due to the nature thereof.

In particular, the Appointments Committee shall have the power to report on related-party transactions.

Article 41. Corporate Social Responsibility Committee

1. If created, the Corporate Social Responsibility Committee shall be deemed an internal informational and consultative body without



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- executive duties, with information, advisory, and proposal-making powers within its scope of action.
2. The Corporate Social Responsibility Committee shall be composed of a minimum of three and a maximum of five directors appointed by the Board of Directors upon a proposal of the Appointments and Remuneration Committee, from among the non-executive directors, and the majority thereof must be classified as independent.
 3. The Board of Directors shall appoint a chair of the Corporate Social Responsibility Committee from among the independent directors forming part thereof, as well as its secretary, who need not be a director.
 4. The Corporate Social Responsibility Committee shall have the powers set forth in the *Regulations of the Board of Directors* and in its own regulations.

Article 42. Chairman and Vice-Chair or Vice-Chairs

1. The Board of Directors, following a report from the Appointments and Remuneration Committee, shall appoint a chairman from among its members. The Board of Directors may also appoint one or more honorary chairs of the Company.
2. The chairman of the Board of Directors shall have the status of president of the Company and of chair of all of the corporate decision-making bodies of which the chairman is a member, which he shall permanently represent with the broadest powers, having a duty to carry out the resolutions thereof and being authorised in urgent cases to adopt such measures as the chairman deems advisable in furtherance of the corporate interest.
3. The chairman of the Board of Directors undertakes the senior management and representation of the Company, as well as leadership of the Board of Directors.
4. The chairman of the Board of Directors exercises the powers conferred upon him by law and the Corporate Governance System, and particularly the following:
 - a) To call and preside over meetings of the Board of Directors and the Executive Committee, setting the agenda for the meetings and directing the discussion

- executive duties, with information, advisory, and proposal-making powers within its scope of action.
2. The Corporate Social Responsibility Committee shall be composed of a minimum of three and a maximum of five directors appointed by the Board of Directors upon a proposal of the Appointments ~~and Remuneration~~ Committee, from among the non-executive directors, and the majority thereof must be classified as independent.
 3. The Board of Directors shall appoint a chair of the Corporate Social Responsibility Committee from among the independent directors forming part thereof, as well as its secretary, who need not be a director.
 4. The Corporate Social Responsibility Committee shall have the powers set forth in the *Regulations of the Board of Directors* and in its own regulations.

Article 42. Chairman and Vice-Chair or Vice-Chairs

1. The Board of Directors, following a report from the Appointments ~~and Remuneration~~ Committee, shall appoint a chairman from among its members. The Board of Directors may also appoint one or more honorary chairs of the Company.
2. The chairman of the Board of Directors shall have the status of president of the Company and of chair of all of the corporate decision-making bodies of which the chairman is a member, which he shall permanently represent with the broadest powers, having ~~a~~^{the} duty to carry out the resolutions thereof and being authorised in urgent cases to adopt such measures as the chairman deems advisable in furtherance of the corporate interest.
3. The chairman of the Board of Directors undertakes the senior management and representation of the Company, as well as leadership of the Board of Directors.
4. The chairman of the Board of Directors exercises the powers conferred upon him by law and the Corporate Governance System, and particularly the following:
 - a) To call and preside over meetings of the Board of Directors and the Executive Committee, setting the agenda for the meetings and directing the discussion and



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- and debate.
- b) To chair the General Shareholders' Meeting and exercise thereat the duties attributed thereto by the Corporate Governance System.
 - c) To bring to the Board of Directors those proposals that the chairman deems appropriate for the efficient running of the Company, particularly those corresponding to the operation of the Board of Directors itself and other governance decision-making bodies, as well as to propose the persons, if any, who will hold office as vice-chair, chief executive officer, secretary and deputy secretary of the Board of Directors and the committees thereof, without prejudice to the reporting powers belonging to the Appointments and Remuneration Committee.
 - d) To ensure, with the collaboration of the secretary, that the directors receive in advance information sufficient to deliberate on the items on the agenda.
 - e) To stimulate the debate and active participation of the directors during meetings, safeguarding their freedom to take positions.

5. The Board of Directors, upon a proposal of its chairman and after a report from the Appointments and Remuneration Committee, may elect from among its members one or more vice-chairs who shall temporarily replace the chairman of the Board of Directors in the event of vacancy, absence, illness, or incapacity. The same procedure shall be followed to decide the removal of a vice-chair.

6. If there is more than one vice-chair of the Board of Directors, the one that is expressly appointed by the Board of Directors for such purpose shall replace the chairman of the Board of Directors; in default of the foregoing, the vice-chair having the longest length of service in office; in case of equal lengths of service, the oldest. If a vice-chair has not been appointed, the chairman shall be replaced by the director with the longest length of service in office, and in case of equal lengths, the oldest.

- debate.
- b) To chair the General Shareholders' Meeting and exercise thereat the duties attributed thereto by the Corporate Governance System.
 - c) To bring to the Board of Directors those proposals that the chairman deems appropriate for the efficient running of the Company, particularly those corresponding to the operation of the Board of Directors itself and other governance decision-making bodies, as well as to propose the persons, if any, who will hold office as vice-chair, chief executive officer, secretary and deputy secretary of the Board of Directors and of the committees thereof, without prejudice to the reporting powers belonging to the Appointments ~~and Remuneration~~ Committee.
 - d) To ensure, with the collaboration of the secretary of the Board of Directors, that the directors receive in advance information sufficient to deliberate on the items on the agenda.
 - e) To stimulate the debate and active participation of the directors during meetings, safeguarding their freedom to take positions.

5. The Board of Directors, upon a proposal of its chairman and after a report from the Appointments ~~and Remuneration~~ Committee, may elect from among its members one or more vice-chairs who shall temporarily replace the chairman of the Board of Directors in the event of vacancy, absence, illness, or incapacity. ~~The same procedure shall be followed to decide the removal of a vice-chair.~~

6. If there is more than one vice-chair of the Board of Directors, the one that is expressly appointed by the Board of Directors for such purpose shall replace the chairman of the Board of Directors; in default of the foregoing, the vice-chair having the longest length of service in office; in case of equal lengths of service, the oldest. If a vice-chair has not been appointed, the chairman shall be replaced by the lead independent director; in the absence thereof, by the director with the longest length of service in office, and in case of equal



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7. The vice-chair or the director, if any, that must replace the chairman under the provisions of the preceding section shall lead the process of electing a new chairman in the event of removal, notice of resignation, disability, or death in accordance with the succession plan approved by the Board of Directors.

Article 43. Chief Executive Officer

1. The Board of Directors, upon a proposal of the chairman thereof, after a report from the Appointments and Remuneration Committee and with the favourable vote of at least two-thirds of the directors, may appoint one or more chief executive officers (*consejeros delegados*) with the powers it deems appropriate and which may be delegated pursuant to law and the Corporate Governance System.

2. In the event of vacancy, absence, illness, or incapacity of all of the chief executive officers, the duties entrusted thereto shall be temporarily assumed by the chairman of the Board of Directors or, in the absence thereof, by the vice-chair or director designated in accordance with the provisions of section 6 of the preceding article, who shall call a meeting of the Board of Directors to deliberate and decide upon the appointment, if appropriate, of one or more new chief executive officers.

Article 44. Secretary and Deputy Secretary or Deputy Secretaries of the Board of Directors

1. The Board of Directors, upon a proposal of the chairman thereof and after a report from the Appointments and Remuneration Committee, shall appoint a secretary, who need not be a director, and, if appropriate, one or more deputy secretaries, who also need not be directors, and who shall replace the secretary in the event of vacancy, absence, illness, or incapacity. The same procedure shall be followed to decide the removal of the secretary and, if applicable, each deputy secretary.

lengths, by the oldest.

7. ~~The vice chair or the director, if any, that must replace the chairman under the provisions of the preceding section shall lead the process of electing a new chairman in the event of the chairman must be replaced on a definitive basis due to removal, notice of resignation, disability, or death, the preceding sections shall apply and the vice-chair or director appointed as a provisional replacement shall lead the process for electing a new chairman.~~ in accordance with the succession plan approved by the Board of Directors.

8. The same procedure shall be followed to decide the removal of a vice-chair.

Article 43. Chief Executive Officer

1. The Board of Directors, upon a proposal of the chairman thereof, after a report from the Appointments ~~and Remuneration~~ Committee and with the favourable vote of at least two-thirds of the directors, may appoint one or more chief executive officers (*consejeros delegados*) with the powers it deems appropriate and which may be delegated pursuant to law and the Corporate Governance System.

2. In the event of vacancy, absence, illness, or incapacity of all of the chief executive officers, the duties entrusted thereto shall be temporarily assumed by the chairman of the Board of Directors or, in the absence thereof, by the vice-chair or director designated in accordance with the provisions of section 6 of the preceding article, who shall call a meeting of the Board of Directors to deliberate and decide upon the appointment, if appropriate, of one or more new chief executive officers.

Article 44. Secretary and Deputy Secretary or Deputy Secretaries of the Board of Directors

1. The Board of Directors, upon a proposal of the chairman thereof and after a report from the Appointments ~~and Remuneration~~ Committee, shall appoint a secretary, who need not be a director, and, if appropriate, one or more deputy secretaries, who also need not be directors, and who shall replace the secretary in the event of vacancy, absence, illness, or incapacity. The same procedure shall be followed to decide the removal of the secretary and, if applicable, each deputy



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2. If there is more than one deputy secretary, the secretary of the Board of Directors shall be replaced by the corresponding one among them in accordance with the order established at the time of their appointment. In the absence of a secretary and deputy secretaries, the director that the Board of Directors itself appoints from among the attendees at the meeting in question shall serve as such.

3. The secretary of the Board of Directors shall perform the duties assigned thereto by law and the Corporate Governance System.

4. The secretary of the Board of Directors or, if applicable, the deputy secretary or one of the deputy secretaries if several, may also hold the position of general secretary if so decided by the Board of Directors, with the duties assigned thereto by the Corporate Governance System.

Article 45. Checks and Balances System: the Lead Director

1. The Corporate Governance System shall provide the measures necessary to ensure that neither the chairman of the Board of Directors, nor the Executive Committee, nor the chief executive officers have a decision-making power that is not subject to appropriate checks and balances.

2. The Board of Directors shall adopt the measures necessary to ensure that both the chairman of the Board of Directors and the Executive Committee and the chief executive officers are under its effective supervision.

3. The appointment of an executive director as chairman of the Board of Directors shall require the favourable vote of at least two-thirds of the directors.

4. If the chairman of the Board of Directors has the status of executive director, the Board of Directors, upon a proposal of the Appointments and Remuneration Committee and with the abstention of the executive directors, must necessarily appoint from among the independent directors a lead director (*consejero coordinador*), who shall be especially empowered, when the lead director deems it appropriate, to:

secretary.

2. If there is more than one deputy secretary, the secretary of the Board of Directors shall be replaced by the corresponding one among them in accordance with the order established at the time of their appointment. In the absence of a secretary and deputy secretaries, the director that the Board of Directors itself appoints from among the attendees at the meeting in question shall serve as such.

3. The secretary of the Board of Directors shall perform the duties assigned thereto by law and the Corporate Governance System.

4. The secretary of the Board of Directors or, if applicable, the deputy secretary or one of the deputy secretaries if several, may also hold the position of general secretary if so decided by the Board of Directors, with the duties assigned thereto by the Corporate Governance System.

Article 45. Checks and Balances System: Lead Independent Director

1. The Corporate Governance System shall provide the measures necessary to ensure that neither the chairman of the Board of Directors, nor the Executive Committee, nor the chief executive officers have a decision-making power that is not subject to appropriate checks and balances.

2. The Board of Directors shall adopt the measures necessary to ensure that both the chairman of the Board of Directors and the Executive Committee and the chief executive officers are under its effective supervision.

3. The appointment of an executive director as chairman of the Board of Directors shall require the favourable vote of at least two-thirds of the directors.

4. If the chairman of the Board of Directors has the status of executive director, the Board of Directors, upon a proposal of the Appointments ~~and~~ **Remuneration** Committee and with the abstention of the executive directors, must necessarily appoint from among the independent directors a lead independent director (*consejero coordinador*), who shall be especially empowered, when the lead independent director deems it appropriate, to:



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- | | |
|---|---|
| <ul style="list-style-type: none"> a) Ask the chairman of the Board of Directors to call a meeting thereof and to participate with the chairman in the planning of the annual schedule of meetings. b) Participate in the preparation of the agenda for each meeting of the Board of Directors and request the inclusion of matters on the agenda for meetings of the Board of Directors that have already been called. c) Coordinate, meet with, and reflect the concerns of the non-executive directors. d) Direct the periodic evaluation of the chairman of the Board of Directors and lead any process for the succession thereof. <p>5. The lead director may also maintain contacts with shareholders when so decided by the Board of Directors.</p> | <ul style="list-style-type: none"> e) Ask the chairman of the Board of Directors to call a meeting thereof and to participate with the chairman in the planning of the annual schedule of meetings. f) Participate in the preparation of the agenda for each meeting of the Board of Directors and request the inclusion of matters on the agenda for meetings of the Board of Directors that have already been called. g) Coordinate, meet with, and reflect the concerns of the non-executive directors. h) Direct the periodic evaluation of the chairman of the Board of Directors and lead any process for the succession thereof. <p>5. The lead independent director may also maintain contacts with shareholders when so decided by the Board of Directors.</p> |
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General Shareholders' Meeting / 2016

REPORT OF THE BOARD OF DIRECTORS REGARDING THE AMENDMENT OF THE *REGULATIONS FOR THE GENERAL SHAREHOLDERS' MEETING*



REPORT OF THE BOARD OF DIRECTORS REGARDING THE AMENDMENT OF THE REGULATIONS FOR THE GENERAL SHAREHOLDERS' MEETING

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 ELEVEN OF THE AGENDA FOR THE GENERAL SHAREHOLDERS' MEETING CALLED TO BE HELD ON 8 AND 9 APRIL 2016, 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 11 –sections A, B, and C– of 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, and then 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 Structure of the Proposed Amendments

The purpose of the proposed amendments of the *Regulations* is to make various improvements. 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 proposed amendments have been grouped into three independent blocks for voting purposes:

- A) The first block groups together the proposed amendments aimed at formalising the Company's commitment to the sustainable management of the General Shareholders' Meeting as an event and at promoting environmentally-friendly channels of communication (articles 1, 6, 13, and 14 of the *Regulations*).
- B) The second block includes the amendment of article 16 of the *Regulations* in order to regulate the gift delivered to the Company's shareholders who participate in the General Shareholders' Meeting.
- C) The third block refers to the changes to articles 22 and 32 of the *Regulations*, aimed at making technical improvements.

Below is a description of the purpose of the main amendments submitted to the shareholders for approval at the General Shareholders' Meeting, grouped together into the above three blocks:



REPORT OF THE BOARD OF DIRECTORS REGARDING THE AMENDMENT OF THE REGULATIONS FOR THE GENERAL SHAREHOLDERS' MEETING

2.2 Amendment of Articles 1 (Purpose), 6 (Shareholder's Guide, Rules of Implementation, and Management Framework for the General Shareholders' Meeting), 13 (Availability of Information), and 14 (Corporate Website) of the Regulations

First, it is proposed to amend articles 1 and 6 of the *Regulations* in order to include a reference to the organisation of the General Shareholders' Meeting as a sustainable event.

The Board of Directors of Iberdrola modified its *Sustainability Policy* at its meeting held on 20 October 2015 in order to reflect the Company's commitment to leadership in the area of sustainable management of events, by seeking the engagement of all participants in the value chain of the Iberdrola group and of all other interested parties, in accordance with law.

This particularly focuses on promoting accessibility, inclusiveness, and non-discrimination, as well as on an analysis and an evaluation of the economic, social, and environmental impacts of the events organised by the Iberdrola group.

The amendment of the aforementioned articles 1 and 6 of the *Regulations* seeks to conform the text thereof to the provisions of the Company's *Sustainability Policy* and, in particular, of the *General Corporate Governance Policy* and the *Shareholder Engagement Policy*, which specifically provide that the organisation of the General Shareholders' Meeting must comply with the provisions of the *Sustainability Policy* regarding the sustainable management of events.

In line with the amendments to such articles, it is proposed to also amend articles 13 and 14 in order to promote the use of more environmentally-friendly channels of information like the corporate website and other digital media.

All of the foregoing is intended to strengthen Iberdrola's support for sustainability and the environment through both the General Shareholders' Meeting, which is the most significant event organised by the Company each year, and its *Regulations*.

In article 14, it is also proposed to replace the reference to the former Appointments and Remuneration Committee with a reference to the Appointments Committee, for the sake of consistency with the language used in all other rules of the Corporate Governance System following the split of such committee.

2.3 Amendment of Article 16 (Participation) of the Regulations

The purpose of the amendment of article 16 is to include in the *Regulations* a provision governing the gift that the Company traditionally delivers to the shareholders who participate in the General Shareholders' Meeting, in order to expressly establish that any remaining items will be used for social welfare purposes, in line with the principles set forth in the *Mission, Vision, and Values of the Iberdrola group* and, especially, with its commitment to social return.

2.4 Amendment of Articles 22 (Infrastructure, Means of Communication, and Services Available at the Premises) and 32 (Reports) of the Regulations

The changes to articles 22 and 32 of the *Regulations* are aimed at making certain technical improvements.

In article 22, it is proposed to improve the text in order to clarify it and make it more specific, and to reverse the rule regarding the recording of the General Shareholders' Meeting, such that, as a rule, the event will be the subject of recording (unless the chair decides otherwise). The purpose of the amendment to article 32 is to provide the correct reference to the Audit and Risk Supervision Committee, in accordance with the name used for this committee in all other rules of the Corporate Governance System.



REPORT OF THE BOARD OF DIRECTORS REGARDING THE AMENDMENT OF THE REGULATIONS FOR THE GENERAL SHAREHOLDERS' MEETING

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

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

“Amendment of the following articles of the Regulations for the General Shareholders' Meeting: (A) articles 1, 6, 13, and 14, to formalise the Company's commitment to the sustainable management of the General Shareholders' Meeting as an event and to promote environmentally-friendly channels of communication; (B) article 16, to regulate the gift for the General Shareholders' Meeting; and (C) articles 22 and 32, to make improvements of a technical nature.

RESOLUTIONS

A.- Amendment of articles 1, 6, 13, and 14 of the Regulations for the General Shareholders' Meeting.

To amend articles 1, 6, 13, and 14 of the Regulations for the General Shareholders' Meeting to formalise the Company's commitment to the sustainable management of the General Shareholders' Meeting as an event and to promote environmentally-friendly channels of communication. These provisions shall hereafter read as follows:

“Article 1. Purpose

1. The Regulations for the General Shareholders' Meeting (the **“Regulations”**) contain the principles for conducting the General Shareholders' Meeting of IBERDROLA, S.A. (the **“Company”**), as well as the basic rules for the call, preparation, and holding thereof.
2. The Regulations seek to achieve greater transparency, efficiency, and impetus to the functions of deliberation and decision-making by the shareholders at the General Shareholders' Meeting, to guarantee equal treatment of all shareholders in the same situation with respect to information, participation, and the exercise of voting rights at the General Shareholders' Meeting, and particularly to promote the maximum participation of the shareholders and their engagement in the life of the Company.
3. The recommendations on good governance generally recognised in the international markets and the best practices regarding the sustainable management of events have been taken into account in the preparation hereof.

Article 6. Shareholder's Guide, Rules of Implementation, and Management Framework for the General Shareholders' Meeting

1. In order to promote and facilitate the informed participation of the shareholders, upon the call to the General Shareholders' Meeting the Board of Directors shall make available thereto a Shareholder's Guide that clearly explains the most significant aspects regarding the operation thereof and the procedures established for the exercise of their rights at the General Shareholders' Meeting.
2. The Board of Directors may approve rules of implementation that systematise, adapt, and specify the provisions of the Corporate Governance System regarding the General Shareholders' Meeting and the rights of the shareholders related thereto, within the framework of the corporate interest.
3. The Board of Directors shall also entrust to the secretary thereof the preparation and ongoing update of a management framework to coordinate and facilitate the monitoring of all activities necessary for the planning, preparation, call, holding, and formalisation of the resolutions at each General Shareholders' Meeting.



REPORT OF THE BOARD OF DIRECTORS REGARDING THE AMENDMENT OF THE REGULATIONS FOR THE GENERAL SHAREHOLDERS' MEETING

4. Pursuant to the provisions of the Sustainability Policy, the Company shall endeavour to ensure that all actions relating to the organisation of the General Shareholders' Meeting comply with the best sustainable event management practices.

Article 13. Availability of Information

1. The Company shall endeavour to encourage the use of the most environmentally-friendly channels of information, prioritising the use of digital media whenever the law so allows.
2. When the shareholders are to deal with an amendment to the By-Laws, besides the statements required by law in each case, the announcement of the call to meeting must make clear the right of all shareholders to examine at the Company's registered office the complete text of the proposed amendment and the report thereon and to request that such documents be delivered or sent to them without charge.
3. In all cases in which the law so requires, such information and additional documentation as is mandatory shall be made available to the shareholders.

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 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; and 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 the 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.



REPORT OF THE BOARD OF DIRECTORS REGARDING THE AMENDMENT OF THE REGULATIONS FOR THE GENERAL SHAREHOLDERS' MEETING

- g) *The annual reports that 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.*
 - i) *The activities reports or integrated activities report of the consultative committees of the Board of Directors.*
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."*

B.- Amendment of article 16 of the Regulations for the General Shareholders' Meeting.

To amend article 16 of the Regulations for the General Shareholders' Meeting to regulate the gift for the General Shareholders' Meeting. This provision shall hereafter read as follows:

"Article 16. Participation

The Board of Directors shall adopt appropriate measures to encourage maximum participation of the shareholders at the General Shareholders' Meeting, including the ability to deliver promotional material or gifts with symbolic value to the shareholders participating in the General Shareholders' Meeting or in the holding of similar promotions. Any items remaining from the promotions shall be used for social welfare purposes."

C.- Amendment of articles 22 and 32 of the Regulations for the General Shareholders' Meeting to make improvements of a technical nature.

To amend articles 22 and 32 to make improvements of a technical nature. These provisions shall hereafter read as follows:

"Article 22. Infrastructure, Means of Communication, and Services Available at the Premises

1. *The premises to be used to hold the General Shareholders' Meeting shall have the personnel, technical equipment, and safety, assistance, and emergency measures commensurate with the nature and location of the property and with the importance of the event. In addition, the premises for holding the General Shareholders' Meeting shall have the emergency and evacuation measures required by law, as well other measures deemed appropriate in light of the circumstances.*
2. *The Company may make available other furnished premises with similar characteristics where the General Shareholders' Meeting can be held in the event of an emergency.*
3. *Appropriate controls and surveillance and protection measures, as well as systems for controlling access to the meeting, shall be established in order to ensure the safety of the attendees and the orderly conduct of the General Shareholders' Meeting.*
4. *Once the General Shareholders' Meeting has commenced, the attendees are prohibited from using voice amplification instruments, mobile phones, photographic equipment, audio and/or video recording, and/or transmission equipment and, in general any instrument that might alter the visibility, sound, or lighting conditions of the proceedings, except to the extent authorised by the chair thereof.*
5. *The proceedings of the General Shareholders' Meeting shall be the subject of audiovisual recording, unless the chair of the General Shareholders' Meeting decides otherwise. They may also be the subject of storage and live*



REPORT OF THE BOARD OF DIRECTORS REGARDING THE AMENDMENT OF THE REGULATIONS FOR THE GENERAL SHAREHOLDERS' MEETING

or recorded broadcast by any means, including over the internet, and dissemination on social media. Entering the premises where the General Shareholders' Meeting is to be held signifies the consent of the shareholders, their proxy representatives, and other attendees to the capture of their image (including voice) and the processing of their personal data. The owner of the data shall have the rights of access, rectification, objection, or erasure of the data collected by the Company, upon the terms provided by law, by sending a letter to the Company at its registered office.

6. Whenever reasonably possible, the Company shall endeavour to ensure that the premises at which the General Shareholders' Meeting is held has the means to allow access by persons with reduced mobility and the simultaneous interpretation of the proceedings into Euskera (Basque), English, and those other languages that the Board of Directors deems appropriate. The Company shall also establish measures that facilitate participation in the General Shareholders' Meeting by attendees with auditory or visual limitations.
7. The Company shall also make available to the shareholders any additional information that facilitates following the General Shareholders' Meeting, such as programmes for the meeting or any other documentation deemed useful for such purpose.

Article 32. Reports

1. Once the list of attendees has been prepared and they have been informed regarding the publications of the announcement of the call to meeting, there shall be a presentation of any relevant reports by the executive directors or senior officers or persons designated for such purpose by the Board of Directors. In particular, the shareholders shall be informed of the main aspects highlighted in the Annual Corporate Governance Report regarding corporate governance, emphasising the changes that have occurred since the last General Shareholders' Meeting and any non-compliance with corporate governance recommendations that the Company has described in said report.
2. If the annual accounts have qualifications, the Board of Directors may resolve that the chair of the Audit and Risk Supervision Committee and the Company's auditor explain them to the shareholders at the General Shareholders' Meeting."

* * *

Bilbao, 23 February 2016



REPORT OF THE BOARD OF DIRECTORS REGARDING THE AMENDMENT OF THE REGULATIONS FOR THE GENERAL SHAREHOLDERS' MEETING

ANNEX TO THE 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 ELEVEN OF THE AGENDA

REGULATIONS FOR THE GENERAL SHAREHOLDERS' MEETING

PRELIMINARY TITLE

Article 1. Purpose

1. The *Regulations for the General Shareholders' Meeting* (the "**Regulations**") contain the principles for conducting the General Shareholders' Meeting of IBERDROLA, S.A. (the "**Company**"), as well as the basic rules for the call, preparation, and holding thereof.
2. The *Regulations* seek to achieve greater transparency, efficiency, and impetus to the functions of deliberation and decision-making by the shareholders at the General Shareholders' Meeting, to guarantee equal treatment of all shareholders in the same situation with respect to information, participation and the exercise of voting rights at the General Shareholders' Meeting, and particularly to promote the maximum participation of the shareholders and their involvement in the life of the Company.
3. The recommendations on good governance generally recognised in the international markets have been taken into account in the preparation hereof.

REGULATIONS FOR THE GENERAL SHAREHOLDERS' MEETING

PRELIMINARY TITLE

Article 1. Purpose

1. The *Regulations for the General Shareholders' Meeting* (the "**Regulations**") contain the principles for conducting the General Shareholders' Meeting of IBERDROLA, S.A. (the "**Company**"), as well as the basic rules for the call, preparation, and holding thereof.
2. The *Regulations* seek to achieve greater transparency, efficiency, and impetus to the functions of deliberation and decision-making by the shareholders at the General Shareholders' Meeting, to guarantee equal treatment of all shareholders in the same situation with respect to information, participation and the exercise of voting rights at the General Shareholders' Meeting, and particularly to promote the maximum participation of the shareholders and their involvement in the life of the Company.
3. The recommendations on good governance generally recognised in the international markets [and the best practices regarding the sustainable management of events](#) have been taken into account in the preparation hereof.



REPORT OF THE BOARD OF DIRECTORS REGARDING THE AMENDMENT OF THE REGULATIONS FOR THE GENERAL SHAREHOLDERS' MEETING

Article 6. Shareholder's Guide, Rules of Implementation, and Management Framework for the General Shareholders' Meeting

1. In order to promote and facilitate the informed participation of the shareholders, upon the call to the General Shareholders' Meeting the Board of Directors shall make available thereto a *Shareholder's Guide* that clearly explains the most significant aspects regarding the operation thereof and the procedures established for the exercise of their rights at the General Shareholders' Meeting.
2. The Board of Directors may approve rules of implementation that systematise, adapt, and specify the provisions of the Corporate Governance System regarding the General Shareholders' Meeting and the rights of the shareholders related thereto, within the framework of the corporate interest.
3. The Board of Directors shall also entrust to the secretary thereof the preparation and ongoing update of a management framework to coordinate and facilitate the monitoring of all activities necessary for the planning, preparation, call, holding and formalisation of the resolutions at each General Shareholders' Meeting.

Article 13. Availability of Information

1. When the shareholders are to deal with an amendment to the *By-Laws*, besides the statements required by law in each case, the announcement of the call to meeting must make clear the right of all shareholders to examine at the Company's registered office the complete text of the proposed amendment and the report thereon and to request that such documents be delivered or sent to them without charge.
2. In all cases in which the law so requires, such information and additional documentation as is mandatory shall be made available to the shareholders.

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2. The Board of Directors may approve rules of implementation that systematise, adapt, and specify the provisions of the Corporate Governance System regarding the General Shareholders' Meeting and the rights of the shareholders related thereto, within the framework of the corporate interest.
3. The Board of Directors shall also entrust to the secretary thereof the preparation and ongoing update of a management framework to coordinate and facilitate the monitoring of all activities necessary for the planning, preparation, call, holding and formalisation of the resolutions at each General Shareholders' Meeting.
4. [Pursuant to the provisions of the Sustainability Policy, the Company shall endeavour to ensure that all actions relating to the organisation of the General Shareholders' Meeting comply with the best sustainable event management practices.](#)

Article 13. Availability of Information

1. [The Company shall endeavour to encourage the use of the most environmentally-friendly channels of information, prioritising the use of digital media whenever the law so allows.](#)
2. When the shareholders are to deal with an amendment to the *By-Laws*, besides the statements required by law in each case, the announcement of the call to meeting must make clear the right of all shareholders to examine at the Company's registered office the complete text of the proposed amendment and the report thereon and to request that such documents be delivered or sent to them without charge.
3. In all cases in which the law so requires, such information and additional documentation as is mandatory shall be made available to the shareholders.



REPORT OF THE BOARD OF DIRECTORS REGARDING THE AMENDMENT OF THE REGULATIONS FOR THE GENERAL SHAREHOLDERS' MEETING

Article 14. Corporate Website

1. The Company shall use its corporate website to promote the informed participation of all shareholders at 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's corporate website shall continuously publish 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 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; and 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

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 - 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; and 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



REPORT OF THE BOARD OF DIRECTORS REGARDING THE AMENDMENT OF THE REGULATIONS FOR THE GENERAL SHAREHOLDERS' MEETING

Appointments and Remuneration Committee in the case of independent directors, and the report of the 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.
- g) The annual reports that 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.
- i) The activities reports or integrated activities report of the consultative committees of the Board of Directors.

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REPORT OF THE BOARD OF DIRECTORS REGARDING THE AMENDMENT OF THE REGULATIONS FOR THE GENERAL SHAREHOLDERS' MEETING

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.

Article 16. Participation

The Board of Directors shall adopt appropriate measures to encourage maximum participation of the shareholders at the General Shareholders' Meeting.

Article 22. Infrastructure, Means of Communication, and Services Available at the Premises

1. The premises to be used to hold the General Shareholders' Meeting shall have the personnel, technical equipment, and safety, assistance, and emergency measures commensurate with the nature and location of the property and with the importance of the event. In addition, the premises for holding the General Shareholders' Meeting shall have the emergency and evacuation measures required by law, as well other measures deemed appropriate in light of the circumstances.
2. The Company may make available other furnished premises with similar characteristics where the General Shareholders' Meeting can be held in the event of an emergency.
3. Appropriate safety controls and surveillance and protection measures, as well as systems for controlling access to the meeting, shall be established in order to ensure the safety of the attendees and the orderly conduct of the General Shareholders' Meeting.
4. Once the General Shareholders' Meeting has commenced, the attendees are prohibited from

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The Board of Directors shall adopt appropriate measures to encourage maximum participation of the shareholders at the General Shareholders' Meeting, including the ability to deliver promotional material or gifts with symbolic value to the shareholders participating in the General Shareholders' Meeting or in the holding of similar promotions. Any items remaining from the promotions shall be used for social welfare purposes.

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4. Once the General Shareholders' Meeting has commenced, the attendees are prohibited from



REPORT OF THE BOARD OF DIRECTORS REGARDING THE AMENDMENT OF THE REGULATIONS FOR THE GENERAL SHAREHOLDERS' MEETING

- using voice amplification instruments, mobile phones, photographic equipment, audio and/or video recording, and/or transmission equipment and, in general any instrument that might alter the visibility, sound, or lighting conditions of the proceedings, except to the extent authorised by the chair thereof.
5. The proceedings of the General Shareholders' Meeting may be the subject of audiovisual recording, if so determined by the chair of the General Shareholders' Meeting. They may also be the subject to storage and live or recorded broadcast by any means, including over the internet, and dissemination on social networks. Entering the premises where the General Shareholders' Meeting is to be held signifies the consent of the shareholders or their proxy representatives to the capture of their image (including voice) and the processing of their personal data. The owner of the data shall have the rights of access, rectification, objection, or erasure of the data collected by the Company, upon the terms provided by law, by sending a letter to the Company at its registered office, to the attention of the Office of the General Secretary (Secretaría General).
6. Whenever reasonably possible, the Company shall endeavour to ensure that the premises at which the General Shareholders' Meeting is held has the means to allow access by persons with reduced mobility and the simultaneous interpretation of the proceedings into Euskera (Basque), English, and those other languages that the Board of Directors deems appropriate. The Company shall also establish measures that facilitate participation in the General Shareholders' Meeting by attendees with auditory or visual limitations.
7. The Company shall also make available to the shareholders any additional information that facilitates following the General Shareholders' Meeting, such as programmes for the meeting or any other documentation deemed useful for such purpose.
- using voice amplification instruments, mobile phones, photographic equipment, audio and/or video recording, and/or transmission equipment and, in general any instrument that might alter the visibility, sound, or lighting conditions of the proceedings, except to the extent authorised by the chair thereof.
5. The proceedings of the General Shareholders' Meeting ~~may shall~~ be the subject of audiovisual recording, ~~if so determined by unless~~ the chair of the General Shareholders' Meeting decides otherwise. They may also be the subject ~~to of~~ storage and live or recorded broadcast by any means, including over the internet, and dissemination on social ~~networks media~~. Entering the premises where the General Shareholders' Meeting is to be held signifies the consent of the shareholders or their proxy representatives, and other attendees to the capture of their image (including voice) and the processing of their personal data. The owner of the data shall have the rights of access, rectification, objection, or erasure of the data collected by the Company, upon the terms provided by law, by sending a letter to the Company at its registered office, ~~to the attention of the Office of the General Secretary (Secretaría General)~~.
6. Whenever reasonably possible, the Company shall endeavour to ensure that the premises at which the General Shareholders' Meeting is held has the means to allow access by persons with reduced mobility and the simultaneous interpretation of the proceedings into Euskera (Basque), English, and those other languages that the Board of Directors deems appropriate. The Company shall also establish measures that facilitate participation in the General Shareholders' Meeting by attendees with auditory or visual limitations.
7. The Company shall also make available to the shareholders any additional information that facilitates following the General Shareholders' Meeting, such as programmes for the meeting or any other documentation deemed useful for such purpose.



REPORT OF THE BOARD OF DIRECTORS REGARDING THE AMENDMENT OF THE REGULATIONS FOR THE GENERAL SHAREHOLDERS' MEETING

Article 32. Reports

1. Once the list of attendees has been prepared and they have been informed regarding the publications of the announcement of the call to meeting, there shall be a presentation of any relevant reports by the executive directors or senior officers or persons designated for such purpose by the Board of Directors. In particular, the shareholders shall be informed of the main aspects highlighted in the *Annual Corporate Governance Report* regarding corporate governance, emphasising the changes that have occurred since the last General Shareholders' Meeting and any non-compliance with corporate governance recommendation that the Company has described in said report.
2. If the annual accounts have qualifications, the Board of Directors may resolve that the chair of the Audit and Compliance Committee and the Company's auditor explain them to the shareholders at the General Shareholders' Meeting.

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2. If the annual accounts have qualifications, the Board of Directors may resolve that the chair of the Audit and ComplianceRisk Supervision Committee and the Company's auditor explain them to the shareholders at the General Shareholders' Meeting.



General Shareholders' Meeting / 2016

REPORT OF THE BOARD OF DIRECTORS REGARDING THE PROPOSED REDUCTION IN CAPITAL



REPORT OF THE BOARD OF DIRECTORS REGARDING THE PROPOSED REDUCTION IN CAPITAL

REPORT SUBMITTED BY THE BOARD OF DIRECTORS OF IBERDROLA, S.A. REGARDING THE PROPOSED REDUCTION IN SHARE CAPITAL BY MEANS OF THE RETIREMENT OF SHARES OF IBERDROLA, S.A. INCLUDED IN ITEM TWELVE ON THE AGENDA FOR THE GENERAL SHAREHOLDERS' MEETING CALLED TO BE HELD ON 8 AND 9 APRIL 2016, 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 of Iberdrola, S.A. (the "**Reduction in Capital**") submitted to the shareholders for approval at the General Shareholders' Meeting under item twelve 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*, on 19 February 2014 the Company announced its intention to maintain shareholder remuneration at a minimum of 0.27 euro per share, and to continue 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.

In addition, the Company stated its commitment to maintain the number of outstanding shares of the Company at approximately 6,240 million, offsetting the issuance of new shares that such increases in share capital by means of scrip issues entail with reductions in capital such as the one now proposed, and as implemented in financial years 2013, 2014, and 2015.

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 27 March 2015 under sections A and B of item six on the agenda. 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 23 February 2016 under the provisions of Commission Regulation (EC) No 2273/2003 of 22 December 2003 and 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) 111,634,370.25 euros, through the retirement of 148,845,827 treasury shares, each with a nominal value of seventy-five euro cents, representing 2.33% of the share capital and acquired under the authorisation granted by the



REPORT OF THE BOARD OF DIRECTORS REGARDING THE PROPOSED REDUCTION IN CAPITAL

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 6,263,379.75 euros, of the own shares of the Company, each with a nominal value of seventy-five euro cents, up to a maximum of 8,351,173 own shares (representing a maximum of 0.13%% of the share capital), that are acquired for their retirement under the buy-back programme approved by the Board of Directors today, 23 February 2016, under the provisions of Commission Regulation (EC) No 2273/2003 of 22 December 2003 (the "**Buy-back Programme**").

Consequently, the maximum amount of the Reduction in Capital would be 117,897,750 euros, through the retirement of a maximum of 157,197,000 own shares, each with a nominal value of seventy-five euro cents, representing not more than 2.46% 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 23 February 2016 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:

"Approval of a reduction in share capital by means of the retirement of 157,197,000 own shares representing 2.46% of the share capital. Delegation of powers to the Board of Directors, with express power of substitution, to, among other things, amend the article of the By-Laws setting the share capital."



REPORT OF THE BOARD OF DIRECTORS REGARDING THE PROPOSED REDUCTION IN CAPITAL

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:

(a) 111,634,370.25 euros, through the retirement of 148,845,827 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

(b) the aggregate nominal value, up to the maximum amount of 6,263,379.75 euros, of the own shares of the Company, each with a nominal value of seventy-five euro cents, up to a maximum of 8,351,173 own shares, that are acquired for their retirement under the buy-back programme approved by the Board of Directors on 23 February 2016 under the provisions of Commission Regulation (EC) No 2273/2003 of 22 December 2003, and in effect, at the latest, through [31 May 2016] (the "**Buy-back Programme**").

Consequently, the maximum amount of the reduction in capital (the "**Reduction in Capital**") would be 117,897,750 euros, through the retirement of a maximum of 157,197,000 own shares, each with a nominal value of seventy-five euro cents, representing not more than 2.46% 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 23 February 2016, the Company may acquire a maximum number of 8,351,173 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 0.13% 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 on such terms as to price and volume as are established in article 5 of Commission Regulation (EC) No 2273/2003 of 22 December 2003.

In accordance with the foregoing, pursuant to section 340.3 of the Companies Act, if the Company fails to acquire the maximum number of 8,351,173 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 under 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 Commission Regulation (EC) No 2273/2003 of 22 December 2003, 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.



REPORT OF THE BOARD OF DIRECTORS REGARDING THE PROPOSED REDUCTION IN CAPITAL

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 and the effectiveness period, 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 Commission Regulation (EC) No 2273/2003 of 22 December 2003.

(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 new 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.



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(h) *To perform all acts that may be necessary or appropriate to implement and formalise the Reduction in Capital before any public or private, Spanish or foreign 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 contemplated in this resolution."

* * *

Bilbao, 23 February 2016

