



Julián Martínez-Simancas  
General secretary and secretary of the Board of Directors

To the National Securities Market Commission

Bilbao, February 14, 2013

**Re: Resolutions adopted by the Board of Directors regarding the preparation of the Annual Accounts and the proposals for the allocation of profits/losses, the call for the General Shareholders' Meeting and amendment of the remuneration policies for the Directors and the senior managers. Documentation made available to the shareholders**

Dear Sirs,

Pursuant to Section 82 of Law 24/1988, of July 28, on the Securities Market (*Ley 24/1988, de 28 de julio, del Mercado de Valores* –“**Securities Market Law**”–) and related provisions, we hereby inform you that the Board of Directors of Iberdrola, S.A. (“**Iberdrola**” or the “**Company**”) has unanimously adopted –among others– the following resolutions:

**1. Preparation of the individual and consolidated annual accounts and the proposals for the allocation of profits/losses**

To prepare the Annual Financial Statements, the management report and the proposal for the allocation of the profits/losses of the Company, as well as the consolidated Annual Financial Statements and the consolidated management report of the Company and its controlled companies for fiscal year 2012. According to applicable regulations, the aforesaid management reports include the Annual Report on Corporate Governance, elaborated according to article 61 bis of the Security Market Law, corresponding to fiscal year 2012, likewise approved by the Board of Directors on the date hereof.

The proposal for the allocation of the profits/losses, which is subject to the shareholders' approval acting at the General Shareholders' Meeting, includes the distribution of a dividend in cash out of profits from fiscal year 2012 of a gross amount of 0.03 Euros per each share of Iberdrola bearing the right to receive it. This amount would be subject to withholding tax as applicable on the date of payment.

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## 2. General Shareholders' Meeting call

- I. To call for the General Shareholders' Meeting to be held on March 22 or 23, 2013, on first and second call, respectively, with the following agenda:

### **ITEMS RELATING TO THE ANNUAL FINANCIAL STATEMENTS, THE MANAGEMENT OF THE COMPANY AND RE-ELECTION OF THE COMPANY'S AUDITOR:**

**First.-** Approval of the individual annual financial statements of the Company and of the annual financial statements consolidated with its subsidiaries for the fiscal year 2012.

**Second.-** Approval of the individual management report of the Company and of the consolidated management report of the Company and its subsidiaries for the fiscal year 2012.

**Third.-** Approval of the management activity and activities of the Board of Directors during the fiscal year 2012.

**Fourth.-** Re-election of Ernst & Young, S.L. as auditor of the Company and its consolidated group for the fiscal year 2013.

### **ITEMS RELATING TO SHAREHOLDERS COMPENSATION:**

**Fifth.-** Approval of the proposal for the allocation of profits/losses and the distribution of dividends for the fiscal year 2012.

**Sixth.-** Share capital increases by means of a scrip issue.

- a) Approval of an increase in share capital by means of a scrip issue at a maximum reference market value of 883 million Euros for the free-of-charge allocation of new shares to the shareholders of the Company. Offer to the shareholders for the acquisition of their free-of-charge allocation rights at a guaranteed price. Express provision for the possibility of an incomplete allocation. Application for admission of the shares issued to listing on the Bilbao, Madrid, Barcelona and Valencia Stock Exchanges, through the Automated Quotation System (*Sistema de Interconexión bursátil*). Delegation of powers to the Board of Directors, with the express power of substitution, including, among others, the power to amend Article 5 of the *By-Laws*.
- b) Approval of an increase in share capital by means of a scrip issue at a maximum reference market value of 1,021 million Euros for the free-of-charge allocation of new shares to the shareholders of the Company. Offer to the shareholders for the acquisition of their free-of-charge allocation rights at a guaranteed price. Express provision for the possibility of an incomplete allocation. Application for admission of the shares issued to listing on the Bilbao, Madrid, Barcelona and Valencia Stock Exchanges, through the Automated Quotation System (*Sistema de*

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*Interconexión bursátil*). Delegation of powers to the Board of Directors, with the express power of substitution, including, among others, the power to amend Article 5 of the *By-Laws*.

**ITEMS RELATING TO THE COMPOSITION OF THE BOARD OF DIRECTORS AND THE EXPRESS AUTHORIZATIONS REQUESTED:**

**Seventh.-** Ratification of the appointment on an interim basis and re-election of Mr. Manuel Lagares Gómez-Abascal as director of the Company, with the status of proprietary director.

**Eighth.-** Authorization to the Board of Directors, with the express power of substitution, to create and fund associations, entities and foundations, up to a maximum annual amount of 12 million Euros, in accordance to the applicable legal provisions, for which purpose the authorization granted by the General Shareholders' Meeting of June 22, 2012 is hereby deprived of effect with regard to the unused amount.

**ITEM RELATING TO AMENDMENT OF THE BY-LAWS:**

**Ninth.-** Amendment of the *By-Laws*:

- a) Amendment of Article 6 of the *By-Laws* pursuant to Article 497 of the Corporate Enterprises Act (*Ley de Sociedades de Capital*).
- b) Amendment of Articles 39, 42 and 43 of the *By-Laws* to include technical improvements in the regulation of the operation of the Board of Directors and its committees.

**ITEM RELATING TO SHARE CAPITAL DECREASE:**

**Tenth.-** Approval of a share capital decrease by means of the redemption of 87,936,576 treasury shares of Iberdrola, S.A. which represent 1.40 % of its share capital and the acquisition of the Company's own shares representing up to a maximum of 1 % of the Company's share capital under a buy-back program for redemption thereof. Delegation of powers to the Board of Directors, with the express power of substitution, including, among others, the powers to amend Article 5 of the *By-Laws* and request the exclusion to listing and the cancellation of the accounting records of the shares to be redeemed.

**ITEM RELATING TO GENERAL MATTERS:**

**Eleventh.-** Delegation of powers to formalize and execute all resolutions adopted by the shareholders at the general Shareholders' Meeting, for the conversion thereof into a public instrument, and the interpretation, correction and supplementation thereof or further elaboration thereon until the required registrations are made.

**ITEM RELATING TO RESOLUTIONS SUBMITTED FOR A CONSULTATIVE VOTE:**

**Twelfth.-** Consultative vote of the *Annual report regarding the directors remunerations*.

- II.** Approve the payment of an attendance premium in the gross amount of 0,005 Euros per share to the shareholders present or represented by proxy at the General Shareholders' Meeting who have provided due evidence of their attendance thereat in person or by proxy.
- III.** Thirdly, we are pleased to advise you that the notice of the call to the ordinary General Shareholders' Meeting of the Company to be held on March 22 or 23 on first and second call, respectively, has been published on the Official Gazette of the Mercantile Registry (*Boletín Oficial del Registro Mercantil*) and the corporate website of Iberdrola ([www.iberdrola.com](http://www.iberdrola.com)), with the agenda communicated in paragraph 2.I. above.

Moreover, 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 in connection with the General Shareholders' Meeting, have been made available to the shareholders of the Company on its registered office and its corporate website as described in the notice of the call.

**3. Amendment to the *Directors' remunerations policy* and the *Senior management remunerations policy***

To approve the partial reform of the *Directors' remunerations policy* and of the *Senior management remunerations policy* with the purpose of adjusting the retribution system for directors and senior managers of the Company to the highest international standards on corporate ethics.

The foregoing amendments will be made available in due course at the Company's corporate website ([www.iberdrola.com](http://www.iberdrola.com))

Please be advised of all of the foregoing for such purposes as may be appropriate.

Yours truly,

General secretary and secretary of the Board of Directors

## **IMPORTANT INFORMATION**

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

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# Announcement of the Call to the 2013 General Shareholders' Meeting

The Board of Directors of IBERDROLA, S.A. has resolved to call its shareholders to a

## General Shareholders' Meeting

to be held

**in Bilbao, at Palacio Euskalduna (avenida Abandoibarra número 4), on Friday 22 March 2013, at 11:30 on first call**

or, in the event that the required quorum is not met, the next day, 23 March 2013, on second call, at the same place and time. Shareholder registration desks will be open as from 10:00.

The General Shareholders' Meeting is called in order for the shareholders to deliberate and decide upon the matters included in the following

## AGENDA

### ITEMS RELATING TO THE ANNUAL ACCOUNTS, THE MANAGEMENT OF THE COMPANY, AND THE RE-ELECTION OF THE COMPANY'S AUDITOR:

**One.-** Approval of the individual annual accounts of the Company and of the annual accounts consolidated with those of its subsidiaries for financial year 2012.

**Two.-** Approval of the individual management report of the Company and of the consolidated management report of the Company and its subsidiaries for financial year 2012.

**Three.-** Approval of the management and activities of the Board of Directors during financial year 2012.

**Four.-** Re-election of Ernst & Young, S.L. as auditor of the Company and of its consolidated group for financial year 2013.

### ITEMS RELATING TO SHAREHOLDER COMPENSATION:

**Five.-** Approval of the proposal for the allocation of profits/losses and the distribution of dividends for financial year 2012.

**Six.-** Increases in share capital by means of scrip issues.

A.- Approval of an increase in share capital by means of a scrip issue at a maximum reference market value of 883 million euros for the free-of-charge allocation of new shares to the shareholders of the Company. Offer to the shareholders of the acquisition of their free-of-charge allocation rights at a guaranteed price. Express provision for the possibility of an incomplete allocation. Application for admission of the shares issued to listing on the Bilbao, Madrid, Barcelona, and Valencia Stock Exchanges through the Automated Quotation System (*Sistema de Interconexión Bursátil*). Delegation of powers to the Board of Directors, with express power of substitution, including, among others, the power to amend article 5 of the *By-Laws*.

B.- Approval of an increase in share capital by means of a scrip issue at a maximum reference market value of 1,021 million euros for the free-of-charge allocation of new shares to the shareholders of the Company. Offer to the shareholders of the acquisition of their free-of-charge allocation rights at a

guaranteed price. Express provision for the possibility of an incomplete allocation. Application for admission of the shares issued to listing on the Bilbao, Madrid, Barcelona, and Valencia Stock Exchanges through the Automated Quotation System. Delegation of powers to the Board of Directors, with express power of substitution, including, among others, the power to amend article 5 of the *By-Laws*.

**ITEMS RELATING TO THE COMPOSITION OF THE BOARD OF DIRECTORS AND EXPRESS AUTHORISATIONS REQUESTED:**

**Seven.-** Ratification of the interim appointment and re-election of Mr Manuel Lagares Gómez-Abascal as a director of the Company, with the status of proprietary director.

**Eight.-** Authorisation to the Board of Directors, with the express power of substitution, to create and fund associations, entities, and foundations, up to a maximum limit of 12 million euros per annum, pursuant to applicable legal provisions, for which purpose the authorisation granted by the shareholders at the General Shareholders' Meeting of 22 June 2012 is hereby deprived of effect to the extent of the unused amount.

**ITEM RELATING TO THE AMENDMENT OF THE *BY-LAWS*:**

**Nine.-** Amendment of the *By-Laws*.

A.- Amendment of article 6 of the *By-Laws* pursuant to the provisions of section 497 of the Companies Act (*Ley de Sociedades de Capital*).

B.- Amendment of articles 39, 42, and 43 of the *By-Laws* in order to make technical improvements in the regulation of the operation of the Board of Directors and the committees thereof.

**ITEM RELATING TO THE REDUCTION IN SHARE CAPITAL:**

**Ten.-** Approval of a reduction in share capital by means of the retirement of 87,936,576 treasury shares of Iberdrola, S.A., representing 1.40% of the share capital, and acquisition of shares of Iberdrola, S.A. representing not more than 1% of the share capital through a buy-back programme for the retirement thereof. Delegation of powers to the Board of Directors, with the express power of substitution, including, among others, the powers to amend article 5 of the *By-Laws* and to apply for the delisting of the retired shares and for the removal thereof from the book-entry registers.

**ITEM RELATING TO GENERAL MATTERS:**

**Eleven.-** 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, supplementation thereof, further elaboration thereon, and registration thereof.

**ITEM RELATING TO RESOLUTIONS SUBMITTED TO A CONSULTATIVE VOTE:**

**Twelve.-** Consultative vote regarding the *Annual Director Remuneration Report*.

**INFORMATION TO BE PROVIDED TO THE SHAREHOLDERS:**

Information shall be provided to the shareholders at the General Shareholders' Meeting regarding: (1) the implementation by the Board of Directors, on 20 July 2012 and 21 January 2013, of a capital increase by means of a scrip issue 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 22 June 2012 under item six on the agenda, and the resulting amendment of the *By-Laws*; (2) the amendments of the *Regulations of the Board of Directors* approved on 12 June and 18 December 2012;

and (3) the amendments of the *Corporate Policies*, the regulations of the committees of the Board of Directors, and the other documents making up the Company's Corporate Governance System since the last General Shareholders' Meeting.

#### **I.- Right to Attend the Meeting, to Proxy Representation, and to Absentee Voting**

All holders of voting shares may attend the General Shareholders' Meeting, with the right to be heard and to vote, so long as they have caused such shares to be registered in their name in the corresponding book-entry register not later than 17 March or 18 March 2013, depending on whether the General Shareholders' Meeting is held on first or second call, respectively. Every shareholder having the right to attend may be represented at the General Shareholders' Meeting by another person, even though not a shareholder, by granting a proxy.

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 in writing or by postal correspondence (by sending to the Company the duly completed attendance, proxy, and absentee voting card, addressed to apartado de correos número 1.113, 48008 Bilbao) or by electronic correspondence (by means of a communication issued under their recognised electronic signature, based on their electronic National Identity Document (*DNI*) or on an electronic certificate issued by the Royal Spanish Mint (*Fábrica Nacional de Moneda y Timbre*) and in respect of which no revocation has been recorded, through the software application available on the corporate website ([www.iberdrola.com](http://www.iberdrola.com))).

Proxies and absentee votes cast by postal or electronic correspondence must, as a general rule, be received by the Company before 24:00 on 21 March or 22 March 2013, depending on whether the General Shareholders' Meeting is held on first or second call, respectively.

#### **II.- Right to Receive Information**

As from the date of publication of this announcement of the call to meeting, the shareholders have the right to examine at the registered office of the Company, to request the immediate delivery to them without charge (which delivery may be carried out by e-mail, with confirmation of receipt, if the shareholder accepts this form of delivery), and to obtain through the corporate website ([www.iberdrola.com](http://www.iberdrola.com)) a copy of the individual annual accounts and management report of the Company and of the consolidated annual accounts and management report of the Company and its subsidiaries, together with the respective audit reports, all for financial year 2012, of the proposed amendments to the *By-Laws* and of the mandatory directors' reports, of the proposed resolutions, and of the other documents that must be made available to the shareholders in connection with the holding of this General Shareholders' Meeting.

In addition, beginning on such date and until 15 March 2013, 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 22 June 2012, and the audit reports on the individual annual accounts and management report of the Company and on the consolidated annual accounts and management report of the Company and its subsidiaries for financial year 2012.



**III.- Right to Request the Publication of a Supplement to the Call to Meeting and to Submit Well-Founded Proposals for Resolutions**

Shareholders representing at least 5% 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 proposals for 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 five days of publication of this announcement of the call to meeting.

**IV.- Exercise of the Rights to Receive Information, to Attend, to Proxy Representation, to Absentee Voting, to Request the Publication of a Supplement to the Call to Meeting, and to Submit Well-Founded Proposals for Resolutions**

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 and in accordance with the provisions of the Company's Corporate Governance System and the *Shareholder's Guide*, available both on the corporate website ([www.iberdrola.com](http://www.iberdrola.com)) and at the Office of the Shareholder, where the form of attendance, proxy, and absentee voting card will also be available.

**V.- Additional Information and Documentation Available on the Corporate Website**

The following documents and information are made continuously available to the shareholders on the Company's corporate website ([www.iberdrola.com](http://www.iberdrola.com)): (1) this announcement of the call to meeting; (2) the individual annual accounts of the Company and the consolidated accounts of the Company and its subsidiaries for financial year 2012, together with the respective audit reports; (3) the Company's individual management report and the consolidated management report of the Company and its subsidiaries for financial year 2012; (4) the directors' statement of responsibility provided for in section 35 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 of the Company for financial year 2012; (5) the full text of the proposed resolutions corresponding to the items included in the agenda of the call to meeting, together with the reports of the Board of Directors in connection with the proposed resolutions requiring them or otherwise deemed appropriate; (6) the current restated texts of the *By-Laws*, the *Regulations for the General Shareholders' Meeting*, the *Regulations of the Board of Directors*, and the regulations of the consultative committees of the Board of Directors; (7) the current texts of the *Corporate Policies* (in a full-text or summarised version) and of the other documents making up the Company's Corporate Governance System; (8) the *Annual Corporate Governance Report* for financial year 2012; (9) the *Annual Director Remuneration Report*; (10) the *Annual Activities Report of the consultative committees of the Board of Directors* for financial year 2012; (11) the *Sustainability Report* for financial year 2012; (12) the form of attendance, proxy, and absentee voting card; (13) the professional and biographical profile of and other information regarding the director whose ratification and re-election is proposed to the shareholders at the General Shareholders' Meeting; and (14) the *Shareholder's Guide* approved by the Board of Directors.

In addition, information is made continuously available to the shareholders on the Company's corporate website ([www.iberdrola.com](http://www.iberdrola.com)) concerning the total number of shares and voting rights on the date of publication of the announcement of this call to meeting.

**VI.- Electronic Shareholders' Forum**

Pursuant to the provisions of law, an Electronic Shareholders' Forum has been made available on the corporate website ([www.iberdrola.com](http://www.iberdrola.com)), the use of which shall conform to the legal purpose thereof and to the guarantees and operating rules established by the Company. Duly authorised shareholders or groups of shareholders may access such Forum.

**VII.- Attendance Bonus**

The Company shall pay an attendance bonus in the gross amount of 0.005 euro per share for shares duly represented in person or by proxy at the General Shareholders' Meeting.

**VIII.- Participation of Notary Public**

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

**IX.- Dissemination of the Proceedings**

All or part of the proceedings of the General Shareholders' Meeting may be subject to audiovisual recording and broadcast (through internet video and availability to the public on the Company's corporate website ([www.iberdrola.com](http://www.iberdrola.com))) and dissemination through social networks in order to facilitate the viewing of and listening to the Meeting and the appropriate dissemination thereof. In particular, the Company intends to broadcast the General Shareholders' Meeting live on Twitter, in both Spanish and English, and to provide information on the proceedings on all of the social networks in which it participates: Facebook, Flickr, SlideShare, and YouTube. By entering the premises where the General Shareholders' Meeting is to be held, attendees consent to the processing of their personal data (including voice, name, and image) through such media.

**X.- 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 at the General Shareholders' Meeting) 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 securities market regulations, shall be processed by the Company in order to manage the development, compliance with, and supervision of the existing shareholding relationship (in particular, but not limited to, the call to and holding of 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, on such terms and in compliance with such requirements as are established by applicable law for such purpose, by means of a letter addressed to the Company at Plaza Euskadi número 5, 48009 Bilbao.

If the shareholder includes personal data of other individuals on the attendance, proxy, and absentee voting card, the shareholder must advise them of the details set forth in the preceding paragraphs and

comply with any other requirements that may apply for the proper provision of the personal data to the Company, without the Company having to take any additional action.

**XI.- Simultaneous and Consecutive Interpretation**

The Company will make available the equipment required for the simultaneous interpretation of presentations made in Spanish into Euskera (Basque), English, Portuguese, and Spanish sign language, as well as for the consecutive interpretation into Spanish of the presentations of shareholders wishing to use the floor during the General Shareholders' Meeting in Euskera, English, Portuguese, or Spanish sign language.

**XII.- Additional Information**

For further information on the General Shareholders' Meeting, shareholders may contact 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 through Friday, from 9:00 to 19:00) / e-mail: [accionistas@iberdrola.com](mailto:accionistas@iberdrola.com)).

Furthermore, within the framework of its commitment to transparency and to the provision of information to all its shareholders, the Company has made available a section on its corporate website called the Quick Shareholder's Guide, which allows for simple and intuitive access to information of interest relating to the Company, in both Spanish and English. In this section, which may be accessed directly through [www.iberdrola.com/guiarapidadelaccionista/en](http://www.iberdrola.com/guiarapidadelaccionista/en), information may be viewed on all matters relating to the holding of the General Shareholders' Meeting and the exercise of the right to proxy representation.

**Although this announcement contemplates two calls to meeting, the Board of Directors advises shareholders, in order to save them unnecessary inconvenience, that it is expected that the quorum required by law, the *By-Laws*, and the *Regulations for the General Shareholders' Meeting* will be obtained on first call and that therefore, in all likelihood, the General Shareholders' Meeting will be held on Friday 22 March 2013.**

Bilbao, 13 February 2013

The general secretary and secretary of the Board of Directors

## **ITEM ONE ON THE AGENDA**

**Approval of the individual annual accounts of the Company and of the annual accounts consolidated with those of its subsidiaries for financial year 2012.**

### **PROPOSED RESOLUTION RELATING TO ITEM ONE**

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 consolidated annual accounts of IBERDROLA, S.A. and its subsidiaries (balance sheet, profit and loss account, statement of changes in shareholders' equity, statement of cash flows, and notes) for the financial year ended on 31 December 2012, which were finalised by the Board of Directors at its meeting held on 13 February 2013.

## **ITEM TWO ON THE AGENDA**

**Approval of the individual management report of the Company and of the consolidated management report of the Company and its subsidiaries for financial year 2012.**

### **PROPOSED RESOLUTION RELATING TO ITEM TWO**

To approve the individual management report of IBERDROLA, S.A. and the consolidated management report of IBERDROLA, S.A. and its subsidiaries for the financial year ended on 31 December 2012, which were finalised by the Board of Directors at its meeting held on 13 February 2013.

**ITEM THREE ON THE AGENDA**

**Approval of the management and activities of the Board of Directors during financial year 2012.**

**PROPOSED RESOLUTION RELATING TO ITEM THREE**

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 2012.

## **ITEM FOUR ON THE AGENDA**

### **Re-election of Ernst & Young, S.L. as auditor of the Company and of its consolidated group for financial year 2013.**

#### **PROPOSED RESOLUTION RELATING TO ITEM FOUR**

To re-elect Ernst & Young, S.L. as auditor of IBERDROLA, S.A. and of its consolidated group to conduct the audits for financial year 2013, 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 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.

It is stated for the record that Ernst & Young, S.L. has its registered office in Madrid, at Plaza Pablo Ruiz Picasso s/n, Edificio Torre Picasso, 28020, Tax Identification Number (N.I.F.) 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.

## ITEM FIVE ON THE AGENDA

### Approval of the proposal for the allocation of profits/losses and the distribution of dividends for financial year 2012.

#### PROPOSED RESOLUTION RELATING TO ITEM FIVE

To approve the proposed allocation of profits/losses and proposed distribution of dividends presented by the Board of Directors at its meeting held on 13 February 2013, which is described below.

To distribute, with a charge to the results for the financial year ended on 31 December 2012, 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 on 1 July 2013.

This dividend shall be distributed through the entities members of Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal (Securities Registration, Clearing, and Settlement Systems Management Company) (Iberclear), the Board of Directors being hereby authorised for such purpose, with the 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:	206,476,932.77
Profits for financial year 2012:	3,733,616,180.89
<b>TOTAL:</b>	<b>3,940,093,113.66</b>

#### **DISTRIBUTION:**

To legal reserve (minimum amount):	81,893,049.05
To dividends (maximum amount – amount corresponding to payment of the dividend for financial year 2012 in the gross amount of three euro cents per share):	188,435,520.00
To remainder:	3,669,764,544.61
<b>TOTAL:</b>	<b>3,940,093,113.66</b>



## ITEM SIX ON THE AGENDA

### Increases in share capital by means of scrip issues.

#### PROPOSED RESOLUTIONS RELATING TO ITEM SIX

A - Approval of an increase in share capital by means of a scrip issue at a maximum reference market value of 883 million euros for the free-of-charge allocation of new shares to the shareholders of the Company. Offer to the shareholders of the acquisition of their free-of-charge allocation rights at a guaranteed price. Express provision for the possibility of an incomplete allocation. Application for admission of the shares issued to listing on the Bilbao, Madrid, Barcelona, and Valencia Stock Exchanges, through the Automated Quotation System (Sistema de Interconexión Bursátil). Delegation of powers to the Board of Directors, with express power of substitution, including, among others, the power to amend article 5 of the By-Laws.

#### **1. Capital Increase with a Charge to Reserves**

It is hereby resolved to increase the share capital by the amount resulting from multiplying (a) the nominal value of each share of IBERDROLA, S.A. (“**Iberdrola**” or the “**Company**”), equal to seventy-five euro cents, by (b) the total determinable number of new shares of Iberdrola to be issued, in accordance with the formula set forth in section 2 below, on the date of implementation of the increase in share capital (the total number of new Iberdrola shares issued by way of implementation of this resolution will be referred to as the “**New Shares**”, and each, individually, a “**New Share**”), which amount may not in any event exceed the sum of the reference market value of the New Shares equal to a maximum of 883 million euros (the “**Capital Increase**”).

The Capital Increase will be carried out by means of the issuance and flotation, if applicable, on the date of implementation of the Capital Increase, 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 Capital Increase will be entirely carried out with a charge to the reserves contemplated in section 303.1 of the Companies Act (Ley de Sociedades de Capital). When implementing the Capital Increase, 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, the Capital Increase may be implemented by the Board of Directors (with express power of

substitution), at its sole discretion and, therefore, without having to resort again to the shareholders at a General Shareholders' Meeting, and by taking into consideration the legal and financial conditions prevailing at the time of implementing the Capital Increase, with a view to offering the Company's shareholders a flexible and efficient compensation formula. The date on which the Capital Increase is expected to be implemented will be close to July 2013. The number of New Shares to be issued will be such as results from the formula set forth in section 2 below, provided, however, that the Amount of the Option (as such term is defined in section 2 below) may under no circumstances exceed the maximum amount of 883 million euros.

Pursuant to the provisions of section 311 of the Companies Act, the possibility of an incomplete allocation of the Capital Increase is contemplated in the event that Iberdrola, 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 the Capital Increase, 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

The number of New Shares to be issued will be the number resulting from the application of the following formula, rounded downwards to the next lower integer:

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

where:

NNS = Number of New Shares to be issued;

TNShrs. = Number of outstanding Iberdrola shares; and

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

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

where:

Provisional number of shares = Amount of the Option / ListPri

For these purposes, "**Amount of the Option**" will mean the reference market value of the Capital Increase to be set by the Board of Directors (or the body acting by delegation therefrom), which will not be greater than 883 million euros, in accordance with the limit set in section 1 above.

For its part, "**ListPri**" will be the result of applying a discount between 0% and 10% (the "**Discount**") to 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.

For purposes of the calculation of the ListPri (and, therefore, of the number of free-of-charge allocation rights needed for the allocation of one New Share), as well as of the Purchase Price (as defined below), the Board of Directors of Iberdrola will be specifically authorised (with express power of substitution) to establish the specific Discount rate, taking into account market conditions and the corporate interest.

### **3. Free-of-charge Allocation Rights**

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 a New Share will be automatically determined according to the ratio existing between the number of New Shares and the number of outstanding shares (TNShrs.), calculated by using the formula contained in section 2 above. Specifically, the shareholders will be entitled to receive one New Share for as many free-of-charge allocation rights, determined as provided in section 2 above (Num. rights), as are held by them.

In the event that the number of free-of-charge allocation rights required for the allocation of one share (Num. rights) multiplied by the number of New Shares (NNS) results in a number that is lower than the number of outstanding shares (TNShrs.), Iberdrola (or such entity within its group, if any, as holds Iberdrola shares) 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) at 23:59, Madrid time, on the day of publication of the announcement of implementation of the Capital Increase in the Official Bulletin of the Commercial Registry.

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), which term will not be less than fifteen calendar days, beginning on the day following the day of publication of the announcement of implementation of the Capital Increase in the Official Bulletin of the Commercial Registry. 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 the Capital Increase, the Company will assume, on the terms and conditions set forth below, the irrevocable commitment to purchase the free-of-charge allocation rights at the price set forth below (the “**Purchase Commitment**”). The Purchase Commitment 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 purpose, 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 all cases with due observance of any applicable legal restrictions.

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

- (i) the free-of-charge allocation rights received by those who are registered as being entitled thereto in the book-entry records of Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal (IBERCLEAR) at 23:59, Madrid time, on the day of publication of the announcement of the implementation of the Capital Increase in the Official Bulletin of the Commercial Registry, 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.

The “**Purchase Price**” will be the fixed price at which the Company will acquire each free-of-charge allocation right under the Purchase Commitment, and will be calculated in accordance with the following formula, 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:

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

In addition, the Company will guarantee to the shareholders that decide to transfer their rights under the Purchase Commitment that the Purchase Price that they will obtain will at no time be lower than that that would result if no discount were applied.

Therefore, in the event that the Discount applied is other than zero, the term “**Purchase Price**” will mean the greater of the following amounts: (a) the Purchase Price calculated in accordance with the formula set forth above, and (b) the price

resulting from the application of the mathematical formulas described in this section and in section 2 above, assuming a Discount of 0% solely for the purpose of calculating the Purchase Price.

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 Capital Increase is Carried Out**

The balance sheet used as a basis for the transaction is the one for the financial year ended on 31 December 2012, duly audited and submitted to the shareholders for approval at this General Shareholders' Meeting under item one on the agenda.

The Capital Increase will be entirely carried out with a charge to the reserves contemplated in section 303.1 of the Companies Act. When implementing the Capital Increase, 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**

The New Shares will grant the holders thereof the same financial, voting, and like rights as the ordinary shares of Iberdrola currently outstanding, as from the date on which the Capital Increase is declared to be subscribed and paid up. In particular, the holders of the New Shares will be entitled to receive the interim dividend and supplemental dividend amounts, if any, that are paid as from the date on which the Capital Increase is declared to be subscribed and paid up.

#### **8. Shares on Deposit**

Once the period for trading the free-of-charge allocation rights has ended, the New Shares that could not be allocated for reasons not attributable to Iberdrola 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 the aforementioned period for trading the free-of-charge allocation rights, the New Shares 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 Listing**

It is hereby resolved to make application for listing the New Shares to be issued pursuant to this capital increase resolution on the Bilbao, Madrid, Barcelona, and Valencia Stock Exchanges, through the Automated Quotation System (Sistema de Interconexión Bursátil) (Electronic Market), and to carry out such acts and formalities as are required and submit the documents needed to the appropriate bodies for admission to listing of the New Shares issued as a consequence of the approved Capital Increase, with an express statement for the record of Iberdrola's submission to the rules that may now or hereafter exist with respect to Stock Exchange matters, and especially regarding trading, continued listing on, and delisting from official markets.

It is expressly stated for the record that, in the event of a subsequent request for delisting of the Iberdrola shares, such delisting will be carried out with such formalities as apply thereto and, in such event, the interests of the shareholders opposing or not voting on the resolution to delist will be safeguarded, in compliance with the requirements set out in the Companies Act and related provisions, all in accordance with Law 24/1988 of 28 July on the Securities Market and the provisions issued by way of implementation thereof in effect at any time.

## **10. Implementation of the Capital Increase**

Within a period of one year from the date of this resolution, the Board of Directors (with express power of substitution) may set the date on which the Capital Increase resolution is to be carried out and set the terms and conditions thereof as to all matters not provided for in this resolution (including, in particular, the Discount). 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, the Capital Increase, it may, within the aforementioned period, refrain from implementing the Capital Increase, with the duty to inform the shareholders thereof at the next General Shareholders' Meeting held. Specifically, the Board of Directors 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 the Capital Increase, it may decide not to implement it. In addition, the Capital Increase 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.

Once the period for trading the free-of-charge allocation rights has ended:

(a) The New Shares will be allocated to those who, according to the records maintained by the 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 Capital Increase will be implemented will be formalised on the books in the corresponding amount, with which appropriation such Capital Increase will be paid up.

Likewise, once the period 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 resulting number of New Shares, and to make application for listing the New Shares on the Bilbao, Madrid, Barcelona, and Valencia Stock Exchanges.

#### **11. Delegation of Powers to Implement the Capital Increase**

Pursuant to the provisions of section 297.1.a) of the Companies Act, it is hereby resolved to delegate to the Board of Directors, with express power of substitution, the power to set the date on which the Capital Increase is to be carried out, if at all, and to set the terms and conditions thereof as to all matters not provided for in this resolution. In particular, and by way of example only, the following powers are delegated to the Board of Directors, with express power of substitution:

(a) Set the date on which the Capital Increase must be implemented, which shall in any case be within a period of one year from approval thereof.

(b) Determine the Discount within the margins established in this resolution for purposes of the calculation of the number of rights needed for the allocation of one New Share.

(c) Set the exact amount of the Capital Increase, the Amount of the Option, the number of New Shares, and the free-of-charge allocation rights necessary for the allocation of New Shares, applying the rules established by the shareholders at this General Shareholders' Meeting for such purpose.

(d) Determine the reserves, among those contemplated in this resolution, with a charge to which the Capital Increase and the acquisition by the Company of the free-of-charge allocation rights as a consequence of the Purchase Commitment will be implemented.

(e) Designate the company or companies that will assume the duties of agent and/or financial adviser in connection with the Capital Increase, and sign all required contracts and documents for such purpose.

(f) Set the duration of each period for trading the free-of-charge allocation rights.

(g) Set the period during which the Purchase Commitment will be in effect and determine the subject matter of the Purchase Commitment within the limits established in this resolution.

(h) Fulfil the Purchase Commitment, paying the corresponding amounts to those who have accepted such commitment

(i) Declare the Capital Increase to be closed and implemented, setting, for such purpose, the number of New Shares actually allocated 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.

(j) Amend article 5 of the By-Laws of Iberdrola regarding share capital, in order for it to conform to the result of the Capital Increase.

(k) Waive the New Shares corresponding to the free-of-charge allocation rights held by the Company at the end of the period for trading such rights as a result of the Purchase Commitment.

(l) Waive any free-of-charge allocation rights to subscribe for New Shares, for the sole purpose of facilitating the number of New Shares being a whole number and not a fraction.

(m) 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 listing on the Bilbao, Madrid, Barcelona, and Valencia Stock Exchanges.

(n) Take any actions that are necessary or appropriate to implement and formalise the Capital Increase 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.

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

**B - Approval of an increase in share capital by means of a scrip issue at a maximum reference market value of 1,021 million euros for the free-of-charge allocation of new shares to the shareholders of the Company. Offer to the shareholders of the acquisition of their free-of-charge allocation rights at a**



**guaranteed price. Express provision for the possibility of an incomplete allocation. Application for admission of the shares issued to listing on the Bilbao, Madrid, Barcelona, and Valencia Stock Exchanges, through the Automated Quotation System (Sistema de Interconexión Bursátil). Delegation of powers to the Board of Directors, with express power of substitution, including, among others, the power to amend article 5 of the By-Laws.**

## **1. Capital Increase with a Charge to Reserves**

It is hereby resolved to increase the share capital by the amount resulting from multiplying (a) the nominal value of each share of IBERDROLA, S.A. (“**Iberdrola**” or the “**Company**”), equal to seventy-five euro cents, by (b) the total determinable number of new shares of Iberdrola to be issued, in accordance with the formula set forth in section 2 below, on the date of implementation of the increase in share capital (the total number of new Iberdrola shares issued by way of implementation of this resolution will be referred to as the “**New Shares**”, and each, individually, a “**New Share**”), which amount may not in any event exceed the sum of the reference market value of the New Shares equal to a maximum of 1,021 million euros (the “**Capital Increase**”).

The Capital Increase will be carried out by means of the issuance and flotation, if applicable, on the date of implementation of the Capital Increase, 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 Capital Increase will be entirely carried out with a charge to the reserves contemplated in section 303.1 of the Companies Act (Ley de Sociedades de Capital). When implementing the Capital Increase, 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, the Capital Increase may be implemented by the Board of Directors (with express power of substitution), at its sole discretion and, therefore, without having to resort again to the shareholders at a General Shareholders’ Meeting, and by taking into consideration the legal and financial conditions prevailing at the time of implementing the Capital Increase, with a view to offering the Company’s shareholders a flexible and efficient compensation formula. The date on which the Capital Increase is expected to be implemented will be close to December 2013 / January 2014. The number of New Shares to be issued will be such as results from the formula set forth in section 2 below, provided, however, that the Amount of the Option (as such term is defined in section 2 below) may under no circumstances exceed the maximum amount of 1,021 million euros.

Pursuant to the provisions of section 311 of the Companies Act, the possibility of an incomplete allocation of the Capital Increase is contemplated in the event that Iberdrola, 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 the Capital Increase, 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

The number of New Shares to be issued will be the number resulting from the application of the following formula, rounded downwards to the next lower integer:

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

where:

NNS = Number of New Shares to be issued;

TNShrs. = Number of outstanding Iberdrola shares; and

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

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

where:

Provisional number of shares = Amount of the Option / ListPri

For these purposes, “**Amount of the Option**” will mean the reference market value of the Capital Increase to be set by the Board of Directors (or the body acting by delegation therefrom), which will not be greater than 1,021 million euros, in accordance with the limit set in section 1 above.

For its part, “**ListPri**” will be the result of applying a discount between 0% and 10% (the “**Discount**”) to 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.

For purposes of the calculation of the ListPri (and, therefore, of the number of free-of-charge allocation rights needed for the allocation of one New Share), as well as of the Purchase Price (as defined below), the Board of Directors of Iberdrola will be

specifically authorised (with express power of substitution) to establish the specific Discount rate, taking into account market conditions and the corporate interest.

### **3. Free-of-charge Allocation Rights**

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 a New Share will be automatically determined according to the ratio existing between the number of New Shares and the number of outstanding shares (TNShrs.), calculated by using the formula contained in section 2 above. Specifically, the shareholders will be entitled to receive one New Share for as many free-of-charge allocation rights, determined as provided in section 2 above (Num. rights), as are held by them.

In the event that the number of free-of-charge allocation rights required for the allocation of one share (Num. rights) multiplied by the number of New Shares (NNS) results in a number that is lower than the number of outstanding shares (TNShrs.), Iberdrola (or such entity within its group, if any, as holds Iberdrola shares) 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) at 23:59, Madrid time, on the day of publication of the announcement of implementation of the Capital Increase in the Official Bulletin of the Commercial Registry.

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), which term will not be less than fifteen calendar days, beginning on the day following the day of publication of the announcement of implementation of the Capital Increase in the Official Bulletin of the Commercial Registry. 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 the Capital Increase, the Company will assume, on the terms and conditions set forth below, the irrevocable commitment to purchase the free-of-charge allocation rights at the price set forth below (the “**Purchase Commitment**”). The Purchase Commitment 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 purpose, 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 all cases with due observance of any applicable legal restrictions.

The subject matter 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 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) at 23:59, Madrid time, on the day of publication of the announcement of the implementation of the Capital Increase in the Official Bulletin of the Commercial Registry, 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.

The “**Purchase Price**” will be the fixed price at which the Company will acquire each free-of-charge allocation right under the Purchase Commitment, and will be calculated in accordance with the following formula, 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:

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

In addition, the Company will guarantee to the shareholders that decide to transfer their rights under the Purchase Commitment that the Purchase Price that they will obtain will at no time be lower than that that would result if no discount were applied.

Therefore, in the event that the Discount applied is other than zero, the term “**Purchase Price**” will mean the greater of the following amounts: (a) the Purchase Price calculated in accordance with the formula set forth above, and (b) the price resulting from the application of the mathematical formulas described in this section and in section 2 above, assuming a Discount of 0% solely for the purpose of calculating the Purchase Price.

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 Capital Increase is Carried Out**

The balance sheet used as a basis for the transaction is the one for the financial year ended on 31 December 2012, duly audited and submitted to the shareholders for approval at this General Shareholders' Meeting under item one on the agenda.

The Capital Increase will be entirely carried out with a charge to the reserves contemplated in section 303.1 of the Companies Act. When implementing the Capital Increase, 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**

The New Shares will grant the holders thereof the same financial, voting, and like rights as the ordinary shares of Iberdrola currently outstanding, as from the date on which the Capital Increase is declared to be subscribed and paid up. In particular, the holders of the New Shares will be entitled to receive the interim dividend and supplemental dividend amounts, if any, that are paid as from the date on which the Capital Increase is declared to be subscribed and paid up.

**8. Shares on Deposit**

Once the period for trading the free-of-charge allocation rights has ended, the New Shares that could not be allocated for reasons not attributable to Iberdrola 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 the aforementioned period for trading the free-of-charge allocation rights, the New Shares 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 Listing**

It is hereby resolved to make application for listing the New Shares to be issued pursuant to this capital increase resolution on the Bilbao, Madrid, Barcelona, and Valencia Stock Exchanges, through the Automated Quotation System (Sistema de

Interconexión Bursátil) (Electronic Market), and to carry out such acts and formalities as are required and submit the documents needed to the appropriate bodies for admission to listing of the New Shares issued as a consequence of the approved Capital Increase, with an express statement for the record of Iberdrola's submission to the rules that may now or hereafter exist with respect to Stock Exchange matters, and especially regarding trading, continued listing on, and delisting from official markets.

It is expressly stated for the record that, in the event of a subsequent request for delisting of the Iberdrola shares, such delisting will be carried out with such formalities as apply thereto and, in such event, the interests of the shareholders opposing or not voting on the resolution to delist will be safeguarded, in compliance with the requirements set out in the Companies Act and related provisions, all in accordance with Law 24/1988 of 28 July on the Securities Market and the provisions issued by way of implementation thereof in effect at any time.

## **10. Implementation of the Capital Increase**

Within a period of one year from the date of this resolution, the Board of Directors (with express power of substitution) may set the date on which the Capital Increase resolution is to be carried out and set the terms and conditions thereof as to all matters not provided for in this resolution (including, in particular, the Discount). 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, the Capital Increase, it may, within the aforementioned period, refrain from implementing the Capital Increase, with the duty to inform the shareholders thereof at the next General Shareholders' Meeting held. Specifically, the Board of Directors 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 the Capital Increase, it may decide not to implement it. In addition, the Capital Increase 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.

Once the period for trading the free-of-charge allocation rights has ended:

(a) The New Shares will be allocated to those who, according to the records maintained by the 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 Capital Increase will be implemented will be formalised on the books in the corresponding amount, with which appropriation such Capital Increase will be paid up.

Likewise, once the period 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 resulting number of New Shares, and to make application for listing the New Shares on the Bilbao, Madrid, Barcelona, and Valencia Stock Exchanges.

## **11. Delegation of Powers to Implement the Capital Increase**

Pursuant to the provisions of section 297.1.a) of the Companies Act, it is hereby resolved to delegate to the Board of Directors, with express power of substitution, the power to set the date on which the Capital Increase is to be carried out, if at all, and to set the terms and conditions thereof as to all matters not provided for in this resolution. In particular, and by way of example only, the following powers are delegated to the Board of Directors, with express power of substitution:

(a) Set the date on which the Capital Increase must be implemented, which shall in any case be within a period of one year from approval thereof.

(b) Determine the Discount within the margins established in this resolution for purposes of the calculation of the number of rights needed for the allocation of one New Share.

(c) Set the exact amount of the Capital Increase, the Amount of the Option, the number of New Shares, and the free-of-charge allocation rights necessary for the allocation of New Shares, applying the rules established by the shareholders at this General Shareholders' Meeting for such purpose.

(d) Determine the reserves, among those contemplated in this resolution, with a charge to which the Capital Increase and the acquisition by the Company of the free-of-charge allocation rights as a consequence of the Purchase Commitment will be implemented.

(e) Designate the company or companies that will assume the duties of agent and/or financial adviser in connection with the Capital Increase, and sign all required contracts and documents for such purpose.

(f) Set the duration of each period for trading the free-of-charge allocation rights.

(g) Set the period during which the Purchase Commitment will be in effect and determine the subject matter of the Purchase Commitment within the limits established in this resolution.

(h) Fulfil the Purchase Commitment, paying the corresponding amounts to those who have accepted such commitment

(i) Declare the Capital Increase to be closed and implemented, setting, for such purpose, the number of New Shares actually allocated 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.

(j) Amend article 5 of the By-Laws of Iberdrola regarding share capital, in order for it to conform to the result of the Capital Increase.

(k) Waive the New Shares corresponding to the free-of-charge allocation rights held by the Company at the end of the period for trading such rights as a result of the Purchase Commitment.

(l) Waive any free-of-charge allocation rights to subscribe for New Shares, for the sole purpose of facilitating the number of New Shares being a whole number and not a fraction.

(m) 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 listing on the Bilbao, Madrid, Barcelona, and Valencia Stock Exchanges.

(n) Take any actions that are necessary or appropriate to implement and formalise the Capital Increase 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.

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



## **ITEM SEVEN ON THE AGENDA**

**Ratification of the interim appointment and re-election of Mr Manuel Lagares Gómez-Abascal as director of the Company, with the status of proprietary director.**

### **PROPOSED RESOLUTION RELATING TO ITEM SEVEN**

To ratify the appointment of Mr Manuel Lagares Gómez-Abascal as director designated on an interim basis by resolution adopted by the Board of Directors at the meeting held on 21 August 2012, and to re-elect him for the by-law mandated four-year term, after a favourable report of the Appointments and Remuneration Committee, with the status of external proprietary director.

## **ITEM EIGHT ON THE AGENDA**

**Authorisation to the Board of Directors, with the express power of substitution, to create and fund associations, entities, and foundations, up to a maximum limit of 12 million euros per annum, pursuant to applicable legal provisions, for which purpose the authorisation granted by the shareholders at the General Shareholders' Meeting of 22 June 2012 is hereby deprived of effect to the extent of the unused amount.**

In connection with the authorisation granted by the shareholders at the General Shareholders' Meeting of 22 June 2012 to create and fund associations, entities, and foundations, it is hereby stated for the record that it has been used in the amount of 10,245,570 euros to fund various foundations, associations, and entities created for purposes of general interest. The principal use made thereof has been to fund Fundación IBERDROLA in the amount of 9,337,770 euros. Full information on the activities and objectives of Fundación IBERDROLA may be found at [www.fundacioniberdrola.org](http://www.fundacioniberdrola.org).

### **PROPOSED RESOLUTION RELATING TO ITEM EIGHT**

To authorise the Board of Directors, on behalf of the Company –either directly or through its wholly-owned subsidiaries– to participate, either alone or together with other Spanish or foreign individuals or legal entities, and as founder, in the creation of one or more associations, entities, and foundations governed by private law for purposes of general interest (social assistance, public-spirited, educational, cultural, scientific, sports, health, cooperation for development, environmental protection, economic promotion or promotion of research, promotion of volunteerism, defence of human rights, or any other purposes permitted by law), with the covenants, clauses, conditions, representations and agreements it deems appropriate, providing for such purpose, as initial funding or as mere contributions, on a single occasion or in part or successively, cash or such other property or rights as it deems appropriate for each of them, and to contribute cash or such other property or rights as it deems appropriate to the associations, entities, and foundations governed by private law created for purposes of general interest in which the Company –or any of its wholly-owned subsidiaries– is a member of the board of trustees or has participated in the creation thereof or with which it has established an agreement for collaboration therewith, up to the aggregate amount, for both items, of 12 million euros per annum or the equivalent thereof in other currencies for all foundations, entities, and associations during the effective period of this authorisation.

To such end, the Board of Directors is expressly authorised to execute the notarial instruments of creation, draft, and approve the by-laws of each such association, entity, and foundation, with authority to accept positions on behalf of the Company and, generally, to take all such decisions as may be required or appropriate for the implementation of and compliance with this resolution.

This authorisation is granted for a maximum period that will expire on the date of the General Shareholders' Meeting at which the annual accounts for the financial year ending on 31 December 2013 are approved. Such authorisation may be expressly extended by subsequent resolutions of the shareholders at the General Shareholders' Meeting. The maximum period of this authorisation is deemed to be established without prejudice to the possible successive funding which, in accordance with applicable law and within the established limit, may have been committed in the above-mentioned period and be pending contribution by the Company –or its wholly-owned subsidiaries– upon expiration of such period.

The use made of the authorisation approved by this resolution will be reported to the shareholders at a General Shareholders' Meeting.

The Board of Directors may, in turn, delegate all powers granted to it hereby.

This resolution cancels and deprives of effect, to the extent of the unused amount, the authorisation to create and fund associations and foundations granted to the Board of Directors by the shareholders at the General Shareholders' Meeting held on 22 June 2012.

## **ITEM NINE ON THE AGENDA**

### **Amendment of the By-Laws.**

### **PROPOSED RESOLUTIONS RELATING TO ITEM NINE**

#### **A.- Amendment of article 6 of the By-Laws pursuant to the provisions of section 497 of the Companies Act.**

It is proposed to amend article 6 of the *By-Laws*, which shall hereafter read as follows:

##### ***Article 6. Representation of the Shares***

- 1. The shares are represented in book-entry form and, as regards their nature as book entries, they shall be governed by the provisions of law.*
- 2. The Company shall acknowledge as a shareholder any party that appears entitled thereto as owner in the entries of the corresponding book-entry registers.*
- 3. The Company may at any time access the information needed to fully identify its shareholders, including addresses and means of contact for communication with them.*
- 4. Modifications to features of shares represented by book entries shall be published in the manner provided by law.*

#### **B.- Amendment of articles 39, 42, and 43 of the By-Laws to make technical improvements in the provisions governing the operation of the Board of Directors and the committees thereof.**

It is proposed to amend articles 39, 42, and 43 of the *By-Laws*, which shall hereafter read as follows:

##### ***Article 39. Meetings of the Board of Directors***

- 1. The Board of Directors shall meet with the frequency that the chairman of the Board of Directors deems appropriate, and at least the number of times and in the cases provided for in the Regulations of the Board of Directors. Meetings shall take place at the Company's registered office or at the place, in Spain or abroad, indicated in the call to meeting.*

2. *The call to meeting of the Board of Directors shall be carried out by the secretary of the Board of Directors or the person acting in the secretary's stead, with the authorisation of the chairman, by any means that allows for the receipt thereof. Notice of the call shall be given as much in advance as is necessary for the directors to have access thereto no later than the third day prior to the date of the meeting, except in the case of emergency meetings. Any information deemed necessary shall be sent or made available through the directors' website together with the call to meeting, which shall always include the agenda for the meeting, unless the requirement may be dispensed with upon duly justified grounds.*

*One-third of the directors may also call a meeting, establishing the agenda thereof, in order for the meeting to be held at the place where the registered office is located, if a prior petition has been submitted to the chairman of the Board of Directors and he has failed, without well-founded reasons, to call the meeting within one month.*

3. *Without prejudice to the foregoing, the Board of Directors shall be deemed to have validly met without the need for a call if all of the directors present in person or by proxy unanimously agree to hold the meeting and to the items of the agenda to be dealt with.*
4. *Meetings of the Board of Directors may be held in several places connected by a conference system that permits the recognition and identification of the attendees, permanent communication among the attendees regardless of their location, and participation in discussion and the casting of votes, all in real time. Attendees at any of such places shall be deemed to have attended the same meeting for all purposes relating to the Board of Directors. The meeting shall be deemed to have been held where the largest number of directors are located and, if they are in equal numbers, where the chairman of the Board of Directors or whoever chairs the meeting in the absence thereof is located.*
5. *Voting by the Board of Directors may occur in writing without a meeting provided that no director objects thereto. In this instance, the directors may deliver to the secretary of the Board of Directors, or to the person acting on behalf of the secretary, their votes and the considerations they wish to appear in the minutes, by any means allowing for receipt thereof. Resolutions adopted by this procedure shall be recorded in minutes prepared pursuant to the provisions of law.*

#### **Article 42. Committees of the Board of Directors**

1. *The Board of Directors must create and permanently maintain an Executive Committee.*

2. *The Board of Directors must also create an Audit and Risk Supervision Committee, an Appointments and Remuneration Committee, and a Corporate Social Responsibility Committee.*
3. *In addition, the Board of Directors may create other committees or commissions of purely internal scope with such powers as are determined by the Board of Directors.*
4. *The committees shall be governed by the provisions of the Company's Corporate Governance System, including, if applicable, specific regulations, 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, particularly with respect to the call to meetings, granting of a proxy to another member of the committee in question, establishment of a quorum, meetings without prior notice, proceedings at meetings and rules for adopting resolutions, voting in writing and without a meeting, and approval of the minutes of meetings.*

#### **Article 43. Executive Committee**

1. *The Board of Directors shall create a permanent Executive Committee with all of the powers inherent to the Board of Directors except for those powers that may not be delegated pursuant to legal or by-law restrictions.*
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 five (5) and a maximum of eight (8) directors.*
3. *The appointment of members of the Executive Committee and the delegation of powers thereto shall be carried out by the Board with the favourable vote of two-thirds (2/3) 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.*
4. *The chairman of the Board of Directors and the chief executive officer 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 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, one 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 a majority of the directors sitting on the committee who are present at the meeting in person or by proxy. In the event of a tie, the chair shall have the tie-breaking vote.*

## ITEM TEN ON THE AGENDA

Approval of a reduction in share capital by means of the retirement of 87,936,576 treasury shares of Iberdrola, S.A. representing 1% of the share capital, and acquisition of shares of Iberdrola, S.A. representing not more than [1] % of the share capital through a buy-back programme for the retirement thereof. Delegation of powers to the Board of Directors, with the express power of substitution, including, among others, the powers to amend article 5 of the By-Laws and to apply for the delisting of the retired shares and for the removal thereof from the book-entry registers.

### PROPOSED RESOLUTION RELATING TO ITEM TEN

#### **1. Reduction in Share Capital by means of the Retirement of Treasury Shares and the Acquisition of Shares of Iberdrola, S.A. for the Retirement thereof**

It is resolved to reduce the share capital of Iberdrola, S.A. (the “**Company**”) by the amount resulting from the sum of:

(i) 65,952,432.00 euros, through the retirement of 87,936,576 treasury shares, each with a nominal value of 0.75 euro, acquired under the authorisation granted by the shareholders at the General Shareholders’ Meeting held on 26 March 2010 under item eight 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 47,108,880.00 euros, of the Company’s own shares, each with a nominal value of 0.75 euro, that are acquired from the shareholders under the buy-back programme approved by the Board of Directors on 13 February 2013 under the provisions of Commission Regulation (EC) No 2273/2003 of 22 December 2003 and expiring on or before 31 May 2013 (the “**Buy-back Programme**”);

in order to further strengthen the Company’s shareholder compensation policy through an increase in earnings per share (the “**Reduction in Capital**”).

Consequently, the maximum amount of the reduction will be 113,061,312.00 euros, through the retirement of a maximum of 150,748,416 shares of Iberdrola, S.A., each with a nominal value of 0.75 euro, representing not more than 2.40% of the share capital at the time this resolution is approved.

In accordance with the provisions below, the final amount of the reduction 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 13 February 2013, the Company may acquire a maximum number of 62,811,840 shares of the Company with a nominal value of 0.75 euro and representing 1% of the share capital of Iberdrola on the date of approval of this resolution, which number is within legal limits, for retirement thereof and by way of implementation of the Buy-back Programme directed to all of the shareholders.

As provided in the aforementioned resolution of the Board of Directors, the 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 [62,811,840] shares of the Company, each with a nominal value of 0.75 euro, 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 shares acquired under the Buy-back Programme must be retired by the Company within one month following the expiration of such programme. Therefore, 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 because the Company itself is the holder of the shares to be retired at the time of the reduction, 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.

Consequently, in accordance with the provisions of such section, creditors 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**

It is hereby resolved 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 the acts, statements, and formalities heretofore carried out in connection with the public communication of the Buy-back Programme.

#### **5. Delegation of Powers**

It is hereby resolved to authorise the Board of Directors, with express powers of substitution, 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. Specifically, and merely by way of illustration, the following powers are delegated to the Board of Directors, with express powers of substitution:

(a) 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) 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) 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) 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 by the shareholders at this General Shareholders' Meeting.

(e) Amend article 5 of the *By-Laws* of Iberdrola, regarding share capital, in order to adjust it to the result of the Reduction in Capital.

(f) 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.

(g) 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 embodying 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) 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 preceding resolutions.

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

## **ITEM ELEVEN 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, supplementation thereof, further elaboration thereon, and registration thereof.**

### **PROPOSED RESOLUTION RELATING TO ITEM ELEVEN**

Without prejudice to the powers delegated in the preceding resolutions, to authorise the Board of Directors to carry out such resolutions, with the Board of Directors being also authorised to delegate powers to any one or more of the Executive Committee, the chairman & chief executive officer Mr José Ignacio Sánchez Galán, and the general secretary and secretary of the Board of Directors Mr Julián Martínez-Simancas Sánchez, to the fullest extent permitted by law, to carry out the foregoing resolutions, for which purpose they may:

a) Elaborate on, clarify, make more specific, interpret, complete, and correct the resolutions adopted by the shareholders at this General Shareholders' Meeting or those set forth in the notarial instruments or documents that may be executed to carry out such resolutions and, in particular, all omissions, defects, or errors, whether substantive or otherwise, that might prevent the access of these resolutions and the consequences thereof to the Commercial Registry, the Land Registry (Registro de la Propiedad), the Spanish Patent and Trademark Office (Oficina Española de Patentes y Marcas), the National Associations Registry (Registro Nacional de Asociaciones), the Registry of Government-Managed Foundations (Registro de Fundaciones de Competencia Estatal) or, if appropriate, the territorial registries of associations and foundations of the respective autonomous communities or any other registries.

b) Carry out such acts or legal transactions as may be necessary or appropriate for the implementation of the resolutions adopted by the shareholders at this General Shareholders' Meeting, executing such public or private documents as may be deemed necessary or appropriate for the full effectiveness of these resolutions.

c) Delegate to one or more of its members all or part of the powers of the Board of Directors it deems appropriate, as well as the powers expressly granted by the shareholders at this General Shareholders' Meeting, jointly or severally.

d) Determine, in sum, 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 the General Shareholders' Meeting.

**ITEM TWELVE ON THE AGENDA**

**Consultative vote regarding the Annual Director Remuneration Report.**

**PROPOSED RESOLUTION RELATING TO ITEM TWELVE**

To approve, on a consultative basis, the Annual Director Remuneration Report, 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.

**REPORT SUBMITTED BY THE BOARD OF DIRECTORS OF IBERDROLA, S.A. REGARDING THE PROPOSALS TO MAKE TWO CAPITAL INCREASES BY MEANS OF A SCRIP ISSUE, IN CONNECTION WITH ITEM SIX ON THE AGENDA FOR THE GENERAL SHAREHOLDERS' MEETING CALLED TO BE HELD ON 22 AND 23 MARCH 2013, ON FIRST AND SECOND CALL, RESPECTIVELY**

**1. Purpose of the Report**

This report is 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 the rationale for the two proposals to increase share capital by means of a scrip issue, 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 article 5 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 reports 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 to increase share capital submitted 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. Such formula was repeated in 2011 and 2012. 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 a scrip issue 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 the shareholder compensation policy being altered as a result. Furthermore, the shareholders of the Company would have under this system the option to monetise their free-of-charge allocation rights through the transfer thereof on the market, without having in this case the right to receive a guaranteed fixed price.

## **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, at their choice, bonus shares or a cash amount that is, at a minimum, equivalent, in both cases, to the payment of the dividend, if any, that they would have been entitled to receive (the “**Option**”), have been structured in the form of two increases in share capital with a charge to the reserves contemplated in section 303.1 of the Companies Act (each such capital increase shall be referred to as a “**Capital Increase**” and, collectively, as the “**Capital Increases**”). In any event, the foregoing should be understood to be without prejudice to the distribution of a cash dividend that may be approved by the shareholders at the Company's General Shareholders' Meeting under item five on the agenda.

Notwithstanding the fact that the Capital Increases have the purpose described above, each of them is independent of the other, such that each Capital Increase 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 Capital Increase 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 Capital Increase 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 883 million euros in the first Capital Increase and of 1,021 million euros in the second Capital Increase.

It is expected that the first Capital Increase will be implemented on dates around the month of July 2013, while the second Capital Increase is planned for dates around the months of December 2013 or January 2014.

On each of the two dates that the Board of Directors (with express power of substitution) decides to implement a Capital Increase:

(a) The Company's shareholders will receive one free-of-charge allocation right for each Iberdrola share they hold at that time. 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 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 free-of-

charge allocation rights.

As in the previous year, and in order to offer a more attractive alternative to those shareholders that decide to receive new shares of the Company or to sell their free-of-charge allocation rights on the market, it is proposed to the shareholders at the General Shareholders' Meeting to apply a discount on the listing price taken as a reference to calculate the number of free-of-charge allocation rights needed to obtain a new share, all in line with the practice adopted by other European listed companies.

Additionally, in order that the shareholders that decide to transfer their free-of-charge allocation rights to the Company pursuant to the purchase commitment assumed by it do not suffer any loss as a consequence of the application of this discount, the Company will guarantee that the Purchase Price (as defined below) is at no time lower than that they would have received if no discount had been applied.

In this way, the specific number of shares to be issued in each Capital Increase and, consequently, the number of rights required for the allocation of one new share will depend on: (i) the listing price of the Company's shares at the time the implementation of the Capital Increase is approved, in accordance with the procedure described in this report and (ii) the discount rate that the Board of Directors, in exercise of the power 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, resolves to apply in order to calculate the aforementioned figures and the Purchase Price (as defined below) (the "**Discount**"). The Discount may not be less than 0% or greater than 10%. Such listing price of the Company's shares once the Discount has been applied thereto shall hereinafter be referred to as the "**Listing Price**" or "**ListPri**".

In any event, as explained below, the total number of shares to be issued in each Capital Increase 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 Capital Increase (which, in the case of the first Capital Increase, may not exceed 883 million euros, and in the case of the second Capital Increase, may not exceed 1,021 million euros).

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



- (i) the free-of-charge allocation rights received by those who are registered as being entitled thereto in the book-entry records of *Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal* (Iberclear) at 23:59, Madrid time, on the day of publication of the announcement of implementation of each Capital Increase in the Official Bulletin of the Commercial Registry, 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, within the context of each Capital Increase, all Iberdrola shareholders will have the option, at their own discretion:<sup>1</sup>

(a) Not to transfer their free-of-charge allocation rights. In this case, at the end of each trading period, 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 Capital Increase. In this way, shareholders would choose to monetise their rights and receive an amount that is, at a minimum, equivalent to the dividend, if any, 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 Capital Increase, the Company's shareholders may combine any of the alternatives mentioned in items (a) through (c) above. In this regard, it should be noted, however, that: (i) the tax treatment of such alternatives is different and (ii) the analysis of the advisability of choosing each of the aforementioned options may be affected by the Discount that the Board of Directors, in exercise of the power delegated thereto by the shareholders at the General Shareholders' Meeting (with express power of substitution), may apply in order to calculate the number of rights needed for the allocation of one new share and the Purchase Price (as this term is defined below) in each Capital Increase.

### **2.3 Coordination with the Traditional Dividend Policy**

As stated above, within the period of one year from the date on which the

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<sup>1</sup> The options available to the holders of ADRs (in the United States of America) and of CDIs (in the United Kingdom) may have peculiarities 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.

shareholders acting at the General Shareholders' Meeting approve the resolution proposed herein, and provided that the legal and financial conditions prevailing at any 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 a scrip issue, maintaining in all events the possibility for the shareholders to receive, at their choice, a cash amount that is, at a minimum, equivalent 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 a minimum, equivalent to what could have been the traditional dividend amounts paid.

In particular, it is contemplated that, if approved by the shareholders at the General Shareholders' Meeting, the first Capital Increase will replace what would have been the traditional payment of the supplemental dividend for the financial year ended on 31 December 2012, and the second Capital Increase will replace what would have been the traditional payment of the interim dividend for the financial year ended on 31 December 2013.

However, 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 Capital Increase**

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 at each time so advise.

The aggregate market value of the bonus shares to be issued in the Capital Increases, calculated on the basis of the Listing Price applicable at the time of implementation of each Capital Increase, will come to a maximum amount of 883 million euros in the first Capital Increase and of 1,021 million euros in the second Capital Increase (the "**Amount of the Option**" of each Capital Increase, respectively).

The Amount of the Option of each Capital Increase will be set and announced as provided in section 3.1 below.

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

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

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

The amount of each Capital Increase 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 Capital Increases will thus be carried out at par, without a share premium.

In turn, the number of shares to be issued in each Capital Increase 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 Capital Increase will be the result of applying the Discount (which shall not be less than 0% or greater than 10%) to 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 specific Discount applied in each Capital Increase shall be determined by the Board of Directors of the Company, in exercise of the power delegated thereto by the shareholders at the General Shareholders’ Meeting (with express power of substitution), taking into account market conditions and the corporate interest.

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 Capital Increase, the Board of Directors (with express power of substitution) will determine the number of shares to be issued and, as a consequence, the amount of the Capital Increase that will be implemented at that time, 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):

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

<sup>2</sup> **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 Capital Increase; and  
**Num. rights** = Number of free-of-charge allocation rights required for the allocation of one new share in the Capital Increase in question, which number will result from the application of the following formula, rounded to the next higher integer:

Attached hereto as an Exhibit is a sample calculation of the maximum number of new shares to be issued in the first Capital Increase, of the maximum nominal value of such increase, of the number of free-of-charge allocation rights required for the allocation of one new share, and of the Purchase Price (as such term is defined below). The Exhibit contemplates two alternative scenarios: one in which a Discount of 0% is applied and (ii) one in which a Discount of 10% is applied.

The Amount of the Option of each Capital Increase 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 Capital Increase, 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 Capital Increase will be automatically determined according to the ratio existing between the number of new shares issued in each Capital Increase and the number of shares then outstanding, calculated by using the formula contained in section 3.1 above. Specifically, the shareholders 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 share multiplied by the number of new shares results in a number that is lower than the number of shares then outstanding, 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 Capital Increase 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) at 23:59, Madrid time, on the day of publication of the announcement of implementation of each Capital Increase in the Official Bulletin of the Commercial Registry. 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, beginning on the day following the day of publication of the announcement of implementation of each Capital Increase in the

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

where:

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

Official Bulletin of the Commercial Registry. 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.<sup>3</sup>

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

As explained above, within the context of the implementation of each Capital Increase, 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 choice, 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 Capital Increase by the Board of Directors (with express power of substitution).

For such purposes, the Company is granted authority to acquire the aforementioned free-of-charge allocation rights up to the maximum limit of the total number of rights issued in each Capital Increase, 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 Capital Increase 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 (in 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**”):

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

In each Capital Increase, the Company will guarantee to the shareholders that decide to transfer their rights to it under the Purchase Commitment that the Purchase Price that they will obtain will at no time be lower than that that would result if no discount were applied.

Therefore, in the event that the Discount applied is other than zero, the term “**Purchase Price**” will mean the greater of the following amounts: (a) the Purchase Price calculated in accordance with the formula set forth above and (b) the price resulting from the application of the mathematical formulas described in this section and in section 3.1 above, assuming a Discount of 0% solely for the purpose of

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<sup>3</sup> Shareholders that do not have free-of-charge allocation rights in a number sufficient to receive a new share in each Capital Increase 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 a 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).

calculating the Purchase Price.

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

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

It is contemplated that, in each Capital Increase, 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 Capital Increase 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 Capital Increase 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 Capital Increase 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 currently outstanding. In particular, the holders of the new shares will be entitled to receive the interim dividend and supplemental dividend amounts, if any, that are paid after such date.

The Capital Increases 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 Capital Increases.

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 Capital Increases Are Carried Out**

The balance sheet used as a basis for the Capital Increases is the one for the financial year ended on 31 December 2012, 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.

The Capital Increases will be entirely carried out with a charge to the reserves contemplated in section 303.1 of the Companies Act. On the occasion of the implementation of 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 indicates that such treatment is the following (which has not changed since the date of issuance of such answer for shareholders residing in common regions (*territorio común*) and for non-residents; however, it should be taken into account that the Historical Territories of Biscay, Gipuzkoa, and Araba/Álava have amended their territorial regulations (*normas forales*) on Personal Income Tax to cover this type of transaction):

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 Capital Increases will not be subject to tax for purposes of the Personal Income Tax (*Impuesto sobre la Renta de las Personas Físicas*) ("IRPF"), of the Corporate Income Tax (*Impuesto sobre Sociedades*) ("IS"), or of the Non-Resident Income Tax (*Impuesto sobre la Renta de no Residentes*) ("IRNR"), whether or not non-residents 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 Capital Increase 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 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, 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 the agreements for the avoidance of double taxation and for the prevention of tax evasion in the area of Income Tax entered into by Spain and to which they might be entitled.

In the case of shareholders who are individuals and residents of the Historical Territories of Biscay, Gipuzkoa, or Araba/Álava, the amount obtained for the transfer of the free-of-charge allocation rights is regarded as a financial profit.

- 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 for shareholders subject to the above-mentioned 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. 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 both to the law applicable as of the date of this report and to the rules for interpretation thereof, 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 Capital Increases.



### **3.7 Delegation of Powers and Implementation of the Capital Increases**

It is proposed to delegate to the Board of Directors, with the express power of substitution, the power to set the date on which each Capital Increase is to be implemented, 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 Discount), 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 Capital Increases, it may, within the aforementioned period, refrain from implementing the Capital Increases (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 Capital Increases, it may decide not to implement it. In addition, the Capital Increase in question will be deprived of any and all effect in the event that the Board of Directors does not exercise the powers delegated thereto within the period of one year established by the shareholders at the General Shareholders' Meeting for implementation thereof.

On the dates that the Board of Directors, or the body acting by delegation therefrom, decides to implement a Capital Increase, 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 Capital Increase, all as provided by section 26.1.e) of Royal Decree 1310/2005 of 4 November, which further develops a part of the provisions of Law 24/1988 of 28 July on the Securities Market.

Once the period for trading the free-of-charge allocation rights in respect of each Capital Increase 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 by 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 Capital Increase will be implemented will be formalised on the books in the respective amount, with which appropriation the Capital Increase will be paid up.

Finally, in each Capital Increase, 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 to make application for listing the new shares on the Bilbao, Madrid, Barcelona, and Valencia Stock Exchanges.

### **3.8 Admission of the New Shares to Listing**

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

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

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

### ***“ITEM SIX ON THE AGENDA***

***Increases in share capital by means of scrip issues.***

#### ***PROPOSED RESOLUTIONS RELATING TO ITEM SIX***

***A - Approval of an increase in share capital by means of a scrip issue at a maximum reference market value of 883 million euros for the free-of-charge allocation of new shares to the shareholders of the Company. Offer to the shareholders of the acquisition of their free-of-charge allocation rights at a guaranteed price. Express provision for the possibility of an incomplete allocation. Application for admission of the shares issued to listing on the Bilbao, Madrid, Barcelona, and Valencia Stock Exchanges, through the Automated Quotation System (Sistema de Interconexión Bursátil). Delegation of powers to the Board of Directors, with express power of substitution, including, among others, the power to amend article 5 of the By-Laws.***

#### ***1. Capital Increase with a Charge to Reserves***

*It is hereby resolved to increase the share capital by the amount resulting from multiplying (a) the nominal value of each share of IBERDROLA, S.A. (“**Iberdrola**” or the “**Company**”), equal to seventy-five euro cents, by (b) the total determinable number of new shares of Iberdrola to be issued, in accordance with the formula set forth in section 2 below, on the date of implementation of the increase in share capital (the total number of new Iberdrola shares issued by way of implementation of this resolution will be referred to as the “**New Shares**”, and each, individually, a “**New Share**”), which amount may not in any event exceed the sum of the reference market value of the New Shares equal to a maximum of 883 million euros (the “**Capital Increase**”).*

*The Capital Increase will be carried out by means of the issuance and flotation, if applicable, on the date of implementation of the Capital Increase, 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 Capital Increase will be entirely carried out with a charge to the reserves contemplated in section 303.1 of the Companies Act (Ley de Sociedades de Capital). When implementing the Capital Increase, 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, the Capital Increase may be implemented by the Board of Directors (with express power of substitution), at its sole discretion and, therefore, without having to resort again to the shareholders at a General Shareholders' Meeting, and by taking into consideration the legal and financial conditions prevailing at the time of implementing the Capital Increase, with a view to offering the Company's shareholders a flexible and efficient compensation formula. The date on which the Capital Increase is expected to be implemented will be around the month of July 2013. The number of New Shares to be issued will be such as results from the formula set forth in section 2 below, provided, however, that the Amount of the Option (as such term is defined in section 2 below) may in no event exceed the maximum amount of 883 million euros.*

*Pursuant to the provisions of section 311 of the Companies Act, the possibility of an incomplete allocation of the Capital Increase is contemplated in the event that Iberdrola, 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 the Capital Increase is implemented, 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**

*The number of New Shares to be issued will be the number resulting from the application of the following formula, rounded downwards to the next lower integer:*

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

*where:*

*NNS = Number of New Shares to be issued;*

*TNShrs. = Number of outstanding Iberdrola shares; and*

*Num. rights = Number of free-of-charge allocation rights required for the allocation of one New Share, 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 reference market value of the Capital Increase to be set by the Board of Directors (or the body acting by delegation therefrom), which will not be greater than 883 million euros, in accordance with the limit established in section 1 above.*

*For its part, “ListPri” will be the result of applying a discount between 0% and 10% (the “Discount”) to 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.*

*For purposes of the calculation of the ListPri (and, therefore, of the number of free-of-charge allocation rights needed for the allocation of one New Share), as well as of the Purchase Price (as defined below), the Board of Directors of Iberdrola will be specifically authorised (with express power of substitution) to establish the specific Discount rate, taking into account market conditions and the corporate interest.*

### **3. Free-of-charge Allocation Rights**

*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 a New Share will be automatically determined according to the ratio existing between the number of New Shares and the number of outstanding shares (TNShrs.), calculated by using the formula contained in section 2 above. Specifically, the shareholders will be entitled to receive one New Share for as many free-of-charge allocation rights, determined as provided in section 2 above (Num. rights), as are held by them.*

*In the event that the number of free-of-charge allocation rights required for the allocation of one share (Num. rights) multiplied by the number of New Shares (NNS) results in a number that is lower than the number of outstanding shares (TNShrs.), Iberdrola (or such entity within its Group, if any, as holds Iberdrola shares) 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) at 23:59, Madrid time, on the day of publication of the announcement of*

implementation of the Capital Increase in the Official Bulletin of the Commercial Registry.

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), which term will not be less than fifteen calendar days, beginning on the day following the day of publication of the announcement of implementation of the Capital Increase in the Official Bulletin of the Commercial Registry. 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 the Capital Increase, the Company will assume, on the terms and conditions set forth below, the irrevocable commitment to purchase the free-of-charge allocation rights at the price set forth below (the “**Purchase Commitment**”). The Purchase Commitment 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 purpose, 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 all cases with due observance of any applicable legal restrictions.

The subject matter 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 without charge 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) at 23:59, Madrid time, on the day of publication of the announcement of the implementation of the Capital Increase in the Official Bulletin of the Commercial Registry, 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.

The “**Purchase Price**” will be the fixed price at which the Company will acquire each free-of-charge allocation right under the Purchase Commitment, and will be calculated in accordance with the following formula, 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:

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

*In addition, the Company will guarantee to the shareholders that decide to transfer their rights under the Purchase Commitment that the Purchase Price that they will obtain will at no time be lower than that that would result if no discount were applied.*

*Therefore, in the event that the Discount applied is other than zero, the term “**Purchase Price**” will mean the greater of the following amounts: (a) the Purchase Price calculated in accordance with the formula set forth above, and (b) the price resulting from the application of the mathematical formulas described in this section and in section 2 above, assuming a Discount of 0% solely for the purpose of calculating the Purchase Price.*

*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 Capital Increase is Carried Out**

*The balance sheet used as a basis for the transaction is the one for the financial year ended on 31 December 2012, duly audited and submitted to the shareholders for approval at this General Shareholders’ Meeting under item one on the agenda.*

*The Capital Increase will be entirely carried out with a charge to the reserves contemplated in section 303.1 of the Companies Act. When implementing the Capital Increase, 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**

*The New Shares will grant the holders thereof the same financial, voting, and like rights as the ordinary shares of Iberdrola currently outstanding, as from the date on which the Capital Increase is declared to be subscribed and paid up. In particular, the holders of the New Shares will be entitled to receive the interim dividend and supplemental dividend amounts, if any, that are paid as from the date on which the Capital Increase is declared to be subscribed and paid up.*

## **8. Shares on Deposit**

*Once the period for trading the free-of-charge allocation rights has ended, the New Shares that could not be allocated for reasons not attributable to Iberdrola 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 the aforementioned period for trading the free-of-charge allocation rights, the New Shares 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 Listing**

*It is hereby resolved to make application for listing the New Shares to be issued pursuant to this capital increase resolution on the Bilbao, Madrid, Barcelona, and Valencia Stock Exchanges, through the Automated Quotation System (Sistema de Interconexión Bursátil) (Electronic Market), and to carry out such acts and formalities as are required and submit the documents needed to the appropriate bodies for admission to listing of the New Shares issued as a consequence of the approved Capital Increase, with an express statement for the record of Iberdrola's submission to the rules that may now or hereafter exist with respect to Stock Exchange matters, and especially regarding trading, continued listing on, and delisting from official markets.*

*It is expressly stated for the record that, in the event of a subsequent request for delisting of the Iberdrola shares, such delisting will be carried out with such formalities as apply thereto and, in such event, the interests of the shareholders opposing or not voting on the resolution to delist will be safeguarded, in compliance with the requirements set out in the Companies Act and related provisions, all in accordance with Law 24/1988 of 28 July on the Securities Market and the provisions issued by way of implementation thereof in effect at any time.*

## **10. Implementation of the Capital Increase**

*Within a period of one year from the date of this resolution, the Board of Directors (with express power of substitution) may set the date on which the Capital Increase resolution is to be carried out and set the terms and conditions thereof as to all matters not provided for in this resolution (including, in particular, the Discount). 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, the Capital Increase, it may, within the aforementioned period, refrain from implementing the Capital Increase, with the duty to inform the shareholders thereof at the next General Shareholders' Meeting held. Specifically, the Board of Directors 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 the Capital Increase, it may*

*decide not to implement it. In addition, the Capital Increase 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.*

*Once the period for trading the free-of-charge allocation has ended:*

*(a) The New Shares will be allocated to those who, according to the records maintained by the 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 Capital Increase will be implemented will be formalised on the books in the corresponding amount, with which appropriation such Capital Increase will be paid up.*

*Likewise, once the period 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 resulting number of New Shares, and to make application for listing the New Shares on the Bilbao, Madrid, Barcelona, and Valencia Stock Exchanges.*

## **11. Delegation of Powers to Implement the Capital Increase**

*Pursuant to the provisions of section 297.1.a) of the Companies Act, it is hereby resolved to delegate to the Board of Directors, with express power of substitution, the power to set the date on which the Capital Increase is to be carried out, if at all, and to set the terms and conditions of the Capital Increase as to all matters not provided for in this resolution. In particular, and by way of example only, the following powers are delegated to the Board of Directors, with express power of substitution:*

*(a) Set the date on which the Capital Increase must be implemented, which shall in any case be within a period of one year from approval thereof.*

*(b) Determine the Discount within the margins established in this resolution for purposes of the calculation of the number of rights needed for the allocation of one New Share.*

*(c) Set the exact amount of the Capital Increase, the Amount of the Option, the number of New Shares, and the free-of-charge allocation rights necessary for the allocation of New Shares, applying the rules established by the shareholders at this General Shareholders' Meeting for such purpose.*

*(d) Determine the reserves, among those contemplated in this resolution, with a charge to which the Capital Increase and the acquisition by the Company of the*



*free-of-charge allocation rights as a consequence of the Purchase Commitment will be implemented.*

*(e) Designate the company or companies that will assume the duties of agent and/or financial adviser in connection with the Capital Increase, and sign all required contracts and documents for such purpose.*

*(f) Set the duration of each period for trading the free-of-charge allocation rights.*

*(g) Set the period during which the Purchase Commitment will be in effect and determine the subject matter of the Purchase Commitment within the limits established in this resolution.*

*(h) Fulfil the Purchase Commitment, paying the corresponding amounts to those who have accepted such commitment*

*(i) Declare the Capital Increase to be closed and implemented, setting, for such purpose, the number of New Shares actually allocated 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.*

*(j) Amend article 5 of the By-Laws of Iberdrola regarding share capital, in order for it to conform to the result of the Capital Increase.*

*(k) Waive the New Shares corresponding to the free-of-charge allocation rights held by the Company at the end of the period for trading such rights as a result of the Purchase Commitment.*

*(l) Waive any free-of-charge allocation rights to subscribe for New Shares, for the sole purpose of facilitating the number of New Shares being a whole number and not a fraction.*

*(m) 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 listing on the Bilbao, Madrid, Barcelona, and Valencia Stock Exchanges.*

*(n) Take any actions that are necessary or appropriate to implement and formalise the Capital Increase 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.*

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

**B - Approval of an increase in share capital by means of a scrip issue at a maximum reference market value of 1,021 million euros for the free-of-charge allocation of new shares to the shareholders of the Company. Offer to the shareholders of the acquisition of their free-of-charge allocation rights at a guaranteed price. Express provision for the possibility of an incomplete allocation. Application for admission of the shares issued to listing on the Bilbao, Madrid, Barcelona, and Valencia Stock Exchanges, through the Automated Quotation System (Sistema de Interconexión Bursátil). Delegation of powers to the Board of Directors, with express power of substitution, including, among others, the power to amend article 5 of the By-Laws.**

### **1. Capital Increase with a Charge to Reserves**

It is hereby resolved to increase the share capital by the amount resulting from multiplying (a) the nominal value of each share of IBERDROLA, S.A. (“**Iberdrola**” or the “**Company**”), equal to seventy-five euro cents, by (b) the total determinable number of new shares of Iberdrola to be issued, in accordance with the formula set forth in section 2 below, on the date of implementation of the increase in share capital (the total number of new Iberdrola shares issued by way of implementation of this resolution will be referred to as the “**New Shares**”, and each, individually, a “**New Share**”), which amount may not in any event exceed the sum of the reference market value of the New Shares equal to a maximum of 1,021 million euros (the “**Capital Increase**”).

The Capital Increase will be carried out by means of the issuance and flotation, if applicable, on the date of implementation of the Capital Increase, 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 Capital Increase will be entirely carried out with a charge to the reserves contemplated in section 303.1 of the Companies Act (Ley de Sociedades de Capital). When implementing the Capital Increase, 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, the Capital Increase may be implemented by the Board of Directors (with express power of substitution), at its sole discretion and, therefore, without having to resort again to the shareholders at a General Shareholders’ Meeting, and by taking into consideration the legal and financial conditions prevailing at the time of implementing the Capital Increase, with a view to offering the Company’s shareholders a flexible and efficient compensation formula. The date on which the Capital Increase is expected to be implemented will be around the months of December 2013 / January 2014. The number of New Shares to be issued will be such as results from the formula set forth in section 2 below, provided, however, that the Amount of the Option (as such term is defined in

section 2 below) may under no circumstances exceed the maximum amount of 1,021 million euros.

Pursuant to the provisions of section 311 of the Companies Act, the possibility of an incomplete allocation of the Capital Increase is contemplated in the event that Iberdrola, 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 the Capital Increase, 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**

The number of New Shares to be issued will be the number resulting from the application of the following formula, rounded downwards to the next lower integer:

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

where:

*NNS* = Number of New Shares to be issued;

*TNShrs.* = Number of outstanding Iberdrola shares; and

*Num. rights* = Number of free-of-charge allocation rights required for the allocation of one New Share, 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 reference market value of the Capital Increase to be set by the Board of Directors (or the body acting by delegation therefrom), which will not be greater than 1,021 million euros, in accordance with the limit set in section 1 above.

For its part, “**ListPri**” will be the result of applying a discount between 0% and 10% (the “**Discount**”) to 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.

For purposes of the calculation of the ListPri (and, therefore, of the number of free-of-charge allocation rights needed for the allocation of one New Share), as well as

of the Purchase Price (as defined below), the Board of Directors of Iberdrola will be specifically authorised (with express power of substitution) to establish the specific Discount rate, taking into account market conditions and the corporate interest.

### **3. Free-of-charge Allocation Rights**

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 a New Share will be automatically determined according to the ratio existing between the number of New Shares and the number of outstanding shares (TNShrs.), calculated by using the formula contained in section 2 above. Specifically, the shareholders will be entitled to receive one New Share for as many free-of-charge allocation rights, determined as provided in section 2 above (Num. rights), as are held by them.

In the event that the number of free-of-charge allocation rights required for the allocation of one share (Num. rights) multiplied by the number of New Shares (NNS) results in a number that is lower than the number of outstanding shares (TNShrs.), Iberdrola (or such entity within its group, if any, as holds Iberdrola shares) 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) at 23:59, Madrid time, on the day of publication of the announcement of implementation of the Capital Increase in the Official Bulletin of the Commercial Registry.

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), which term will not be less than fifteen calendar days, beginning on the day following the day of publication of the announcement of implementation of the Capital Increase in the Official Bulletin of the Commercial Registry. 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 the Capital Increase, the Company will assume, on the terms and conditions set forth below, the irrevocable commitment to purchase the free-of-charge allocation rights at the price set forth below (the “**Purchase Commitment**”). The Purchase Commitment 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 purpose, 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 all

*cases with due observance of any applicable legal restrictions.*

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

- (i) the free-of-charge allocation rights received by those who are registered as being entitled thereto in the book-entry records of Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal (Iberclear) at 23:59, Madrid time, on the day of publication of the announcement of the implementation of the Capital Increase in the Official Bulletin of the Commercial Registry, 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.*

*The “**Purchase Price**” will be the fixed price at which the Company will acquire each free-of-charge allocation right under the Purchase Commitment, and will be calculated in accordance with the following formula, 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:*

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

*In addition, the Company will guarantee to the shareholders that decide to transfer their rights under the Purchase Commitment that the Purchase Price that they will obtain will at no time be lower than that that would result if no discount were applied.*

*Therefore, in the event that the Discount applied is other than zero, the term “**Purchase Price**” will mean the greater of the following amounts: (a) the Purchase Price calculated in accordance with the formula set forth above, and (b) the price resulting from the application of the mathematical formulas described in this section and in section 2 above, assuming a Discount of 0% solely for the purpose of calculating the Purchase Price.*

*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 Capital Increase Is Carried Out**

*The balance sheet used as a basis for the transaction is the one for the financial year ended on 31 December 2012, duly audited and submitted to the shareholders for approval at this General Shareholders' Meeting under item one on the agenda.*

*The Capital Increase will be entirely carried out with a charge to the reserves contemplated in section 303.1 of the Companies Act. When implementing the Capital Increase, 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**

*The New Shares will grant the holders thereof the same financial, voting, and like rights as the ordinary shares of Iberdrola currently outstanding, as from the date on which the Capital Increase is declared to be subscribed and paid up. In particular, the holders of the New Shares will be entitled to receive the interim dividend and supplemental dividend amounts, if any, that are paid as from the date on which the Capital Increase is declared to be subscribed and paid up.*

#### **8. Shares on Deposit**

*Once the period for trading the free-of-charge allocation rights has ended, the New Shares that could not be allocated for reasons not attributable to Iberdrola 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 the aforementioned period for trading the free-of-charge allocation rights, the New Shares 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 Listing**

*It is hereby resolved to make application for listing the New Shares to be issued pursuant to this capital increase resolution on the Bilbao, Madrid, Barcelona, and Valencia Stock Exchanges, through the Automated Quotation System (Sistema de Interconexión Bursátil) (Electronic Market), and to carry out such acts and formalities as are required and submit the documents needed to the appropriate bodies for admission to listing of the New Shares issued as a consequence of the approved Capital Increase, with an express statement for the record of Iberdrola's submission to the rules that may now or hereafter exist with respect to Stock Exchange matters, and especially*

*regarding trading, continued listing on, and delisting from official markets.*

*It is expressly stated for the record that, in the event of a subsequent request for delisting of the Iberdrola shares, such delisting will be carried out with such formalities as apply thereto and, in such event, the interests of the shareholders opposing or not voting on the resolution to delist will be safeguarded, in compliance with the requirements set out in the Companies Act and related provisions, all in accordance with Law 24/1988 of 28 July on the Securities Market and the provisions issued by way of implementation thereof in effect at any time.*

#### **10. Implementation of the Capital Increase**

*Within a period of one year from the date of this resolution, the Board of Directors (with express power of substitution) may set the date on which the Capital Increase resolution is to be carried out and set the terms and conditions thereof as to all matters not provided for in this resolution (including, in particular, the Discount). 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, the Capital Increase, it may, within the aforementioned period, refrain from implementing the Capital Increase, with the duty to inform the shareholders thereof at the next General Shareholders' Meeting held. Specifically, the Board of Directors 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 the Capital Increase, it may decide not to implement it. In addition, the Capital Increase 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.*

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

*(a) The New Shares will be allocated to those who, according to the records maintained by the 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 Capital Increase will be implemented will be formalised on the books in the corresponding amount, with which appropriation such Capital Increase will be paid up.*

*Likewise, once the period 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 resulting number of New Shares, and to make application for listing the New Shares on the Bilbao, Madrid, Barcelona, and Valencia Stock*

*Exchanges.*

## **11. Delegation of Powers to Implement the Capital Increase**

*Pursuant to the provisions of section 297.1.a) of the Companies Act, it is hereby resolved to delegate to the Board of Directors, with express power of substitution, the power to set the date on which the Capital Increase is to be carried out, if at all, and to set the terms and conditions thereof as to all matters not provided for in this resolution. In particular, and by way of example only, the following powers are delegated to the Board of Directors, with express power of substitution:*

*(a) Set the date on which the Capital Increase must be implemented, which shall in any case be within a period of one year from approval thereof.*

*(b) Determine the Discount within the margins established in this resolution for purposes of the calculation of the number of rights needed for the allocation of one New Share.*

*(c) Set the exact amount of the Capital Increase, the Amount of the Option, the number of New Shares, and the free-of-charge allocation rights necessary for the allocation of New Shares, applying the rules established by the shareholders at this General Shareholders' Meeting for such purpose.*

*(d) Determine the reserves, among those contemplated in this resolution, with a charge to which the Capital Increase and the acquisition by the Company of the free-of-charge allocation rights as a consequence of the Purchase Commitment will be implemented.*

*(e) Designate the company or companies that will assume the duties of agent and/or financial adviser in connection with the Capital Increase, and sign all required contracts and documents for such purpose.*

*(f) Set the duration of each period for trading the free-of-charge allocation rights.*

*(g) Set the period during which the Purchase Commitment will be in effect and determine the subject matter of the Purchase Commitment within the limits established in this resolution.*

*(h) Fulfil the Purchase Commitment, paying the corresponding amounts to those who have accepted such commitment*

*(i) Declare the Capital Increase to be closed and implemented, setting, for such purpose, the number of New Shares actually allocated 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.*

*(j) Amend article 5 of the By-Laws of Iberdrola regarding share capital, in*



*order for it to conform to the result of the Capital Increase.*

*(k) Waive the New Shares corresponding to the free-of-charge allocation rights held by the Company at the end of the period for trading such rights as a result of the Purchase Commitment.*

*(l) Waive any free-of-charge allocation rights to subscribe for New Shares, for the sole purpose of facilitating the number of New Shares being a whole number and not a fraction.*

*(m) 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 listing on the Bilbao, Madrid, Barcelona, and Valencia Stock Exchanges.*

*(n) Take any actions that are necessary or appropriate to implement and formalise the Capital Increase 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.*

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

\* \* \*

Bilbao, 13 February 2013

## EXHIBIT

### Sample calculations of the maximum number of new shares to be issued in the first Capital Increase, 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 based on the Discount applied:

Set forth below, for the sole purpose of making the application thereof easier to understand, are two examples of the calculation, in the event of the first Capital Increase, of the maximum number of new shares to be issued, the maximum nominal value of the increase, the number of free-of-charge allocation rights required for the allocation of one new share, and the Purchase Price, based on two scenarios in which the application of a different Discount is contemplated.<sup>4</sup>

The results of these calculations are not representative of the actual results that may be obtained, which, in the case of the first Capital Increase, will depend on the different variables used in the formulas (basically, the Listing Price of Iberdrola shares at that time, the Amount of the Option that may be approved for distribution at that time, and the Discount that the Board of Directors (with express power of substitution) determines, 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 883 million euros.
- The TNShrs. is 6,281,184,000.

Additionally, two different scenarios are contemplated, in accordance with the Discount applied:

#### Scenario A:

- A Discount of 0% is assumed.
- A ListPri of 3.773 euros is assumed (solely for the purposes of this example, the listing price of the Iberdrola shares at the closing of the trading session of 8 February 2013 has been used as a reference). As the Discount is 0%, no additional adjustment is needed in order to calculate the ListPri.

#### Scenario B:

- A Discount of 10% is assumed.
- The ListPri, resulting from the application of the Discount to the listing price of

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<sup>4</sup> Additionally, in the second Capital Increase, 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 Capital Increase.

Iberdrola shares at the closing of the trading session of 8 February 2013, as provided in Scenario A, is 3.396 euros.

Therefore:

	<b>Scenario A (Discount of 0%)</b>	<b>Scenario B (Discount of 10%)</b>
Provisional number of shares = Amount of the Option / ListPri	$883,000,000 / 3.773 = 234,031,274.8476010 = 234,031,274$ shares (rounded downwards)	$883,000,000 / 3.396 = 260,011,778.5630150 = 260,011,778$ shares (rounded downwards)
Num. rights = TNShrs. / Provisional number of shares	$6,281,184,000 / 234,031,274 = 26.8390796 = 27$ rights (rounded upwards)	$6,281,184,000 / 260,011,778 = 24.1573057 = 25$ rights (rounded upwards)
NNS = TNShrs. / Num. rights	$6,281,184,000 / 27 = 232,636,444.4444444 = 232,636,444$ shares (rounded downwards)	$6,281,184,000 / 25 = 251,247,360$ shares
Purchase Price = ListPri / (Num. rights + 1)	$3,773 / (27 + 1) = 0.135$ euros	$3,396 / (25 + 1) = 0.131$ euros As in this case the Purchase Price is lower than that contemplated in Scenario A, i.e. when the Discount is 0%, the Purchase Price in Scenario A is applied. Therefore, the Purchase Price in Scenario B would be 0.135 euros.

Thus, in Scenario A: (i) the maximum number of new shares to be issued in the first Capital Increase would be 232,636,444, (ii) the maximum nominal value of the first Capital Increase would come to 174,477,333.00 euros (232,636,444 x 0.75), and (iii) 27 free-of-charge allocation rights (or existing shares) would be required for the allocation of one new share.<sup>5</sup>

In Scenario B: (i) the maximum number of new shares to be issued in the first Capital Increase would be 251,247,360, (ii) the maximum nominal value of the First Capital Increase would come to 188,435,520.00 euros (251,247,360 x 0.75), and (iii) 25 free-of-charge allocation rights (or existing shares) would be required for the allocation of one new share.

\* \* \*

<sup>5</sup> In this example, in Scenario A, the Company (or an entity of its group that holds shares of the Company) would be required to waive 12 free-of-charge allocation rights corresponding to 12 shares of its own stock in order for the number of shares to be issued to be an integer.

**REPORT SUBMITTED BY THE BOARD OF DIRECTORS OF IBERDROLA, S.A. FOR PURPOSES OF THE PROVISIONS OF SECTION 286 OF THE COMPANIES ACT, REGARDING THE RATIONALE FOR THE PROPOSED AMENDMENT OF THE BY-LAWS INCLUDED IN ITEM NINE ON THE AGENDA FOR THE GENERAL SHAREHOLDERS' MEETING CALLED TO BE HELD ON 22 AND 23 MARCH 2013, 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 section 286 of the Companies Act (*Ley de Sociedades de Capital*), in order to provide a rationale for the proposed amendment of the *By-Laws* submitted to the shareholders for approval at the General Shareholders’ Meeting of the Company.

Section 286 of the Companies Act requires the preparation of a written report by the directors providing a rationale for the proposed amendment of the *By-Laws*. To facilitate the shareholders’ understanding of the changes that give rise to this proposal, a description of the purpose of and rationale for such amendment is provided, and the proposed resolution submitted to the shareholders for approval at the General Shareholders’ Meeting is included below.

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. Rationale for the Proposal**

**2.1. Introduction**

The Board of Directors of the Company has revised the *By-Laws* in order to further strengthen the development, implementation, and dissemination of the most stringent Corporate Governance System, which is a fundamental component of the strategy of the Company and its Group.

A product of such revision is the proposed amendment of the *By-Laws* proposed to the shareholders at the General Shareholders’ Meeting.

The articles of the *By-Laws* proposed to be amended are: article 6 (*Representation of the Shares*), article 39 (*Meetings of the Board of Directors*), article 42 (*Committees of the Board of Directors*), and article 43 (*Executive Committee*). A detailed description of the purpose of and rationale for each of the proposed amendments is provided in the

following sections.

**2.2. Amendment of article 6 of the *By-Laws* pursuant to the provisions of section 497 of the Companies Act**

The purpose of the amendment of article 6 (Representation of the Shares) of the *By-Laws* is to include therein the complete text of section 497 of the Companies Act, thus expanding the tools available to the Company for communication with its shareholders.

**2.3. Amendment of articles 39, 42, and 43 of the *By-Laws* in order to make technical improvements in the regulation of the operation of the Board of Directors and the committees thereof**

First, the amendment of article 39 (*Meetings of the Board of Directors*) seeks to include in the Company's *By-Laws* the possibility established in section 246.2 of the Companies Act to the effect that one-third of the directors may call a meeting of the Board of Directors under specific circumstances.

Such possibility is already set forth in article 28.4 of the *Regulations of the Board of Directors*.

Second, the purpose of the amendment of article 42 (*Committees of the Board of Directors*) is to improve the text of the article, making clear that the directors who are members of committees of the Board of Directors may only grant a proxy at such committees to another director who is, in turn, a member of the committee in question.

Finally, the purpose of the amendment of article 43 (*Executive Committee*) is to give the Board of Directors more freedom in structuring the Executive Committee and in determining the members thereof in accordance with the corporate interest and in view of the composition of the Board of Directors from time to time, as well as to make some technical improvements in the text of the article.

Therefore, section 5 of the aforementioned article, regarding the position of chair of the Executive Committee in the absence of the chairman, should also be amended in order to contemplate those cases in which the position of chair cannot be held by a vice-chair, whether because there are no vice-chairs or because none of them is a member of the Executive Committee.

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

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

## **ITEM NINE ON THE AGENDA**

### **Amendment of the By-Laws.**

#### **PROPOSED RESOLUTIONS RELATING TO ITEM NINE**

##### **A.- Amendment of article 6 of the By-Laws pursuant to the provisions of section 497 of the Companies Act (Ley de Sociedades de Capital).**

*It is proposed to amend article 6 of the By-Laws, which shall hereafter read as follows:*

##### ***Article 6. Representation of the Shares***

- 1. The shares are represented in book-entry form and, as regards their nature as book entries, they shall be governed by the provisions of law.*
- 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 at any time access the information needed to fully identify its shareholders, including addresses and means of contact for communication with them.*
- 4. Modifications to features of shares represented by book entries shall be published in the manner provided by law.*

##### **B.- Amendment of articles 39, 42, and 43 of the By-Laws in order to make technical improvements in the regulation of the operation of the Board of Directors and the committees thereof.**

*It is proposed to amend articles 39, 42, and 43 of the By-Laws, which shall hereafter read as follows:*

##### ***Article 39. Meetings of the Board of Directors***

- 1. The Board of Directors shall meet with the frequency that the chairman of the Board of Directors deems appropriate, and at least the number of times and in the cases provided for in the Regulations of the Board of Directors. Meetings shall take place at the Company's registered office or at the place, in Spain or abroad, indicated in the call to meeting.*
- 2. The call to meeting of the Board of Directors shall be carried out by the secretary of the Board of Directors or the person acting in the secretary's stead, with the authorisation of the chairman, by any means that allows for the receipt thereof. Notice of the call shall be given as much in advance as*

*is necessary for the directors to have access thereto no later than the third day prior to the date of the meeting, except in the case of emergency meetings. Any information deemed necessary shall be sent or made available through the directors' website together with the call to meeting, which shall always include the agenda for the meeting, unless the requirement may be dispensed with upon duly justified grounds.*

*One-third of the directors may also call a meeting, establishing the agenda thereof, in order for the meeting to be held at the place where the registered office is located, if a prior petition has been submitted to the chairman of the Board of Directors and he has failed, without well-founded reasons, to call the meeting within one month.*

3. *Without prejudice to the foregoing, the Board of Directors shall be deemed to have validly met without the need for a call if all of the directors present in person or by proxy unanimously agree to hold the meeting and to the items of the agenda to be dealt with.*
4. *Meetings of the Board of Directors may be held in several places connected by a conference system that permits the recognition and identification of the attendees, permanent communication among the attendees regardless of their location, and participation in discussion and the casting of votes, all in real time. Attendees at any of such places shall be deemed to have attended the same meeting for all purposes relating to the Board of Directors. The meeting shall be deemed to have been held where the largest number of directors are located and, if they are in equal numbers, where the chairman of the Board of Directors or whoever chairs the meeting in the absence thereof is located.*
5. *Voting by the Board of Directors may occur in writing without a meeting provided that no director objects thereto. In this instance, the directors may deliver to the secretary of the Board of Directors, or to the person acting on behalf of the secretary, their votes and the considerations they wish to appear in the minutes, by any means allowing for receipt thereof. Resolutions adopted by this procedure shall be recorded in minutes prepared pursuant to the provisions of law.*

#### **Article 42. Committees of the Board of Directors**

1. *The Board of Directors must create and permanently maintain an Executive Committee.*
2. *The Board of Directors must also create an Audit and Risk Supervision Committee, an Appointments and Remuneration Committee, and a Corporate Social Responsibility Committee.*

3. *In addition, the Board of Directors may create other committees or commissions of purely internal scope with such powers as are determined by the Board of Directors.*
4. *The committees shall be governed by the provisions of the Company's Corporate Governance System, including, if applicable, specific regulations, 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, particularly with respect to the call to meetings, granting of a proxy to another member of the committee in question, establishment of a quorum, meetings without prior notice, proceedings at meetings and rules for adopting resolutions, voting in writing and without a meeting, and approval of the minutes of meetings.*

#### **Article 43. Executive Committee**

1. *The Board of Directors shall create a permanent Executive Committee with all of the powers inherent to the Board of Directors except for those powers that may not be delegated pursuant to legal or by-law restrictions.*
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 five (5) and a maximum of eight (8) directors.*
3. *The appointment of 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 two-thirds (2/3) of its members. The renewal thereof shall be carried out at the time and in the form and numbers decided by the Board of Directors.*
4. *The chairman of the Board of Directors and the chief executive officer 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 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, one 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 a majority of the directors sitting on the committee who are present at the meeting in person or by proxy. In the event of a tie, the chair shall have the tie-breaking vote.*

\* \* \*

Bilbao, 13 February 2013

**ANNEX – TWO-COLUMN TABLE SHOWING A COMPARISON FOR PURPOSES OF THE PROPOSED AMENDMENT OF THE BY-LAWS (CURRENT TEXT AND AMENDED TEXT SHOWING THE PROPOSED CHANGES)**

<b>Current Text of the <i>By-Laws</i></b>	<b>Text of the Proposed Amendment</b>
<b>Article 6. Representation of the Shares</b>	<b>Article 6. Representation of the Shares</b>
1. The shares are represented in book-entry form and, as regards their nature as book entries, they shall be governed by the provisions of law.	1. The shares are represented in book-entry form and, as regards their nature as book entries, they shall be governed by the provisions of law.
	2. <u>The Company shall acknowledge as a shareholder any party that appears entitled thereto as owner in the entries of the corresponding book-entry register.</u>
2. The Company may at any time access the information needed to fully identify its shareholders and shall acknowledge as such any party that appears entitled thereto as owner in the entries of the corresponding book-entry registries.	3. The Company may at any time access the information needed to fully identify its shareholders, <u>including addresses and means of contact for communication with them</u> <del>and shall acknowledge as such any party that appears entitled thereto as owner in the entries of the corresponding book entry registries.</del>
3. Modifications to features of shares represented by book entries shall be published in the manner provided by law.	4. Modifications to features of shares represented by book entries shall be published in the manner provided by law.
<b>Article 39. Meetings of the Board of Directors</b>	<b>Article 39. Meetings of the Board of Directors</b>
1. The Board of Directors shall meet with the frequency that the chairman of the Board of Directors deems appropriate, and at least the number of times and in the cases provided for in the <i>Regulations of the Board of Directors</i> . Meetings shall take place at the	1. The Board of Directors shall meet with the frequency that the chairman of the Board of Directors deems appropriate, and at least the number of times and in the cases provided for in the <i>Regulations of the Board of Directors</i> . Meetings shall take place at the

<p>Company's registered office or at the place, in Spain or abroad, indicated in the call to meeting.</p>	<p>Company's registered office or at the place, in Spain or abroad, indicated in the call to meeting.</p>
<p>2. The call to meeting of the Board of Directors shall be carried out by the secretary of the Board of Directors or the person acting in the secretary's stead, with the authorisation of the chairman, by any means that allows for the receipt thereof. Notice of the call shall be given as much in advance as is necessary for the directors to have access thereto no later than the third day prior to the date of the meeting, except in the case of emergency meetings. Any information deemed necessary shall be sent or made available through the directors' website together with the call to meeting, which shall always include the agenda for the meeting, unless the requirement may be dispensed with upon duly justified grounds.</p>	<p>2. The call to meeting of the Board of Directors shall be carried out by the secretary of the Board of Directors or the person acting in the secretary's stead, with the authorisation of the chairman, by any means that allows for the receipt thereof. Notice of the call shall be given as much in advance as is necessary for the directors to have access thereto no later than the third day prior to the date of the meeting, except in the case of emergency meetings. Any information deemed necessary shall be sent or made available through the directors' website together with the call to meeting, which shall always include the agenda for the meeting, unless the requirement may be dispensed with upon duly justified grounds.</p> <p><a href="#"><u>One-third of the directors may also call a meeting, establishing the agenda thereof, in order for the meeting to be held at the place where the registered office is located, if a prior petition has been submitted to the chairman of the Board of Directors and he has failed, without well-founded reasons, to call the meeting within one month.</u></a></p>
<p>3. Without prejudice to the foregoing, the Board of Directors shall be deemed to have validly met without the need for a call if all of the directors present in person or by proxy unanimously agree to hold the meeting and to the items of the agenda to be dealt with.</p>	<p>3. Without prejudice to the foregoing, the Board of Directors shall be deemed to have validly met without the need for a call if all of the directors present in person or by proxy unanimously agree to hold the meeting and to the items of the agenda to be dealt with.</p>
<p>4. Meetings of the Board of Directors may be held in several places connected by a conference system that permits the recognition and identification of the attendees, permanent communication among the attendees regardless of their</p>	<p>4. Meetings of the Board of Directors may be held in several places connected by a conference system that permits the recognition and identification of the attendees, permanent communication among the attendees regardless of their</p>

location, and participation in discussion and the casting of votes, all in real time. Attendees at any of such places shall be deemed to have attended the same meeting for all purposes relating to the Board of Directors. The meeting shall be deemed to have been held where the largest number of directors are located and, if they are in equal numbers, where the chairman of the Board of Directors or whoever chairs the meeting in the absence thereof is located.	location, and participation in discussion and the casting of votes, all in real time. Attendees at any of such places shall be deemed to have attended the same meeting for all purposes relating to the Board of Directors. The meeting shall be deemed to have been held where the largest number of directors are located and, if they are in equal numbers, where the chairman of the Board of Directors or whoever chairs the meeting in the absence thereof is located.
5. Voting by the Board of Directors may occur in writing without a meeting provided that no director objects thereto. In this instance, the directors may deliver to the secretary of the Board of Directors, or to the person acting on behalf of the secretary, their votes and the considerations they wish to appear in the minutes, by any means allowing for receipt thereof. Resolutions adopted by this procedure shall be recorded in minutes prepared pursuant to the provisions of law.	5. Voting by the Board of Directors may occur in writing without a meeting provided that no director objects thereto. In this instance, the directors may deliver to the secretary of the Board of Directors, or to the person acting on behalf of the secretary, their votes and the considerations they wish to appear in the minutes, by any means allowing for receipt thereof. Resolutions adopted by this procedure shall be recorded in minutes prepared pursuant to the provisions of law.
<b>Article 42. Committees of the Board of Directors</b>	<b>Article 42. Committees of the Board of Directors</b>
1. The Board of Directors must create and permanently maintain an Executive Committee.	1. The Board of Directors must create and permanently maintain an Executive Committee.
2. The Board of Directors must also create an Audit and Risk Supervision Committee, an Appointments and Remuneration Committee, and a Corporate Social Responsibility Committee.	2. The Board of Directors must also create an Audit and Risk Supervision Committee, an Appointments and Remuneration Committee, and a Corporate Social Responsibility Committee.
3. In addition, the Board of Directors may create other committees or commissions of purely internal scope with such powers as are determined by the Board of Directors.	3. In addition, the Board of Directors may create other committees or commissions of purely internal scope with such powers as are determined by the Board of Directors.
4. The committees shall be governed by	4. The committees shall be governed by

<p>the provisions of the Company's Corporate Governance System, including, if applicable, specific regulations, 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, particularly with respect to the call to meetings, granting of a proxy to another director, establishment of a quorum, meetings without prior notice, proceedings at meetings and rules for adopting resolutions, voting in writing and without a meeting, and approval of the minutes of meetings.</p>	<p>the provisions of the Company's Corporate Governance System, including, if applicable, specific regulations, 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, particularly with respect to the call to meetings, granting of a proxy to another <del>director</del><u>member of the committee in question</u>, establishment of a quorum, meetings without prior notice, proceedings at meetings and rules for adopting resolutions, voting in writing and without a meeting, and approval of the minutes of meetings.</p>
<p><b>Article 43. Executive Committee</b></p>	<p><b>Article 43. Executive Committee</b></p>
<p>1. The Board of Directors shall create a permanent Executive Committee with all of the powers inherent to the Board of Directors except for those powers that may not be delegated pursuant to legal or by-law restrictions.</p>	<p>1. The Board of Directors shall create a permanent Executive Committee with all of the powers inherent to the Board of Directors except for those powers that may not be delegated pursuant to legal or by-law restrictions.</p>
<p>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 five (5) and a maximum of eight (8) directors.</p>	<p>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 five (5) and a maximum of eight (8) directors.</p>
<p>3. The appointment of members of the Executive Committee and the delegation of powers thereto shall be carried out by the Board with the favourable vote of two-thirds (2/3) of the directors. The renewal thereof shall be carried out at the time and in the form and numbers decided by the Board of Directors.</p>	<p>3. The appointment of members of the Executive Committee and the delegation of powers thereto shall be carried out by the Board <u>of Directors</u> with the favourable vote of two-thirds (2/3) of <u>its members</u><del>the directors</del>. The renewal thereof shall be carried out at the time and in the form and numbers decided by the Board of Directors.</p>
<p>4. The chairman of the Board of Directors, the vice-chair or vice-chairs of the Board of Directors, and the chief</p>	<p>4. The chairman of the Board of Directors,<del>the vice chair or vice chairs of the Board of Directors</del>, and the chief</p>

<p>executive officer shall in all cases form part of the Executive Committee.</p>	<p>executive officer shall in all cases form part of the Executive Committee.</p>
<p>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. The secretary of the Board of Directors or, in the absence thereof, one 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.</p>	<p>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 <u>who are members of the Executive Committee, and if none, 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.</u> The secretary of the Board of Directors or, in the absence thereof, one 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.</p>
<p>6. Resolutions of the Executive Committee shall be adopted by a majority of the directors sitting on the committee who are present at the meeting in person or by proxy. In the event of a tie, the chair shall have the tie-breaking vote.</p>	<p>6. Resolutions of the Executive Committee shall be adopted by a majority of the directors sitting on the committee who are present at the meeting in person or by proxy. In the event of a tie, the chair shall have the tie-breaking vote.</p>

**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 TEN ON THE AGENDA FOR THE GENERAL SHAREHOLDERS' MEETING CALLED TO BE HELD ON 22 AND 23 MARCH 2013, 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 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 shares of Iberdrola, S.A. (the “**Reduction in Capital**”) and the amendment of article 5 of the *By-Laws* as a result, submitted to the shareholders for approval at the General Shareholders’ Meeting under item ten on the agenda.

As provided in the aforementioned sections, the Board of Directors must prepare a report setting forth the rationale for the proposal submitted to the shareholders at the General Shareholders’ Meeting to the extent that the Reduction in Capital necessarily entails the amendment of article 5 of the *By-Laws*, regarding share capital.

**2. Rationale for the Proposal**

Within the framework of the shareholder compensation policy formulated by the Company, and in order to further strengthen such policy, the Board of Directors believes it is appropriate to retire treasury shares held by the Company, with the corresponding reduction in share capital by an amount equal to the nominal value of such shares. In this way, if the resolution is finally approved, the Company’s volume of treasury shares would be reduced.

In addition, a reduction in capital by means of the retirement of treasury shares would allow for an increase in the earnings per share of the Company, which would, in turn, inure to the benefit of the shareholders.

Moreover, the Board of Directors decided today to approve a share buy-back programme under the provisions of Commission Regulation (EC) No 2273/2003 of 22 December 2003 and in reliance upon the authorisation granted by the shareholders at the General Shareholders’ Meeting held on 26 March 2010 under item eight on the agenda, in order to favour the liquidity of the shares and the accomplishment of the aforementioned purposes of reducing capital and treasury shares.

**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) 65,952,432.00 euros, through the retirement of 87,936,576 treasury shares, each with a nominal value of 0.75 euro, representing 1.40% of the share capital and acquired under the authorisation granted by the shareholders at the General Shareholders' Meeting held on 26 March 2010 under item eight 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 47,108,880.00 euros (and representing not more than 1% of the share capital), of the Company's own shares, each with a nominal value of 0.75 euro, that are acquired from the shareholders under the buy-back programme approved by the Board of Directors today, 13 February 2013, under the provisions of Commission Regulation (EC) No 2273/2003 of 22 December 2003 (the "**Buy-back Programme**"),

in order to further strengthen the Company's shareholder compensation policy through an increase in earnings per share.

Consequently, the maximum amount of the reduction would be 113,061,312.00 euros, through the retirement of a maximum of 150,748,416 shares of Iberdrola, S.A., each with a nominal value of 0.75 euro, representing not more than 2.40% of the share capital at the time the resolution is approved, if at all. 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, article 5 of the Company's *By-Laws* would be amended such that it reflects the new amount of share capital and the new number of outstanding shares (after the number of shares of Iberdrola, S.A. 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 13 February 2013 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 this resolution 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 delisting of the retired shares from the Spanish Stock Exchanges and the removal thereof from the book-entry registers once the resolution regarding the Reduction in Capital has been implemented.

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

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

**“ITEM TEN ON THE AGENDA**

**Approval of a reduction in share capital by means of the retirement of 87,936,576 treasury shares of Iberdrola, S.A. representing 1.40% of the share capital, and acquisition of shares of Iberdrola, S.A. representing not more than 1% of the share capital through a buy-back programme for the retirement thereof. Delegation of powers to the Board of Directors, with the express power of substitution, including, among others, the powers to amend article 5 of the By-Laws and to apply for the delisting of the retired shares and for the removal thereof from the book-entry registers.**

**PROPOSED RESOLUTION RELATING TO ITEM TEN**

**1. *Reduction in Share Capital by means of the Retirement of Treasury Shares and the Acquisition of Shares of Iberdrola, S.A. for the Retirement thereof***

*It is resolved to reduce the share capital of Iberdrola, S.A. (the “Company”) by the amount resulting from the sum of:*

*(i) 65,952,432.00 euros, through the retirement of 87,936,576 treasury shares, each with a nominal value of 0.75 euro, acquired under the authorisation granted by the shareholders at the General Shareholders' Meeting held on 26 March 2010 under item eight 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 47,108,880.00 euros, of the Company's own shares, each with a nominal value of 0.75 euro, that are acquired from the shareholders under the buy-back programme approved by the Board of Directors on 13 February 2013 under the provisions of Commission Regulation (EC) No 2273/2003 of 22 December 2003 and expiring on or before 31 May 2013 (the "**Buy-back Programme**")*,

*in order to further strengthen the Company's shareholder compensation policy through an increase in earnings per share (the "**Reduction in Capital**")*.

*Consequently, the maximum amount of the reduction will be 113,061,312.00 euros, through the retirement of a maximum of 150,748,416 shares of Iberdrola, S.A., each with a nominal value of 0.75 euro, representing not more than 2.40% of the share capital at the time this resolution is approved.*

*In accordance with the provisions below, the final amount of the reduction 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 13 February 2013, the Company may acquire a maximum number of 62,811,840 shares of the Company with a nominal value of 0.75 euro and representing 1% of the share capital of Iberdrola on the date of approval of this resolution, which number is within legal limits, for retirement thereof and by way of implementation of the Buy-back Programme directed to all of the shareholders.*

*As provided in the aforementioned resolution of the Board of Directors, the 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 62,811,840 shares of the Company, each with a nominal value of 0.75 euro, 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 shares acquired under the Buy-back Programme must be retired by the Company within one month following the expiration of such programme. Therefore, 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 because the Company itself is the holder of the shares to be retired at the time of the reduction, 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.*

*Consequently, in accordance with the provisions of such section, creditors 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**

*It is hereby resolved 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 the acts, statements, and formalities heretofore carried out in connection with the public communication of the Buy-back Programme.*

### **5. Delegation of Powers**

*It is hereby resolved to authorise the Board of Directors, with express powers of substitution, 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. Specifically, and merely by way of illustration, the following powers are delegated to the Board of Directors, with express powers of substitution:*

*(a) 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) *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) *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) *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 by the shareholders at this General Shareholders' Meeting.*

(e) *Amend article 5 of the By-Laws of Iberdrola, regarding share capital, in order to adjust it to the result of the Reduction in Capital.*

(f) *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.*

(g) *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 embodying 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) *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 preceding resolutions.*

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

\* \* \*

Bilbao, 13 February 2013



## ANNUAL DIRECTOR REMUNERATION REPORT 2012

13 February 2013



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# ANNUAL DIRECTOR REMUNERATION REPORT 2012

## 1. INTRODUCTION

Article 31 of the *Regulations of the Board of Directors* of Iberdrola, S.A. (“Iberdrola” or the “Company”), in compliance with the provisions of section 61 *ter* of Securities Market Law 24/1988 of 28 July, provides that the Board of Directors will prepare a director remuneration report each year covering fixed remuneration, variable remuneration items (with a statement of the parameters thereof and the assumptions or targets used as a reference), benefits systems, and the principal conditions to be observed in contracts with executive directors, including the remuneration policy for the current financial year and the remuneration policy in effect during the previous financial year, as well as that expected for coming years. This report is made available to the shareholders on occasion of the call to the Annual General Shareholders’ Meeting and shall be subject to a consultative vote of the shareholders as a separate item on the agenda. In particular, the report submitted to the shareholders at the General Shareholders’ Meeting held on 22 June 2012, with a quorum of 83.27% of the share capital, was approved with only 1.13% of the votes against.

Article 26.6.o) of the *Regulations of the Board of Directors* gives to the Appointments and Remuneration Committee the power, among other things, to issue a report for general dissemination on the documents to be approved by the Board of Directors with respect to remuneration information, especially including the annual remuneration policy report.

In compliance with such provisions, after a favourable report from the Appointments and Remuneration Committee, the Board of Directors of Iberdrola issues this annual director remuneration report. This report was unanimously approved by all of the members of the Board of Directors at its meeting of 13 February 2013.

## 2. BACKGROUND

Pursuant to the provisions of articles 34.5.D)c) of the *By-Laws* and 7.7.D)c) of its *Regulations*, Iberdrola’s Board of Directors formulates the Company’s *Director Remuneration Policy*, a document that is periodically updated and that forms part of the Corporate Governance System.

Such *Director Remuneration Policy*, the current version of which is available on the corporate website ([www.iberdrola.com](http://www.iberdrola.com)), implements, among other things, the structure for the



remuneration of the directors for their activities as such and the structure of the executive directors' remuneration for the performance of their executive duties.

In all of their decision-making processes, the Appointments and Remuneration Committee and the Board of Directors have received information and advice from the internal services of the Company and from expert external consultants in this area, with special value placed on the most widely recognised remuneration recommendations and policies at the international level.

They have also been able to contrast the relevant data with information corresponding to comparable markets and entities, taking into account the size, international scope, features, and activities of the Company.

## 2.1 Competent Decision-Making Bodies

As provided in the *By-Laws* and in the internal regulations of Iberdrola, the Board of Directors, at the proposal of the Appointments and Remuneration Committee, is the body with power to set the remuneration of directors, except for such remuneration as consists of the delivery of shares of Iberdrola or of options thereon or which is indexed to the price of the shares of Iberdrola, which must be approved by the shareholders at the General Shareholders' Meeting. The Appointments and Remuneration Committee is a consultative committee chaired by and made up exclusively of independent directors.

## 2.2 Overall Limit

Pursuant to article 52.1 of the *By-Laws*, the overall limit to the amounts allocated by Iberdrola to the directors each year as remuneration, including, in the case of executive directors, remuneration payable for performing executive duties, as well as the funding of a reserve to meet the liabilities assumed by the Company in connection with pensions, payment of life insurance premiums, and payment of indemnification to former and current directors, is 2% of the consolidated group's profit for the financial year, after allocations to cover the legal and other mandatory reserves and after declaring a dividend to the shareholders of not less than 4% of the share capital.

Specifically, in financial year 2012, the percentage of the consolidated profit to be used for the allocation mandated by the *By-Laws* has been set at 1%. This percentage has not changed since 2009.

The price of the shares or options thereon, or any remuneration established by reference to the listing price, which in any event must be approved by the shareholders at the General Shareholders' Meeting, shall not be included in the calculation for the purposes of such limit.



### 3. DIRECTOR REMUNERATION

#### 3.1 Purpose and Basic Principles

As regards external directors, the *Director Remuneration Policy* seeks to remunerate the directors appropriately in recognition of their dedication and the responsibility they assume, in line with the market remuneration paid at companies of a similar size or carrying out similar activities, but without such remuneration jeopardising their independence and, in any event, taking into account the long-term interests of all of the shareholders.

As far as executive directors are concerned, the guiding principle is to offer remuneration systems that make it possible to attract, retain, and motivate the most outstanding professionals in order to enable the Company and the Group to attain their strategic objectives within the increasingly competitive and internationalised context in which they operate. Accordingly, in connection with executive directors, the *Director Remuneration Policy* seeks to:

- a) Ensure that the remuneration, in terms of structure and total amount, is in line with best practices and is competitive vis-à-vis that of comparable entities at the domestic and international levels, taking into account the situation of the geographic areas in which the Group operates.
- b) Establish the remuneration in accordance with objective standards, based on the individual performance of the executive directors and on the achievement of the business objectives of the Company and the Group.
- c) Include a significant annual variable component tied to performance and to the achievement of specific, pre-established economic/financial, industrial, and operational objectives that are quantifiable, aligned with the corporate interest, and contemplated in the Company's strategic plans, without prejudice to the possibility of taking into account other objectives, especially in the area of corporate governance and corporate social responsibility.
- d) Foster and encourage the attainment of the key objectives set out in the strategic plans through the inclusion of long-term incentives, strengthening continuity in the competitive development of the Group, of its directors, and of its management team, and generating a motivating effect that acts as a driving force to ensure the loyalty and retention of the best professionals.
- e) Set appropriate maximum limits to any short- or long-term variable remuneration, and establish suitable mechanisms to ensure the proportional return of any variable



remuneration received when a reformulation occurs that has a negative effect on the Company's consolidated annual accounts.

Without prejudice to all of the foregoing, the *Director Remuneration Policy* shall be suitably adjusted to the prevailing economic situation and to the international context.

### 3.2 Structure

The remuneration payable to the directors is structured, within the framework of the law and the *By-Laws*, in accordance with the following standards:

#### a) Fixed Remuneration

Directors receive a fixed annual amount that is commensurate with market standards and in keeping with the positions they hold on the Board of Directors and in the committees on which they sit, always taking into account the overall limit set forth in the *By-Laws*.

In the case of executive directors, the remuneration fixed for the performance of their executive duties must be in line with that paid in the market by companies with comparable capitalisation, size, ownership structure, and international scope. It should not normally represent more than 50% of the theoretical maximum annual remuneration to be received.

#### b) Variable Remuneration

A portion of the remuneration of the executive directors is variable, in order to strengthen their commitment to the Company and incentivise improvement in the performance of their duties.

##### (i) Short-term variable remuneration:

Variable remuneration will be tied, for the most part, to the achievement of specific and pre-established economic/financial, industrial, and operational objectives that are quantifiable and aligned with the corporate interest and contemplated in the Company's strategic plans. Weight will also be given to goals in the area of corporate social responsibility, as well as to the individual performance of the executive directors. The Appointments and Remuneration Committee evaluates the achievement of targets as well as performance. It may rely on an independent expert for such purpose. A proposal of the Committee is submitted to the Board of Directors for approval.



(ii) Medium- and long-term variable remuneration:

The Company also contemplates the implementation of incentive systems tied for the most part to the achievement of medium- or long-term objectives, in order to foster the retention and motivation of the executive directors and the creation of long-term value, based on specific and pre-established economic/financial, industrial, and operational objectives that are quantifiable and aligned with the Company's strategic goals. Weight will also be given to goals in the area of corporate social responsibility, as well as to the individual performance of the executive directors. The Appointments and Remuneration Committee evaluates the achievement of targets as well as performance. It may rely on an independent expert for such purpose. A proposal of the Committee is submitted to the Board of Directors for approval.

These systems may include the delivery of Company shares or of options thereon or remuneration rights linked to the value thereof, whenever so resolved by the shareholders at the General Shareholders' Meeting at the proposal of the Board of Directors and upon a prior report from the Appointments and Remuneration Committee.

The timeframe to be used for guidance purposes in medium- and long-term remuneration plans shall be three years and, in the case of systems linked to shares of the Company, will be submitted to the shareholders for approval at the General Shareholders' Meeting in accordance with law and the *Director Remuneration Policy*. Appropriate minimum holding periods may be established in respect of a portion of the shares received.

Prior to payment, all deferred remuneration shall require a prior report from the Appointments and Remuneration Committee that confirms the application of the rationale supporting such deferred variable remuneration. If there has been a correction to the annual accounts that provided the basis for such remuneration, the Board of Directors shall decide whether it is appropriate to partially or completely cancel payment of the deferred variable remuneration.

(iii) Neutrality:

Variable remuneration of any kind may not be based merely on the general performance of the markets or of the industry in which the Company operates or on other similar circumstances.

c) Attendance Fee

Directors receive specific amounts as an attendance fee, whether for attendance at meetings of the Board of Directors or at meetings of the committees on which they sit.

d) Risk and Benefits Coverage

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

In 1998, the Company outsourced the benefits system for a group of officers, which includes the executive directors, through insurance policies supplementing the public social security system benefits. In financial year 2012, after 5 years without any contributions, 1,680,000 euros was paid into the benefit system for the chairman & chief executive officer (*presidente y consejero delegado*). Half of this amount was provisioned in financial year 2011.

e) Severance

In the event that a non-executive director withdraws from office prior to the expiration of the term to which such director was appointed, and provided that such withdrawal from office is not the consequence of a breach attributable thereto or exclusively due to the director's own decision to withdraw, the Company makes a severance payment to such director, subject to the director's obligation not to hold office in management decision-making bodies of companies of the energy industry or of other competitor companies and not to participate, in any other manner, as well as with participation in any way in the management thereof or in the provision of advice thereto.

The amount of such severance compensation shall be equivalent to the value of a guaranteed annuity equal to 90% of the annual remuneration received by the director at the time of vacating office, to be adjusted annually by 2%, during the period running between the date of withdrawal and the date of expiration of the term office to which the director was appointed as a member of the Board of Directors. Such period shall in no event extend beyond the date of the director's death.

Since 2009, contracts with executive directors (this is the case with the chief operating officer) and senior officers include severance equal to two times annual salary in the



event of termination of their relationship with the Company, provided that the termination of the relationship is not a result of a breach attributable thereto or due to the sole decision thereof.

The Company included guarantee clauses in contracts with its key officers 13 years ago. Subsequently, in 2001, when the current chairman joined the Company as vice-chair & chief executive officer, he received the same treatment as that in effect for such officers, in order to achieve an effective and sufficient level of loyalty. In the case of the chairman & chief executive officer, he is currently entitled to three times annual salary. The group covered by these guarantee clauses includes 65 officers.

The Board of Directors has analysed this situation, which must necessarily be addressed with a focus on the entire group of key officers. A possible reduction in the salary multiples would entail high costs for the Company, for which reason the Board of Directors believes that it is most appropriate not to change the status quo. Any proposed change would have a higher cost, given that, due to the average age of the affected group and the low probability of enforcement of the guarantees, the level of the contingency will fall gradually and with the mere passage of time, with a much lower outlay than for any alternative to reduce the agreed severance.

### 3.3 Application of the Director Remuneration Policy during the Previous Financial Year (2012)

For financial year 2012, at the proposal of the Appointments and Remuneration Committee, the Board of Directors unanimously resolved to maintain fixed remuneration and attendance fee amounts. Both have been frozen since 2008.

The application of the policy for remunerating directors for their performance as such during financial years 2012 and 2011 in accordance with the structure described above is summarised below.

#### a) Fixed Amount

Fixed remuneration of the directors for belonging to the Board of Directors and to the committees thereof based on the position held in each case was as follows:

(thousands of euros)

	2012	2011
Chairman of the Board	567	567

Vice-chair of the Board and committee chairs	440	440
Committee members	253	253
Board members	165	165

The fixed remuneration accrued by the members of the Board of Directors, charged to the allocation, was 4,604 thousand euros and 4,604 thousand euros in financial years 2012 and 2011, respectively.

Set forth below on an individualised basis is the fixed remuneration of the members of the Board of Directors:

(thousands of euros)

	Remuneration Fixed 2012(*)	Remuneration Fixed 2011
<b>Chairman</b>		
Mr José Ignacio Sánchez Galán	567	567
<b>Vice Chair</b>		
Mr Víctor de Urrutia Vallejo	440	440
<b>Committee Chairs</b>		
Mr Julio de Miguel Aynat (1)	440	352
Ms Inés Macho Stadler (2)	381	253
Ms Samantha Barber (3)	381	253
<b>Committee Members</b>		
Mr Sebastián Battaner Arias (4)	253	341
Mr Xabier de Irala Estévez	253	253
Mr Íñigo Víctor de Oriol Ibarra	253	253
Mr Braulio Medel Cámara	253	253
Ms María Helena Antolín Raybaud	253	253
Mr Santiago Martínez Lage	253	253
Mr José Luis San Pedro Guerenabarrena (5)	174	0
Mr Ángel Jesús Acebes Paniagua (6)	174	0
Mr Manuel Lagares Gómez-Abascal (7)	91	0
<b>Directors withdrawing during financial year 2012</b>		



Mr Ricardo Álvarez Isasi	138	440
Mr José Ignacio Berroeta Echevarría	138	440
Mr José Luis Olivas Martínez	99	253
Mr Francisco Pons Alcoy	63	0
<b>TOTAL REMUNERATION</b>	<b>4,604</b>	<b>4,604</b>

(\*) Amount accrued during financial year 2012, not paid until approval of the by-law mandated allocation for the financial year by the shareholders at the 2013 General Shareholders' Meeting.

- (1) Appointed chair of the Audit and Risk Supervision Committee by the Board of Directors at its meeting of 21 June 2011.
- (2) Appointed chair of the Appointments and Remuneration Committee by the Board of Directors at its meeting of 24 April 2012
- (3) Appointed chair of the Corporate Social Responsibility Committee by the Board of Directors at its meeting of 24 April 2012.
- (4) After finishing his four-year term as chair of the Audit and Risk Supervision Committee, he continues to be a member of such committee pursuant to a resolution adopted by the Board of Directors at its meeting of 21 June 2011.
- (5) Appointed chief operating officer by the Board of Directors at its meeting of 24 April 2012.
- (6) Appointed non-executive director by the Board of Directors at its meeting of 24 April 2012.
- (7) Appointed proprietary director by the Board of Directors at its meeting of 21 August 2012.

Currently, all members of the Board of Directors of Iberdrola assume responsibilities on one or more of the four committees of the Board.

#### b) Attendance Fee

The attendance fees of the directors for belonging to the Board of Directors and to the committees thereof during financial years 2012 and 2011, based on the position held in each case, were as follows:

	Thousands of euros	
ATTENDANCE FEE BASED ON POSITION	2012	2011
Chairman of the Board and committee chairs	4	4
Committee members and Board members	2	2

The attendance fees paid to directors with a charge to the amount of the allocation mandated in the By-Laws were 1,126 thousand euros and 1,112 thousand euros in financial years 2012 and 2011, respectively.





Set forth below on an individualised basis are the attendance fees received by the members of the Board of Directors during financial years 2012 and 2011, respectively:

Thousands of euros

	Attendance Fee 2012	Attendance Fee 2011
<b>Chair</b>		
Mr José Ignacio Sánchez Galán	156	168
<b>Vice Chair</b>		
Mr Víctor de Urrutia Vallejo	70	72
<b>Committee Chairs</b>		
Mr Julio de Miguel Aynat (1)	94	78
Ms Inés Macho Stadler (2)	138	110
Ms Samantha Barber (3)	74	56
<b>Committee Members</b>		
Mr Sebastián Battaner Arias (4)	58	86
Mr Xabier de Irala Estévez	78	32
Mr Íñigo Víctor de Oriol Ibarra	68	60
Mr Braulio Medel Cámara	44	44
Ms María Helena Antolín Raybaud	56	54
Mr Santiago Martínez Lage	64	62
Mr José Luis San Pedro Guerenabarrena (5)	54	0
Mr Ángel Jesús Acebes Paniagua (6)	42	0
Mr Manuel Lagares Gómez-Abascal (7)	20	0
<b>Directors withdrawing during financial year 2012</b>		
Mr Ricardo Álvarez Isasi	24	78
Mr José Ignacio Berroeta Echevarría	56	136
Mr José Luis Olivas Martínez	30	76
Mr Francisco Pons Alcoy	0	0



<b>TOTAL ATTENDANCE FEE</b>	<b>1,126</b>	<b>1,112</b>

c) **Benefits and Guarantees Established by the Company in Favour of the Directors**

This chapter includes the following items:

- The premiums paid for coverage of death, disability, and other benefits for directors in service during financial years 2012 and 2011 amounted to 903 thousand euros and 1,943 thousand euros, respectively.
- The amount of the premium for Civil Liability Insurance covering the performance by directors of their duties amounted to 103 thousand euros and 136 thousand euros during financial years 2012 and 2011 respectively.
- The premiums paid with a charge to the allocation provided for in the *By-Laws* for regularisation of the insurance policies covering pensions of the inactive members of the Board of Directors amounted to 213 thousand euros and 442 thousand euros during financial years 2012 and 2011, respectively.

d) **Other Items**

The expenses of the Board of Directors for external services and other items amounted to 887 thousand euros and 761 thousand euros during financial years 2012 and 2011, respectively.

Furthermore, existing commitments have been met with a charge to the allocation provided for in the *By-Laws* amounting to 2,461 thousand euros.

The unused amount of the allocation mandated in the *By-Laws* for financial year 2012, which was 11,004 thousand euros, may be externalised to cover the commitments made by the Company in order to guarantee them in the event they materialise.

As of 31 December 2012 and 2011, there was no loan or advance made by the Iberdrola Group to the members of the Board of Directors of Iberdrola.

### 3.4 Director Remuneration during the Current Financial Year (2013)

For financial year 2013, at the proposal of the Appointments and Remuneration Committee, the Board of Directors has unanimously resolved to freeze the remuneration of the directors in terms of annual fixed remuneration by position and attendance fees for each meeting, as it has done since 2008.

### 3.5 Director Remuneration Policy for Future Years

It can be expected that Iberdrola's director remuneration policy for future years will continue, in the short term, along the lines that have been applied during recent financial years, although no resolution in this regard has been adopted as of the date of preparation of this report. The allocation mandated in the *By-Laws* shall be adjusted annually to the Company's results.

## 4. REMUNERATION OF THE EXECUTIVE DIRECTORS FOR THE PERFORMANCE OF THEIR EXECUTIVE DUTIES

### 4.1 Application of the Remuneration Policy during the Previous Financial Year (2012)

#### a) Fixed Remuneration

The fixed remuneration paid by the Company to the chairman & chief executive officer and to the chief operating officer (*consejero-director general*) was as follows:

	2012	2011
Chairman & CEO (thousands of euros)	2,250	2,250
Chief operating officer (thousands of euros) <sup>(1)</sup>	685	

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<sup>(1)</sup> Remuneration paid since the date of his appointment as chief operating officer (24 April 2012).

b) Annual Variable Remuneration

The Company paid 3,250,000 euros in annual variable remuneration to the chairman & chief executive officer.

	2012 <sup>(2)</sup>	2011
Chairman & CEO (thousands of euros)	3,250	3,250

The reference parameters for determining the annual variable remuneration were specified in the report approved at the General Shareholders' Meeting held on 27 May 2011, and are the following: (i) maintenance of the level of net profits from 2010, (ii) maintenance of financial strength, and (iii) share performance. Other parameters have also been taken into account in the area of corporate social responsibility, as well as the individual performance of the chairman & chief executive officer.

The performance of the Board of Directors and its consultative committees and the performance of the Executive Committee and of the chairman & CEO were evaluated by PricewaterhouseCoopers Asesores de Negocios, S.L.

The Board of Directors believes that the targets for financial year 2011 were met, especially taking into account the complex domestic and international economic environment. In this regard, net profits have been maintained at a level similar to prior financial years, whilst the average results for Ibx 35 companies decreased by 33% and net profits of the major electric companies fell generally. Furthermore, the Group's financial strength increased during financial year 2011, which showed strong financial ratios at 31 December, thus meeting the increasingly stringent standards agreed with the ratings agencies. In turn, during financial year 2011, IBERDROLA's share prices beat the average listing prices of the five leading European electric companies, all within a context of great uncertainty and profound international crisis, during which several comparable companies announced profit warnings during the period. As regards corporate social responsibility parameters, there was increased emission-free production during 2011 and high renewable installed capacity. Furthermore, R&D projects in areas such as smart grids and offshore wind energy made Iberdrola one of the most innovative electric companies in the world. All of this was recognised by the Dow Jones Sustainability Index, which awarded the Company (the

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<sup>(2)</sup> Variable remuneration paid in 2012 is for performance during financial year 2011.

only utility selected for each year the index has been published) the same points as the leader, and by Storebrand SRI, where it was recognised as “Best in class”.

- c) The chairman & chief executive officer also received 55 thousand euros of remuneration in kind and otherwise. The chief operating officer received 26 thousand euros.
- d) Furthermore, the members of the Board of Directors holding positions on the boards of directors of subsidiaries of the Iberdrola Group did not receive any remuneration during financial year 2012 as attendance fees. They received 65 thousand euros during financial year 2011.
- e) **2008-2010 Strategic Bonus**

As provided in the director remuneration report approved by the shareholders at the General Shareholders’ Meeting held on 27 May 2011, the Board of Directors, upon a proposal of the Appointments and Remuneration Committee, resolved to pay the 2008-2010 Strategic Bonus. By virtue thereof, the chairman received 305,000 shares of Iberdrola in 2012.

#### **4.2 Remuneration during the Current Financial Year (2013)**

The Board of Directors has resolved to maintain the fixed remuneration of the chairman for financial year 2013 at 2,250,000 euros. It has also resolved to maintain the limit on annual variable remuneration, which may not exceed 3,250,000 euros.

Furthermore, the fixed remuneration approved for the chief operating officer for financial year 2013 is maintained at 1,000,000 euros, and the annual variable remuneration may not exceed 1,000,000 euros.

The payment of variable remuneration is linked to three types of 2013 indicators, which are affected by the general economic situation:

- a) Operational and industrial

They are strongly linked to regulatory evolution in each of the markets in which Iberdrola is present, and are affected by the general economic situation. The goals in Spain are focused on the securitisation of the tariff deficit and on remuneration for distribution. In the United Kingdom and Brazil, the goals are focused on successfully negotiating the new regulatory framework for distribution. Furthermore, the goal in all markets is the continuing improvement of efficiency.

b) Economic/financial

Achieving profits, shareholder remuneration, and financial strength in line with the Outlook 2012-2014 published by the Company ([www.iberdrola.com](http://www.iberdrola.com)), despite the crisis and the negative impact, especially in 2013, of the new regulatory measures implemented in Spain.

c) Corporate social responsibility

- Presence on the main sustainability indices, including FTSE4Good and the Dow Jones Sustainability Index.
- Increase the emissions-free installed capacity ratio in order to comply with the commitment for emissions to be 20% lower than those of the European sector.
- Results of the voting on proposals that the Board of Directors submits at the General Shareholders' Meeting.

Both executive directors will be evaluated based on performance in the economic/financial parameters. In the case of the chairman & CEO, performance in the corporate social responsibility parameters will also be taken into account. In the case of the chief operating officer, performance will be weighed with respect to operational and industrial parameters.

In any event, given the level of uncertainty regarding regulation of the sector and the current performance of the markets, the Board of Directors reserves a margin of discretion in evaluating compliance with goals. The Board of Director's evaluation will be performed based on the proposal made thereto by the Appointments and Remuneration Committee, advised by an independent expert, that will take into account the individual performance of each of the executive directors.

#### 4.3 Remuneration Policy for the Executive Directors for Future Years

Whilst no resolutions have been adopted in this regard as of the date of preparation of this report, it is expected that Iberdrola's executive director remuneration policy for future years will maintain a tendency of consistency with the policy applied in recent financial years. The amount of the allocation mandated in the *By-Laws* will be adjusted annually to the results of the Company.

## 5. BASIC TERMS OF THE CONTRACTS OF EXECUTIVE DIRECTORS

### a) Indefinite Duration

The contracts are of indefinite duration, and financial compensation is contemplated in the event of termination of the contractual relationship with the Company, provided that such termination is not caused by a breach of the director's duties.

### b) Applicable Legal Provisions

Applicable legal provisions are those provided by law in each case.

### c) Compliance with the Company's Corporate Governance System

Executive directors have the duty to strictly observe the rules and provisions contained in the Company's Corporate Governance System, to the extent applicable thereto.

### d) Non-Competition

The contracts in all cases establish a duty not to compete with respect to companies and activities that are similar in nature during the term of their relationship with the Company and for a maximum period of two years thereafter. In consideration for this commitment, the chairman & chief executive officer shall be entitled to severance pay equal to the remuneration for such period.

### e) Confidentiality and Return of Documents

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

## 6. 2011-2013 STRATEGIC BONUS

The shareholders acting at the General Shareholders' Meeting held on first call on 27 May 2011 approved, under item seven on the agenda, a strategic bonus directed towards executive directors, senior officers, and other management personnel of the Company and its subsidiaries linked to the achievement of strategic objectives during the 2011-2013 period, to be paid by means of the delivery of shares of the Company. The terms of the strategic bonus, the goals to which it is linked, the maximum number of beneficiaries (350), and the maximum number of shares to be delivered (18,500,000), with the number of shares to be delivered to



each of the executive directors not to exceed 1,900,000 shares, appear in the resolution approved at the General Shareholders' Meeting.

## 7. PARTICIPATION IN CAPITAL

As of the date of approval of this report, the chairman & chief executive officer is the holder of 5,755,318 shares of IBERDROLA, S.A., which is 0.092% of the capital. In addition, the chief operating officer is the holder of 383,311 shares, which is 0.006% of the capital. Since their appointment, neither of them have sold shares of the Company.

The other directors, as a whole, are holders of 15,312.453 shares, which is 0.2437% of the capital.

Section A.3 of the Annual Corporate Governance Report 2012 offers detailed and itemised information regarding the participation of each of the directors in the capital of the Company.

