



Julián Martínez-Simancas  
General Secretary and Secretary to the Board of Directors

Bilbao, February 21, 2014

**To the National Securities Market Commission**

**Re: Publication of the notice of the General Shareholders' Meeting of Iberdrola, S.A. and documentation made available to the shareholders**

Dear Sirs:

Further to our notice of significant event (*comunicación de hecho relevante*) dated February 18, 2014 (official registry number 200.587), we are pleased to advise you that the notice of the call to the ordinary General Shareholders' Meeting of Iberdrola, S.A. (the "**Company**") to be held on March 28 or 29 on first and second call, respectively, has been published today, February 21, 2014 on the Official Gazzete of the Mercantile Registry (*Boletín Oficial del Registro Mercantil*), the newspapers "Deia" and "El Correo" and the corporate website of Iberdrola ([www.iberdrola.com](http://www.iberdrola.com)), with the agenda communicated in the above referred notice of significant event. Such notice of the call, which will remain uninterruptedly accesible in the corporate website of the Company at least until the holding of the General Shareholders' Meeting, is attached hereto.

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

Yours truly,

General Secretary and Secretary to 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.

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

# Announcement of the Call to the 2014 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

**at Palacio Euskalduna, in Bilbao, (avenida Abandoibarra número 4), on Friday 28 March 2014, at 11:30 on first call**

or, in the event that the required quorum is not met, the next day, 29 March 2014, 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 2013.

**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 2013.

**Three.-** Approval of the management and activities of the Board of Directors during financial year 2013.

**Four.-** Re-election of Ernst & Young, S.L. as auditor of the Company and of its consolidated group for financial year 2014.

### ITEMS RELATING TO SHAREHOLDER COMPENSATION:

**Five.-** Approval of the proposal for the allocation of profits/losses and for the distribution of dividends for financial year 2013.

**Six.-** Increases in share capital by means of scrip issues in order to implement the "Iberdrola Flexible Dividend" system.

A.- Approval of an increase in share capital by means of a scrip issue at a maximum reference market value of 782 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 fixed 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*.

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B.- Approval of an increase in share capital by means of a scrip issue at a maximum reference market value of 897 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 fixed 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*.

**ITEM RELATING TO THE REMUNERATION OF EXECUTIVE DIRECTORS, SENIOR OFFICERS, AND OTHER OFFICERS BY MEANS OF THE DELIVERY OF SHARES OF THE COMPANY:**

**Seven.-** Approval of a Strategic Bonus intended for executive directors, senior officers, and other management personnel, tied to the Company's performance with respect to certain targets established for the 2014-2016 period and to be paid by means of the delivery of shares of the Company. Delegation to the Board of Directors of the power to formalise, implement, develop, execute, and pay the Strategic Bonus.

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

**Eight.-** Ratification of the interim appointment and re-election of Ms Georgina Yamilet Kessel Martínez as director of the Company, with the status of external independent director.

**Nine.-** Authorisation to the Board of Directors, with express power of substitution, for the derivative acquisition of the Company's own shares by the Company itself and/or by its subsidiaries, as provided by applicable law, for which purpose the authorisation granted to such end by the shareholders at the General Shareholders' Meeting of 26 March 2010 is hereby deprived of effect to the extent of the unused amount.

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

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

A. Amendment of article 34.5 of the *By-Laws* to make technical improvements to the text thereof.

B. Amendment of article 44.3 of the *By-Laws* to set at four years the maximum term for the position of chair of the Audit and Risk Supervision Committee.

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

**Eleven.-** Approval of a reduction in share capital by means of the retirement of 91,305,304 treasury shares of IBERDROLA, S.A. representing 1.433% of the share capital, and acquisition of a maximum of 42,161,696 shares of the Company, representing not more than 0.662% 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:**

**Twelve.-** 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 THE RESOLUTION SUBMITTED TO A CONSULTATIVE VOTE:**

**Thirteen.-** Consultative vote regarding the *Annual Director Remuneration Report* for financial year 2013.

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

Information shall be provided to the shareholders at the General Shareholders' Meeting regarding: (1) the implementation, on 19 July 2013 and 28 January 2014, of the capital increases by means of scrip issues for the free-of-charge allocation of ordinary shares to the shareholders of the Company, approved by the shareholders at the General Shareholders' Meeting of 22 March 2013 under paragraphs (a) and (b) of item six on the agenda, and the respective amendments of the *By-Laws*; (2) the implementation, on 21 May 2013, of the capital reduction through the retirement of treasury shares of the Company approved by the shareholders at the General Shareholders' Meeting of 22 March 2013 under item ten on the agenda and the resulting amendment of the *By-Laws*; (3) the amendments of the *Regulations of the Board of Directors* approved on 22 March and 17 December 2013; and (4) 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 rights 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 23 March or 24 March 2014, 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 27 March or 28 March 2014, 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 2013, of the proposed resolutions, including the proposed amendments to the *By-Laws* and of the mandatory directors' reports, 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 21 March 2014, 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 March 2013, 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 2013.

**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 2013, 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 2013; (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 2013; (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 required by law 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 2013; (9) the *Annual Director Remuneration Report* for financial year 2013; (10) the *Annual Activities Report of the consultative committees of the Board of Directors* for financial year 2013; (11) the *Sustainability Report* for financial year 2013; (12) the form of attendance, proxy, and absentee voting card; (13) the professional and biographical profile of Ms Georgina Yamilet Kessel Martínez, and the report providing the rationale prepared by the Board of Directors in connection with her proposed ratification and re-election as external independent director; 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 and availability to the public through the Company's corporate website ([www.iberdrola.com](http://www.iberdrola.com)). In addition, the Company intends to broadcast the General Shareholders' Meeting and to provide information on the proceedings on the social media in which it participates. 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 (address: Plaza Euskadi número 5, 48009 Bilbao).

If the shareholder includes personal data of other individuals on the attendance, proxy, and absentee voting card, such shareholder must advise them of the details set forth in the preceding paragraphs and comply with any other requirements that may apply for the 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).

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 ([www.iberdrola.com](http://www.iberdrola.com)) called the [Quick Shareholder's Guide](#), which allows for simple and intuitive access to information of interest relating to the Company and to the General Shareholders' Meeting in both Spanish and English.

**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 28 March 2014.**

Bilbao, 18 February 2014

The general secretary and secretary of the Board of Directors



## **PROPOSED RESOLUTIONS**

## **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 2013.**

### **RESOLUTION**

To approve the individual annual accounts of IBERDROLA, S.A. (balance sheet, profit and loss account, statement of changes in shareholders' equity, statement of cash flows, and notes) and the 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 2013, which were finalised by the Board of Directors at its meeting held on 18 February 2014.

## **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 2013.**

### **RESOLUTION**

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 2013, which were finalised by the Board of Directors at its meeting held on 18 February 2014.

**ITEM THREE ON THE AGENDA**

**Approval of the management and activities of the Board of Directors during financial year 2013.**

**RESOLUTION**

To approve the management of the Company and the activities of the Board of Directors of IBERDROLA, S.A. during the financial year ended on 31 December 2013.

## **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 2014.**

#### **RESOLUTION**

To re-elect Ernst & Young, S.L. as auditor of IBERDROLA, S.A. and of its consolidated group for the audits for financial year 2014, 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, 1, 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 for the distribution of dividends for financial year 2013.

#### RESOLUTION

To approve the proposed allocation of profits/losses and distribution of dividends prepared by the Board of Directors at its meeting held on 18 February 2014, which is described below.

To distribute, with a charge to the results for the financial year ended on 31 December 2013, 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 3 July 2014.

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 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:	2,989,555,704.70
Profits for financial year 2013:	2,513,444,855.91
<b>TOTAL:</b>	<b>5,503,000,560.61</b>

#### **DISTRIBUTION:**

To legal reserve (minimum amount):	13,842,450.00
To dividends (maximum amount to distribute corresponding to a fixed dividend of 0.03 euro (gross) per share for all of the 6,373,467,000 ordinary shares outstanding on the date hereof):	191,204,010.00
To remainder:	5,297,954,100.61
<b>TOTAL:</b>	<b>5,503,000,560.61</b>

## ITEM SIX ON THE AGENDA

Increases in share capital by means of scrip issues in order to implement the “Iberdrola Flexible Dividend” system.

### RESOLUTION

A - Approval of an increase in share capital by means of a scrip issue at a maximum reference market value of 782 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 fixed 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**

To increase the share capital by the amount resulting from multiplying (a) the nominal value of each share of IBERDROLA, S.A. (the “**Company**”), equal to seventy-five euro cents, by (b) the total determinable number of new shares of the Company to be issued, in accordance with the formula set forth in section 2 below, on the date of implementation of the increase in share capital (all new shares of the Company issued by way of implementation of this resolution will be referred to collectively as the “**New Shares**”, and each, individually, as “**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 limit of 782 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, in order to offer 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 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 782 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 the Company, a company within its group, or a third party waives all or part of the free-of-charge allocation rights to which they are entitled at the time of implementation of 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, with the resulting number being 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 shares of the Company on the date on which the Board of Directors (or the body acting by delegation therefrom) resolves to put into effect the Capital Increase; 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 maximum 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 782 million euros, in accordance with the maximum 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 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 outstanding shares of the Company on the date of implementation of the Capital Increase (TNShrs.) and the provisional number of New Shares, calculated by using the formula contained in section 2 above. Specifically, the holders of the free-of-charge allocation rights 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 New Share (Num. rights) multiplied by the number of New Shares to be issued (NNS) results in a number that is lower than the number of outstanding shares of the Company on the date of implementation of the Capital Increase (TNShrs.), the Company (or such entity within its group, if any, as holds the Company’s 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 this 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, 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, with the resulting number being rounded to the closest one-thousandth part of one euro and, in the case of one-half of one-thousandth of one euro, to the next higher one-thousandth part of one euro:

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

In addition, the Company will guarantee to the holders of the free-of-charge allocation rights 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 31 December 2013, 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 the Company 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 supplementary 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 the Company will be kept on deposit for those who provide evidence that they are the lawful holders of the corresponding free-of-charge allocation rights. Once three years have passed from the end of 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**

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*) (Continuous 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 the Company'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 Company's 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 Amount of the Option and 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, the following shall apply:

(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* (IBERLEAR) 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 number of shares resulting from the implementation of the Capital Increase, and to make application for listing the New Shares on the Bilbao, Madrid, Barcelona, and Valencia Stock Exchanges through the Automated Quotation System (Continuous Market).

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

Pursuant to the provisions of section 297.1.a) of the Companies Act, 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 number free-of-charge allocation rights necessary for

the allocation of one New Share, 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 of the Capital Increase.

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

(k) Waive 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 and, therefore, the New Shares corresponding to such rights.

(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 through the Automated Quotation System (Continuous Market).

(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 897 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 fixed 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**

To increase the share capital by the amount resulting from multiplying (a) the nominal value of each share of IBERDROLA, S.A. (the “**Company**”), equal to seventy-five euro cents, by (b) the total determinable number of new shares of the Company to be issued, in accordance with the formula set forth in section 2 below, on the date of implementation of the increase in share capital (all of the new shares of the Company issued by way of implementation of this resolution shall be collectively referred to as the “**New Shares**”, and each one, individually, as 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 limit of 897 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, in order to offer 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 January 2015. 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 897 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 the Company, a company within its group, or a third party waives all or part of the free-of-charge allocation rights to which they are entitled at the time of implementation of 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, with the resulting number being 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 shares of the Company on the date on which the Board of Directors, or the body acting by delegation therefrom, resolves to put into effect the Capital Increase; 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 maximum 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 897 million euros, in accordance with the maximum 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 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 number of outstanding shares of the Company on the date of implementation of the Capital Increase (TNShrs.) and the provisional number of New Shares, calculated by using the formula contained in section 2 above. Specifically, the holders of free-of-charge allocation rights will be entitled to receive one New Share for 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 New Share (Num. rights) multiplied by the number of New Shares to be issued (NNS) results in a number that is lower than the number of outstanding shares of the Company on the date of implementation of the Capital Increase (TNShrs.), the Company (or such entity within its group, if any, as holds shares of the Company) will waive a number of free-of-charge allocation rights equal to the difference between both figures for the sole purpose that the number of New Shares be a whole number and not a fraction.

The free-of-charge allocation rights will be allocated to those who are registered as being entitled thereto in the book-entry records of *Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal* (IBERCLEAR) 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 this 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, with the resulting number being rounded to the closest one-thousandth part of one euro and, in the case of one-half of one-thousandth of one euro, to the next higher one-thousandth part of one euro:

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

In addition, the Company will guarantee to the holders of free-of-charge allocation rights 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 31 December 2013, 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 the Company 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 supplementary 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 the Company will be kept on deposit for those who provide evidence that they are the lawful holders of the corresponding free-of-charge allocation rights. Once three years have passed from the end of 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**

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*) (Continuous 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 the Company'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 shares of the Company, 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 Amount of the Option and 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, the following shall apply:

(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 number of shares resulting from the implementation of the Capital Increase, and to make application for listing the New Shares on the Bilbao, Madrid, Barcelona, and Valencia Stock Exchanges through the Automated Quotation System (Continuous Market).

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

Pursuant to the provisions of section 297.1.a) of the Companies Act, 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 number of free-of-charge allocation rights necessary for

the allocation of one New Share, 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 the 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 of the Capital Increase.

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

(k) Waive 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 and, therefore, the New Shares corresponding to such rights.

(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

**Approval of a Strategic Bonus intended for executive directors, senior officers, and other management personnel, tied to the Company's performance with respect to certain targets established for the 2014-2016 period and to be paid by means of the delivery of shares of the Company. Delegation to the Board of Directors of the power to formalise, implement, develop, execute, and pay the Strategic Bonus.**

### RESOLUTION

To approve, pursuant to the provisions of section 219 of the Companies Act (*Ley de Sociedades de Capital*) and article 52.2 of the *By-Laws* of IBERDROLA, S.A. (the “**Company**”), the establishment of a Strategic Bonus intended for executive directors, senior officers, and other management personnel of the Company and of its subsidiaries, tied to the Company's performance with respect to certain targets established for the 2014-2016 period and to be paid by means of the delivery of shares of the Company (the “**2014-2016 Strategic Bonus**”), in accordance with the following terms:

#### **1. Description**

The 2014-2016 Strategic Bonus is configured as a long-term incentive tied to the Company's performance with respect to certain targets during the evaluation period described in section 4 below relating to:

(a) The change in consolidated net profits. The target is for average annual growth of 4% based on year-end 2014. It shall be deemed that the target is not met if such growth does not reach 2%.

(b) The change in the share price compared to the Eurostoxx Utilities index and the shares of the five leading European competitors (ENEL, E.ON, RWE, EDF and GDF Suez). This goal shall be deemed to have been achieved if the share's listing price is better than that of three of the reference shares.

(c) Improvement of the Company's financial strength, measured through the FFO/*Net Debt*<sup>(\*)</sup> ratio >22 %.

#### **2. Beneficiaries**

The 2014-2016 Strategic Bonus is intended for the executive directors, the senior officers, and other officers of the Company and its group included in the 2014-2016 Strategic Bonus during the term thereof, pursuant to resolutions adopted by the Board of Directors in implementation thereof, with a maximum of 350 beneficiaries.

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(\*) Funds from Operations/Net Debt.



### **3. Amount**

Each beneficiary shall be allocated a number of “theoretical shares” at the time of his/her inclusion in the 2014-2016 Strategic Bonus.

The maximum number of shares to be delivered to the beneficiaries of the 2014-2016 Strategic Bonus as a whole shall be 19,000,000 shares, equal to 0.3% per cent of the share capital at the time of adoption of this resolution, with a maximum of 2,200,000 shares corresponding to all of the executive directors.

### **4. Term of the 2014-2016 Strategic Bonus**

The 2014-2016 Strategic Bonus has a term of six years, within which the period between financial years 2014 and 2016 shall be the performance level evaluation period with respect to the targets to which the 2014-2016 Strategic Bonus is tied and the period between financial years 2017 and 2019 shall be the payment period, with payment to be made by means of the delivery of shares on a deferred basis over such three-year period.

### **5. Payment**

The 2014-2016 Strategic Bonus shall accrue annually in 2017, 2018, and 2019, at the end of each evaluation period. Each annual accrual and the respective payment thereof must be approved by the Board of Directors, following a report from the Appointments and Remuneration Committee, which shall evaluate whether it is appropriate to confirm or cancel, totally or partially, the corresponding accrual and payment during each financial year, in the event that a circumstance occurs *a posteriori* requiring a correction of the parameters taken into account in the initial evaluation.

### **6. Delegation of Powers**

To delegate to the Board of Directors, with express power of substitution, the powers necessary to implement, develop, formalise, execute, and pay the 2014-2016 Strategic Bonus, adopting any resolutions and signing any public or private documents that may be necessary or appropriate for the full effectiveness thereof, including the power to correct, rectify, amend, or supplement this resolution. Particularly, and only by way of example, the Board is delegated the following powers, with express power of substitution:

(a) Designate the beneficiaries of the 2014-2016 Strategic Bonus, whether at the time of establishment thereof or subsequent thereto, determine the initial allocation of “theoretical shares”, and revoke, if and when appropriate, any designations or allocations previously made.

(b) Establish the terms and conditions of the 2014-2016 Strategic Bonus as to all matters not provided for in this resolution within the framework of the existing contracts with the executive directors, senior officers, and other beneficiaries, including,

among other things, the events of early payment of the 2014-2016 Strategic Bonus, and declare compliance with the conditions, if any, to which such early payment is subject.

(c) Formalise and implement the 2014-2016 Strategic Bonus in the manner it deems appropriate, taking all action required for the best implementation thereof.

(d) Draft, sign, and submit any notices or documents, whether public or private, that may be necessary or appropriate at any public or private entity for the implementation and execution of the 2014-2016 Strategic Bonus.

(e) Take any action, make any statement, or carry out any proceedings at any public or private body, entity, or registry in order to obtain any authorisation or verification necessary to implement and execute the 2014-2016 Strategic Bonus.

(f) If applicable, designate the banking institution or institutions that are to provide services to the Company in connection with the formalisation and administration of the 2014-2016 Strategic Bonus, and negotiate, agree upon, and sign the relevant contracts with the banking institution or institutions thus selected, as well as such other contracts or agreements as may be appropriate with any other entities and, if applicable, with the beneficiaries, for the implementation and execution of the 2014-2016 Strategic Bonus, upon such terms and conditions as it deems appropriate.

(g) Evaluate the level of performance with respect to the targets to which the 2014-2016 Strategic Bonus is tied and proceed with the payment thereof, for which purposes it may seek the advice of an independent expert, where appropriate.

(h) And, in general, perform all such acts and sign all such documents as may be necessary or appropriate for the validity, effectiveness, implementation, development, execution, payment, and proper completion of the 2014-2016 Strategic Bonus.

The Board of Directors is expressly authorised such that it may delegate, pursuant to the provisions of section 249.2 of the Companies Act, the powers referred to in this resolution.

## **ITEM EIGHT ON THE AGENDA**

**Ratification of the interim appointment and re-election of Ms Georgina Yamilet Kessel Martínez as director of the Company, with the status of external independent director.**

### **RESOLUTION**

To ratify the appointment of Ms Georgina Yamilet Kessel Martínez as director designated on an interim basis by resolution adopted by the Board of Directors at the meeting held on 23 April 2013, and to re-elect her, upon a proposal from the Appointments and Remuneration Committee, for the by-law mandated four-year term, with the status of external independent director.

## **ITEM NINE ON THE AGENDA**

**Authorisation to the Board of Directors, with express power of substitution, for the derivative acquisition of the Company's own shares by the Company itself and/or by its subsidiaries, as provided by applicable law, for which purpose the authorisation granted to such end by the shareholders at the General Shareholders' Meeting of 26 March 2010 is hereby deprived of effect to the extent of the unused amount.**

### **RESOLUTION**

To expressly authorise the Board of Directors, with express power of substitution, pursuant to the provisions of section 146 of the Companies Act (*Ley de Sociedades de Capital*), to carry out the derivative acquisition of shares of IBERDROLA, S.A. (the "Company") upon the following terms:

(a) The acquisitions may be made directly by the Company or indirectly through its subsidiaries, on the same terms set forth in this resolution. The subsidiaries conducting regulated activities pursuant to the provisions of Law 24/2013, of 26 December, on the Electricity Industry and Law 34/1988, of 7 October, on the Hydrocarbons Industry are excluded from this authorisation.

(b) The acquisitions shall be made through purchase and sale, exchange, or any other transaction permitted by law.

(c) The acquisitions may be made, at any time, up to the maximum amount permitted by law.

(d) The acquisitions may not be made at a price greater than the listing price of the shares or lower than the par value of the shares.

(e) This authorisation is granted for a maximum period of five years from the adoption of this resolution.

(f) The shareholders' equity resulting from the acquisition of shares, including those that the Company or the person acting in their own name but for the account of the Company has previously acquired and holds as treasury shares, shall not be less than the amount of share capital plus the reserves that are restricted under the law or the *By-Laws*, all pursuant to the provisions of letter b) of section 146.1 of the Companies Act.

It is expressly stated for the record that the shares acquired pursuant to this authorisation may be disposed of, cancelled, or allocated to the remuneration systems provided for in paragraph three of letter a) of section 146.1 of the Companies Act, as well as to develop programmes to foster the acquisition of interests in the Company such as, for example, dividend reinvestment plans, loyalty bonuses, or similar instruments.

This resolution cancels and deprives of effect, to the extent of the unused amount, the authorisation for the derivative acquisition of the Company's own shares granted to the Board of Directors by the shareholders at the General Shareholders' Meeting held on 26 March 2010.

## ITEM TEN ON THE AGENDA

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

#### RESOLUTION

#### A.- Amendment of article 34.5 of the *By-Laws* to make technical improvements to the text thereof.

To amend article 34.5 of the *By-Laws*, which shall hereafter read as follows:

*“5. In particular, the Board of Directors, acting upon its own initiative or at the proposal of the corresponding internal decision-making body, shall occupy itself with the matters set forth below (as an example only):*

- A) *With respect to the General Shareholders’ Meeting:*
  - a) *Call the General Shareholders’ Meeting.*
  - b) *Propose the amendment of the *By-Laws* to the shareholders at a General Shareholders’ Meeting.*
  - c) *Propose to the shareholders at a General Shareholders’ Meeting the amendment of the Regulations for the General Shareholders’ Meeting.*
  - d) *Submit to a decision by the shareholders at a General Shareholders’ Meeting the transformation of the Company into a holding company, through “subsidiarisation” or the assignment to dependent entities of core activities theretofore carried out by the Company, even though the Company retains full control of such entities.*
  - e) *Submit to a decision by the shareholders at a General Shareholders’ Meeting all transactions for the acquisition or disposition of essential operating assets when they involve an effective change in the object of the company.*
  - f) *Propose to the shareholders at a General Shareholders’ Meeting the approval of transactions having an effect equivalent to liquidation of the Company.*
  - g) *Carry out the resolutions approved by the shareholders at a General Shareholders’ Meeting and perform any duties that the shareholders have entrusted thereto.*
  
- B) *With respect to the organisation of the Board of Directors and the delegation of powers and the granting of powers of representation:*

- a) *Approve and amend the Regulations of the Board of Directors.*
  - b) *Define the structure of general powers to be granted by the Board of Directors or by the representative management decision-making bodies.*
- C) *With respect to information to be provided by the Company:*
- a) *Manage the provision of information regarding the Company to the shareholders and the markets in general, pursuant to standards of equal treatment, transparency, and truthfulness.*
  - b) *Prepare the Company's annual accounts, management report, and proposal for the allocation of profits or losses, as well as the consolidated accounts and management report and the financial information that the Company must periodically make public due to its status as listed company, ensuring that such documents provide a true and fair view of the assets and liabilities, the financial position, and the profits or losses of the Company in accordance with the provisions of law.*
  - c) *Approve the Company's Annual Corporate Governance Report, as well as the annual sustainability report, the annual director remuneration policy report, and any other report that the Board of Directors deems advisable in order to better inform shareholders and investors or that is required by legal provisions applicable at any time.*
- D) *With respect to the directors and senior officers:*
- a) *Designate directors to fill vacancies by interim appointment and propose to the shareholders at a General Shareholders' Meeting the appointment, ratification, re-election, or removal of directors.*
  - b) *Designate and renew internal positions within the Board of Directors and the members of and positions on the committees established within the Board of Directors.*
  - c) *Set, pursuant to the By-Laws and within the limits established therein, the Director Remuneration Policy and the remuneration of directors. In the case of executive directors, the Board of Directors shall establish the additional remuneration to which they are entitled for their executive duties and other basic terms that their contracts must include.*

- d) *Approve, upon a proposal of the chairman of the Board of Directors or of the chief executive officer, the determination and modification of the Company's organisational chart, the appointment and removal of senior officers of the Company, as well as set the compensation or indemnification, if any, payable to them in the event of removal.*

*As an exception to the foregoing, based on a proposal made for such purpose by the chairman of the Board of Directors, the Audit and Risk Supervision Committee shall, if applicable, submit to the Board of Directors a proposal supported by the corresponding report regarding the selection, appointment, or removal of the director of the Internal Audit Area.*

*Senior officers shall be those who report directly to the Board of Directors, to the chairman thereof, or to the chief executive officer of the Company, and shall in any case include the director of the Internal Audit Area and any other officer given such status by the Board of Directors.*

- e) *Approve the Senior Officer Remuneration Policy as well as the basic terms of the contracts with senior officers, based for such purpose on a proposal made by the chairman of the Board of Directors or the chief executive officer to the Appointments and Remuneration Committee in order for the latter to prepare a report thereon and submit it to the Board of Directors.*
- f) *Regulate, review, and decide upon possible conflicts of interest and related-party transactions between the Company and its directors and senior officers as well as with persons related thereto.*

E) *Other powers:*

- a) *Prepare the shareholder remuneration policy and submit the corresponding proposed resolutions on the allocation of profits or losses and other modes of shareholder remuneration to the shareholders at the General Shareholders' Meeting, as well as decide upon the payment, if any, of interim dividends.*
- b) *Take note of mergers, split-offs, concentrations, or overall assignments of assets and liabilities that affect any of the significant companies of the Group.*
- c) *Declare its position regarding all takeover bids for the Company's securities.*



- d) *Decide on proposals submitted thereto by the Executive Committee, the chairman of the Board of Directors, the chief executive officer, the lead independent director (consejero independiente especialmente facultado), and the committees of the Board of Directors.*
- e) *Make decisions regarding any other matter within its power that the Board of Directors believes to be in the interest of the Company or that the Regulations of the Board of Directors reserve to the Board as a whole.”*

**B.- Amendment of article 44.3 of the By-Laws to set at four years the maximum term for the position of chair of the Audit and Risk Supervision Committee.**

To amend article 44.3 of the *By-Laws*, which shall hereafter read as follows:

*“3. The Board of Directors shall appoint a chair of the Audit and Risk Supervision Committee from among the independent directors forming part thereof, as well as its secretary, who need not be a director. The position of chair of the Audit and Risk Supervision Committee shall be held for a maximum period of four (4) years, after which period the chair may not be re-elected until the passage of at least one year from ceasing to act as such, without prejudice to the continuance or re-election thereof as a member of the committee.”*

## ITEM ELEVEN ON THE AGENDA

Approval of a reduction in share capital by means of the retirement of 91,305,304 treasury shares of Iberdrola, representing 1.433% of the share capital, and acquisition of a maximum of 42,161,696 shares of the Company, representing 0.662% 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.

### RESOLUTION

**1. Reduction in share capital by means of the retirement of both Treasury Shares and the Company's shares acquired through a buy-back programme for the retirement thereof**

To reduce the share capital of IBERDROLA, S.A. (the “**Company**”) by the amount resulting from the sum of:

(i) 68,478,978.00 euros, through the retirement of 91,305,304 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 31,621,272.00 euros, of the shares of the Company, with a maximum of 42,161,696 shares, each with a nominal value of 0.75 euro, that are acquired for their retirement under the buy-back programme approved by the Board of Directors on 18 February 2014 under the provisions of Commission Regulation (EC) No 2273/2003 of 22 December 2003 and expiring on or before 31 May 2014 (the “**Buy-back Programme**”),

Consequently, the maximum amount of the capital reduction (the “**Capital Reduction**”) will be 100,100,250.00 euros, through the retirement of a maximum of 133,467,000 shares of Iberdrola, S.A., each with a nominal value of 0.75 euro, representing not more than 2.094% 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 18 February 2014, the Company may acquire a maximum number of 42,161,696 shares of the Company each with a nominal value of 0.75 euro and representing 0.662% of the share capital of the Company 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 42,161,696 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**

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**

To delegate to the Board of Directors, with express powers of substitution, the powers necessary to implement this resolution within a period not to exceed one month following the expiration of the Buy-back Programme, with authority to establish any terms that are not expressly set forth in this resolution or that are a consequence hereof. 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 the Company, 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 TWELVE 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.**

### **RESOLUTION**

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 THIRTEEN ON THE AGENDA**

**Consultative vote regarding the *Annual Director Remuneration Report* for financial year 2013.**

**RESOLUTION**

To approve, on a consultative basis, the *Annual Director Remuneration Report* for financial year 2013, 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.

## **DIRECTORS REPORTS**



**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 28 AND 29 MARCH 2014, 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, 2012 and 2013. 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 instances, 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**”). The foregoing should be understood to be without prejudice to the distribution of a cash dividend, upon the terms proposed for approval by the shareholders at the Company's General Shareholders' Meeting under item five on the agenda.

Notwithstanding the fact that the 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 782 million euros in the first Capital Increase and of 897 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 2014, while the second Capital Increase is planned for dates around the month of January 2015.

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, through the Automated Quotation System, for a term of at least fifteen calendar days, at the expiration of which term such rights will automatically become newly-issued shares, which will be allocated to those who are then holders of said free-of-charge allocation rights.

As on previous occasions, 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 one 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 782 million euros, and in the case of the second Capital Increase, may not exceed 897 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.

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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.

### **2.3 Coordination with the Distribution of Cash Dividends**

As stated above, within the period of one year from the date on which the shareholders acting at the General Shareholders' Meeting approve the resolution proposed herein, and provided that the legal and financial conditions prevailing 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.

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 be fixed by the Board of Directors (or the body acting by delegation therefrom) and will come to a maximum amount of 782 million euros in the first Capital Increase and of 897 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 Nominal 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 nominal 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.

As mentioned above, the “Listing Price” or “ListPri” of each Capital Increase will be the result of applying the Discount (which will 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 will 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 new shares to be issued and, as a consequence, the nominal amount of the Capital Increase in question, as well as the number of free-of-charge allocation rights required for the allocation of one new share, by using the following formula (the result to be rounded to the next lower integer):

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

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).

<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:  
$$\text{Num. rights} = \text{TNShrs.} / \text{Provisional number of shares}$$
where:  
$$\text{Provisional number of shares} = \text{Amount of the Option} / \text{ListPri}$$

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 Iberdrola shares then outstanding on the date of implementation of the Capital Increase in question (TNShrs) and the provisional number of new shares, calculated by using the formula contained in section 3.1 above. Specifically, the holders of free-of-charge allocation rights will be entitled to receive one new share in exchange for the number of free-of-charge allocation rights held by them, which will be determined as provided in section 3.1 above.

In the event that the number of free-of-charge allocation rights required for the allocation of one new share (Num. rights) multiplied by the number of new shares to be issued (NNS) results in a number that is lower than the number of then outstanding shares of the Company on the date of the Capital Increase in question, the Company (or such entity within its group, if any, as holds shares of the Company) will waive a number of free-of-charge allocation rights equal to the difference between both figures for the sole purpose that the number of new shares be a whole number and not a fraction. In such an event, there will be an incomplete allocation of the 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 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 holders of free-of-charge allocation rights 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 calculating the Purchase Price.

<sup>3</sup> Shareholders that do not have free-of-charge allocation rights in a number sufficient to receive one 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 one new share; (b) transfer all or part of their free-of-charge allocation rights to the Company under the Purchase Commitment at a guaranteed fixed price; or (c) transfer all or part of their free-of-charge allocation rights on the market (in which case they will not be entitled to receive a guaranteed fixed price; rather, the consideration for their rights will depend on market conditions in general and on the listing price of the free-of-charge allocation rights in particular).



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 2013, 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 The Basque Country have amended their territorial regulations (*normas forales*) on Personal Income Tax ("IRPF") 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 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 the Basque Country, 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 (in particular, in the Historical Territories of the Basque Country) 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, Amount of the Option and 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 the number of shares resulting from the Capital Increase in question, and to make application for listing the new shares as described in the next section.

### **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 in order to implement the "Iberdrola Flexible Dividend" system.***

#### ***RESOLUTION***

***A - Approval of an increase in share capital by means of a scrip issue at a maximum reference market value of 782 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 fixed 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***

*To increase the share capital by the amount resulting from multiplying (a) the nominal value of each share of IBERDROLA, S.A. (the "Company"), equal to seventy-five euro cents, by (b) the total determinable number of new shares of the Company to be issued, in accordance with the formula set forth in section 2 below, on the date of implementation of the increase in share capital (all of the new shares of the Company issued by way of implementation of this resolution shall be collectively referred to as the "New Shares", and each one, individually, as 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 limit of 782 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, in order to offer 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 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 in no event exceed the maximum amount of 782 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 the Company, a company within its group, or a third party waives all or part of the free-of-charge allocation rights to which they are entitled at the time 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, the result being rounded downwards to the next lower integer:*

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

*where:*

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

*TNShrs. = Number of outstanding shares of the Company on the date on which the Board of Directors, or the body acting by delegation therefrom, resolves to put into effect the Capital Increase; 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 immediately higher integer:*

$Num. rights = TNShrs. / Provisional number of shares$

where:

$Provisional number of shares = Amount of the Option / ListPri$

For these purposes, “**Amount of the Option**” will mean the maximum reference market value of the Capital Increase to be set by the Board of Directors, or the body acting by delegation therefrom, which will not be greater than 782 million euros, in accordance with the maximum 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 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 one New Share will be automatically determined according to the ratio existing between the number of outstanding shares of the Company on the date of implementation of the Capital Increase (TNShrs.) and the provisional number of New Shares, calculated by using the formula contained in section 2 above. Specifically, the holders of the free-of-charge allocation rights 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 New Share (Num. rights) multiplied by the number of New Shares to be issued (NNS) results in a number that is lower than the number of outstanding shares of the Company on the date of implementation of the Capital Increase (TNShrs.), the Company (or such entity within its Group, if any, as holds shares of the Company) will waive a number of free-of-charge allocation rights equal to the difference between both figures for the sole purpose that the number of New Shares be a whole number and not a fraction.

*The free-of-charge allocation rights will be allocated to those who are registered as being entitled thereto in the book-entry records of “Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal” (IBERCLEAR) 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 this 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, 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, the result being rounded to the closest one-thousandth part of one euro and, in the case of one-half of one-thousandth of one euro, to the next higher one-thousandth part of one euro:

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

In addition, the Company will guarantee to the holders of the free-of-charge allocation rights 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 31 December 2013, 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 the Company 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 the Company will be kept on deposit for those who provide evidence that they are the lawful holders of the corresponding free-of-charge allocation rights. Once three years have passed from the end of 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**

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 the Company'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 shares of the Company, 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 Amount of the Option and 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, the following will apply:*

*(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 number of shares resulting from the implementation of the Capital Increase, and to make application for listing the New Shares on the Bilbao, Madrid, Barcelona, and Valencia Stock Exchanges, through the Automated Quotation System (Sistema de Interconexión Bursátil) (Electronic Market).*

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

*Pursuant to the provisions of section 297.1.a) of the Companies Act, 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 number of free-of-charge allocation rights*

necessary for the allocation of one New Share, 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 of the Capital Increase.

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

(k) Waive 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 and, therefore, the New Shares corresponding to such rights.

(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 through the Automated Quotation System (Sistema de Interconexión Bursátil) (Electronic Market).

(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 897 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 fixed 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**

To increase the share capital by the amount resulting from multiplying (a) the nominal value of each share of IBERDROLA, S.A. (the “**Company**”), equal to seventy-five euro cents, by (b) the total determinable number of new shares of the Company to be issued, in accordance with the formula set forth in section 2 below, on the date of implementation of the increase in share capital (all of the new shares of the Company issued by way of implementation of this resolution shall be collectively referred to as the “**New Shares**”, and each one, individually, as 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 limit of 897 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, in order to offer 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 January 2015. 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 897 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 the Company, a company within its group, or a third party waives all or part of the free-of-charge allocation rights to which they are entitled at the time of implementation of 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, the result being rounded downwards to the next lower integer:

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

where:

$$NNS = \text{Number of New Shares to be issued};$$

$TNShrs.$  = Number of outstanding shares of the Company on the date on which the Board of Directors, or the body acting by delegation therefrom, resolves to put into effect the Capital Increase; 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 immediately higher integer:

$$Num. rights = TNShrs. / Provisional number of shares$$

where:

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

For these purposes, "**Amount of the Option**" will mean the maximum 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 897 million euros, in accordance with the maximum 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 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 one New Share will be automatically determined according to the number of outstanding shares of the Company on the date of implementation of the Capital Increase (TNShrs.) and the provisional number of New Shares, calculated by using the formula contained in section 2 above. Specifically, the holders of free-of-charge allocation rights will be entitled to receive one New Share for 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 New Share (Num. rights) multiplied by the number of New Shares to be issued (NNS) results in a number that is lower than the number of outstanding shares of the Company on the date of implementation of the Capital Increase (TNShrs.), the Company (or such entity within its group, if any, as holds shares of the Company) will waive a number of free-of-charge allocation rights equal to the difference between both figures for the sole purpose that the number of New Shares be a whole number and not a fraction.*

*The free-of-charge allocation rights will be allocated to those who are registered as being entitled thereto in the book-entry records of "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR) 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 this 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, 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, the result being rounded to the closest one-thousandth part of one euro and, in the case of one-half of one-thousandth of one euro, to the next higher one-thousandth part of one euro:

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

In addition, the Company will guarantee to the holders of free-of-charge allocation rights 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 31 December 2013, 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 the Company 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 the Company will be kept on deposit for those who provide evidence that they are the lawful holders of the corresponding free-of-charge allocation rights. Once three years have passed from the end of 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**

*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 the Company'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 shares of the Company, 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 Amount of the Option and 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 the following will apply:*

*(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 number of shares resulting from the implementation of the Capital Increase, and to make application for listing the New Shares on the Bilbao, Madrid, Barcelona, and Valencia Stock Exchanges, through the Automated Quotation System (Sistema de Interconexión Bursátil) (Electronic Market).*

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

*Pursuant to the provisions of section 297.1.a) of the Companies Act, 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 number of free-of-charge allocation rights necessary for the allocation of one New Share, 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 of the Capital Increase.*

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

*(k) Waive 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 and, therefore, the New Shares corresponding to such rights.*

*(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, 18 February 2014

## 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 782 million euros.
- The TNShrs. is 6,373,467,000.

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

#### Scenario A:

- A Discount of 0% is assumed.
- A ListPri of 4.568 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 12 February 2014 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

<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 12 February 2014, as provided in Scenario A, is 4.111 euros (rounded downwards).

Therefore:

	<b>Scenario A (Discount of 0%)</b>	<b>Scenario B (Discount of 10%)</b>
Provisional number of shares = Amount of the Option / ListPri	$782,000,000 / 4.568 = 171,190,893.2$ = 171,190,893 shares (rounded downwards)	$782,000,000 / 4.111 = 190,221,357.3$ = 190,221,357 shares (rounded downwards)
Num. rights = TNShrs. / Provisional number of shares	$6,373,467,000 / 171,190,893 = 37.2301756 = 38$ <b>rights</b> (rounded upwards)	$6,373,467,000 / 190,221,357 = 33.5055280 = 34$ <b>rights</b> (rounded upwards)
NNS = TNShrs. / Num. rights	$6,373,467,000 / 38 = 167,722,815.8$ = 167,722,815 shares (rounded downwards)	$6,373,467,000 / 34 = 187,454,911.8$ shares = 187,454,911 shares (rounded downwards)
Purchase Price = ListPri / (Num. rights + 1)	$4.568 / (38 + 1) = 0.117$ <b>euros</b>	$4.111 / (34 + 1) = 0.117$ <b>euros</b>

Thus, in Scenario A: (i) the maximum number of new shares to be issued in the first Capital Increase would be 167,722,815, (ii) the maximum nominal value of the first Capital Increase would come to 125,792,111.25 euros (167,722,815 x 0.75) and (iii) 38 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 187,454,911, (ii) the maximum nominal value of the First Capital Increase would come to 140,591,183.25 euros (187,454,911 x 0.75), and (iii) 34 free-of-charge allocation rights (or existing shares) would be required for the allocation of one new share.<sup>6</sup>

\* \* \*

<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 30 free-of-charge allocation rights corresponding to 30 shares of its own stock in order for the number of shares to be issued to be an integer.

<sup>6</sup> In this example, in Scenario B, the Company (or an entity of its group that holds shares of the Company) would be required to waive 26 free-of-charge allocation rights corresponding to 26 shares of its own stock in order for the number of shares to be issued to be an integer.

**REPORT PREPARED BY THE BOARD OF DIRECTORS OF IBERDROLA, S.A. REGARDING THE PROPOSAL FOR RATIFICATION AND RE-ELECTION OF MS GEORGINA YAMILET KESSEL MARTÍNEZ AS EXTERNAL INDEPENDENT DIRECTOR, INCLUDED IN ITEM EIGHT OF THE AGENDA FOR THE GENERAL SHAREHOLDERS' MEETING CALLED TO BE HELD ON 28 AND 29 MARCH 2014, 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**”), at the proposal of the Appointments and Remuneration Committee thereof, in order to provide the rationale for the proposed ratification of the interim appointment and re-election of Ms Georgina Yamilet Kessel Martínez as a director of the Company, with the status of external independent director, which is submitted to the shareholders for approval at the General Shareholders’ Meeting under item eight on the agenda.

Pursuant to the provisions of article 9.7.c) of the Company’s *Regulations for the General Shareholders’ Meeting*, in the event that the shareholders acting at a General Shareholders’ Meeting must deliberate on the appointment, re-election, or ratification of directors, the corresponding proposed resolution shall be accompanied by the following information:

- (a) professional profile and biographical data of the director;
- (b) other boards of directors on which the director holds office, at listed companies or otherwise;
- (c) indication of the type of director such person is in each case, with mention, in the case of proprietary directors, of the shareholder that proposes or proposed the appointment thereof or with which the director has ties;
- (d) date of the director’s first and subsequent appointments as director of the Company; and
- (e) shares of the Company and derivative financial instruments whose underlying assets are shares of the Company of which such director is the holder.

This report, which provides such information, is issued voluntarily and reflects the Company’s commitment to transparency and to the latest corporate governance trends.

## **2. Rationale for the Proposal**

The Appointments and Remuneration Committee has verified that Ms Georgina Yamilet Kessel Martínez meets the requirements of respectability, capability, expertise, competence, experience, qualifications, training, availability, and commitment to her duties and that she is not affected, directly or indirectly, by any of the instances of incompatibility with or prohibition against holding such office or by having interests that conflict with or are contrary to the corporate interest as set forth in provisions of a general nature or in the Company's Corporate Governance System.

Furthermore, in preparing the proposal for ratification of the interim appointment and re-election of Ms Georgina Yamilet Kessel Martínez as a director of the Company, the Board of Directors takes into account the alignment of the professional profiles of the directors, the particular characteristics of the business and the industry, and the international character of the Company.

In this regard, the Board of Directors is of the opinion that, in order to be able to exercise their oversight and control duties properly, all its members must possess an appropriate combination of adequate qualifications and skills in the following areas:

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

Within this framework, Ms Georgina Yamilet Kessel Martínez brings to the Board of Directors broad experience in both the energy and the financial sectors, as well as in-depth knowledge of Mexico, one of the most significant markets for the Company.

As reflected in her curriculum vitae, Ms Kessel Martínez is an economist and, among other positions, she has served as chair of the Mexican Energy Regulatory Commission (*Comisión Reguladora de Energía*), general manager of the National Mint (*Casa de Moneda*) of Mexico, energy secretary, and director of Banco Nacional de Obras y Servicios Públicos, S.N.C. (BANOBRAS), which bears witness to her broad experience as manager and her extensive knowledge in the economic and regulatory areas, and ensures that there will be multiple viewpoints in the discussions of the Board of Directors on the matters within its purview.

Last, Ms Georgina Yamilet Kessel Martínez has been proposed on the basis of her



personal and professional qualifications and can discharge her duties without being constrained by relationships with the Company, its significant shareholders, or its officers, which makes her worthy of the status of independent director.

### **3. Professional Profile and Biographical Data of the Director and Additional Information**

Holder of a degree in Economics from Instituto Tecnológico Autónomo de México and of a Master's and Doctor's degree in Economics from Columbia University in New York, Ms Georgina Yamilet Kessel Martínez is an independent director of the Company since her acceptance of the interim appointment to the Board of Directors on 23 April 2013. She is also a member of the Audit and Risk Supervision Committee of the Board of Directors since 23 July 2013.

#### **3.1. Noteworthy Experience for the Holding of Her Positions at the Company**

Ms Georgina Yamilet Kessel Martínez possesses extensive experience in the energy and industrial engineering sectors, among other industries.

Experience in the energy and industrial engineering sectors: she possesses extensive experience in the energy industry, having served as State secretary at the Office of the Energy Secretary of Mexico (Sener) from 2006 to 2011. During the same period, she also served as chair of the Board of Directors of two large corporations: Petróleos Mexicanos (PEMEX) and the Federal Electricity Commission (*Comisión Federal de Electricidad*) (CFE). She was the first chair of the Energy Regulatory Commission (*Comisión Reguladora de Energía*) (CRE) in Mexico.

Experience in other sectors: she has gained experience and expertise in other sectors, especially in the financial infrastructure investment sector, in both the institutional and the executive areas. She is an independent director of Grupo Financiero Scotiabank Inverlat, S.A. de C.V. and has been general manager of Banco Nacional de Obras y Servicios Públicos, S.N.C. (BANOBRAS), a development bank engaged primarily in financing infrastructure projects; a member of the decision-making bodies of Nacional Financiera, S.N.C. (NAFINSA) and of Banco Nacional de Comercio Exterior, S.N.C. (BANCOMEXT); adviser to the chair of the Federal Economic Competition Commission (*Comisión Federal de Competencia Económica*) (CFCE); head of the Quasi-Autonomous Non-Governmental Organisations Investment and Divestment Unit of the Office of the Secretary of Finance and Public Credit of Mexico, and general manager of the National Mint of Mexico.

#### **3.2. Previous Experience in Connection with the Committee of which She Is**

### **a Member**

The educational background of Ms Georgina Yamilet Kessel Martínez in the field of economics and her professional experience in the management of institutions of the financial sector, coupled with her teaching experience and the large proportion of executive positions dealing with economic and financial matters that she has held in her professional career, make her a suitable member of the Audit and Risk Supervision Committee.

### **3.3. Other Information**

Ms Georgina Yamilet Kessel Martínez continues to be connected to the energy sector and participates in the Energy Council of the World Economic Forum (WEF) and in the United Nations Organization (UNO) Secretary General's advisory group, known as *Sustainable Energy for All*. These ties give her extensive background knowledge of international organisations.

In the academic field, Ms Kessel Martínez has been a professor in the Economics Department, deputy chair of the course towards a Degree in Economics, and first deputy chair and chair of the Alumni Association of Instituto Tecnológico Autónomo de México (ITAM). She was also holder of the Quintana Chair for Research in International Trade and has authored many papers and specialised articles.

#### **4. Shares of the Company and derivative financial instruments whose underlying assets are shares of the Company of which she is the holder**

Ms Kessel Martínez holds ten shares of the Company and does not have any ties with holders of significant interests.

#### **5. 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 EIGHT ON THE AGENDA**

**Ratification of the interim appointment and re-election of Ms Georgina Yamilet Kessel Martínez as director of the Company, with the status of external independent director.**

### **RESOLUTION**

*To ratify the appointment of Ms Georgina Yamilet Kessel Martínez as director designated on an interim basis by resolution adopted by the Board of Directors at the meeting held on 23 April 2013, and to re-elect her, upon the proposal of the Appointments and Remuneration Committee, for the by-law mandated four-year term and with the status of external independent director.”*

\* \* \*

Bilbao, 18 February 2014

**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 TEN ON THE AGENDA FOR THE GENERAL SHAREHOLDERS' MEETING CALLED TO BE HELD ON 28 AND 29 MARCH 2014, 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 by the directors of a report 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**

The amendments to the *By-Laws* proposed to the shareholders for approval at the General Shareholders’ Meeting are the following:

1.- Amendment of article 34.5 of the *By-Laws*, which article governs the powers of the Board of Directors, in order to make technical improvements to the text of letter c) of section A, letter c) of section c, and letter d) of section D and to replace the reference to preparation of the *Dividend Policy* with a broader reference to the shareholder remuneration policy in letter a) of section E.

2.- Amendment of article 44.3 of the *By-Laws*, which governs the Audit and Risk Supervision Committee, to set at four years the maximum term for the position of chair of such committee, such that it coincides with that of the position of director and of

member of the Audit and Risk Supervision Committee, pursuant to additional provision eighteen of Law 24/1988 of 28 July on the Securities Market.

**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 TEN ON THE AGENDA**

**Amendment of the By-Laws.**

**RESOLUTION**

***A.- Amendment of article 34.5 of the By-Laws to make technical improvements to the text thereof.***

*To amend article 34.5 of the By-Laws, which shall hereafter read as follows:*

*“5. In particular, the Board of Directors, acting upon its own initiative or at the proposal of the corresponding internal decision-making body, shall occupy itself with the matters set forth below (as an example only):*

- A) With respect to the General Shareholders' Meeting:*
  - a) Call the General Shareholders' Meeting.*
  - b) Propose the amendment of the By-Laws to the shareholders at a General Shareholders' Meeting.*
  - c) Propose to the shareholders at a General Shareholders' Meeting the amendment of the Regulations for the General Shareholders' Meeting.*
  - d) Submit to a decision by the shareholders at a General Shareholders' Meeting the transformation of the Company into a holding company, through “subsidiarisation” or the assignment to dependent entities of core activities theretofore carried out by the Company, even though the Company retains full control of such entities.*
  - e) Submit to a decision by the shareholders at a General Shareholders' Meeting all transactions for the acquisition or disposition of essential operating assets when they involve an effective change in the object of the company.*

- f) *Propose to the shareholders at a General Shareholders' Meeting the approval of transactions having an effect equivalent to liquidation of the Company.*
  - g) *Carry out the resolutions approved by the shareholders at a General Shareholders' Meeting and perform any duties that the shareholders have entrusted thereto.*
- B) *With respect to the organisation of the Board of Directors and the delegation of powers and the granting of powers of representation:*
- a) *Approve and amend the Regulations of the Board of Directors.*
  - b) *Define the structure of general powers to be granted by the Board of Directors or by the representative management decision-making bodies.*
- C) *With respect to information to be provided by the Company:*
- a) *Manage the provision of information regarding the Company to the shareholders and the markets in general, pursuant to standards of equal treatment, transparency, and truthfulness.*
  - b) *Prepare the Company's annual accounts, management report, and proposal for the allocation of profits or losses, as well as the consolidated accounts and management report and the financial information that the Company must periodically make public due to its status as listed company, ensuring that such documents provide a true and fair view of the assets and liabilities, the financial position, and the profits or losses of the Company in accordance with the provisions of law.*
  - c) *Approve the Company's Annual Corporate Governance Report, as well as the annual sustainability report, the annual director remuneration report, and any other report that the Board of Directors deems advisable in order to better inform shareholders and investors or that is required by legal provisions applicable at any time.*
- D) *With respect to the directors and senior officers:*
- a) *Designate directors to fill vacancies by interim appointment and propose to the shareholders at a General Shareholders' Meeting the appointment, ratification, re-election, or removal of directors.*
  - b) *Designate and renew internal positions within the Board of Directors and the members of and positions on the committees established within the Board of Directors.*

- c) *Set, pursuant to the By-Laws and within the limits established therein, the Director Remuneration Policy and the remuneration of directors. In the case of executive directors, the Board of Directors shall establish the additional remuneration to which they are entitled for their executive duties and other basic terms that their contracts must include.*
- d) *Approve, upon a proposal of the chairman of the Board of Directors or of the chief executive officer, the determination and modification of the Company's organisational chart, the appointment and removal of senior officers of the Company, as well as set the compensation or indemnification, if any, payable to them in the event of removal.*

*As an exception to the foregoing, based on a proposal made for such purpose by the chairman of the Board of Directors, the Audit and Risk Supervision Committee shall, if applicable, submit to the Board of Directors a proposal supported by the corresponding report regarding the selection, appointment, or removal of the director of the Internal Audit Area.*

*Senior officers shall be those who report directly to the Board of Directors, to the chairman thereof, or to the chief executive officer of the Company, and shall in any case include the director of the Internal Audit Area and any other officer given such status by the Board of Directors.*

- e) *Approve the Senior Officer Remuneration Policy as well as the basic terms of the contracts with senior officers, based for such purpose on a proposal made by the chairman of the Board of Directors or the chief executive officer to the Appointments and Remuneration Committee in order for the latter to prepare a report thereon and submit it to the Board of Directors.*
- f) *Regulate, review, and decide upon possible conflicts of interest and related-party transactions between the Company and its directors and senior officers as well as with persons related thereto.*

E) *Other powers:*

- a) *Prepare the shareholder remuneration policy and submit the corresponding proposed resolutions on the allocation of profits or losses and other modes of shareholder remuneration to the shareholders at the General Shareholders' Meeting, as well as decide upon the payment, if any, of interim dividends.*

- b) *Take note of mergers, split-offs, concentrations, or overall assignments of assets and liabilities that affect any of the significant companies of the Group.*
- c) *Declare its position regarding all takeover bids for the Company's securities.*
- d) *Decide on proposals submitted thereto by the Executive Committee, the chairman of the Board of Directors, the chief executive officer, the lead independent director (consejero independiente especialmente facultado), and the committees of the Board of Directors.*
- e) *Make decisions regarding any other matter within its power that the Board of Directors believes to be in the interest of the Company or that the Regulations of the Board of Directors reserve to the Board as a whole."*

***B.- Amendment of article 44.3 of the By-Laws to set at four years the maximum term for the position of chair of the Audit and Risk Supervision Committee.***

*To amend article 44.3 of the By-Laws, which shall hereafter read as follows:*

- "3. The Board of Directors shall appoint a chair of the Audit and Risk Supervision Committee from among the independent directors forming part thereof, as well as its secretary, who need not be a director. The position of chair of the Audit and Risk Supervision Committee shall be held for a maximum period of four (4) years, after which period the chair may not be re-elected until the passage of at least one year from ceasing to act as such, without prejudice to the continuance or re-election thereof as a member of the committee."*

\* \* \*

Bilbao, 18 February 2014



**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)**

Current Text of the <i>By-Laws</i>	Text of the Proposed Amendment
<b>Article 34. Powers of the Board of Directors</b>	<b>Article 34. Powers of the Board of Directors</b>
5. In particular, the Board of Directors, acting upon its own initiative or at the proposal of the corresponding internal decision-making body, shall occupy itself with the matters set forth below (as an example only):	5. In particular, the Board of Directors, acting upon its own initiative or at the proposal of the corresponding internal decision-making body, shall occupy itself with the matters set forth below (as an example only):
A. With respect to the General Shareholders' Meeting:  c) Propose to the shareholders at a General Shareholders' Meeting the amendment of the Regulations for the General Shareholders' Meeting.	A. With respect to the General Shareholders' Meeting:  c) Propose to the shareholders at a General Shareholders' Meeting <del>the amendment</del> <u>the amendment</u> of the Regulations for the General Shareholders' Meeting.
C. With respect to information to be provided by the Company:  c) Approve the Company's Annual Corporate Governance Report, as well as the Annual Sustainability Report, the <i>Annual Remuneration Policy Report</i> , and any other report that the Board of Directors deems advisable in order to better inform shareholders and investors or that is required by legal provisions applicable at any time.	C. With respect to information to be provided by the Company:  c) Approve the Company's Annual Corporate Governance Report, as well as the Annual Sustainability Report, the <del>Annual Remuneration Policy Report</del> <u>annual director remuneration report</u> , and any other report that the Board of Directors deems advisable in order to better inform shareholders and investors or that is required by legal provisions applicable at any time.
D. With respect to the directors and	D. With respect to the directors and

<p>senior officers:</p> <p>d) Approve, upon a proposal of the chairman of the Board of Directors or of the chief executive officer, the determination and modification of the Company's organisational chart, the appointment and removal of senior officers of the Company, as well as set the compensation or indemnification, if any, payable to them in the event of removal.</p> <p>As an exception to the foregoing, based on a proposal made for such purpose by the chairman of the Board of Directors, the Audit and Risk Supervision Committee shall, if applicable, submit to the Board of Directors a proposal supported by the corresponding report regarding the selection, appointment, or removal of the director of the Internal Audit Area.</p> <p>Senior officers shall be those officers who report directly to the Board of Directors, to the chairman thereof, or to the chief executive officer of the Company, and shall in any case include the director of the Internal Audit Area and any other officer given such status by the Board of Directors.</p>	<p>senior officers:</p> <p>d) Approve, upon a proposal of the chairman of the Board of Directors or of the chief executive officer, the determination and modification of the Company's organisational chart, the appointment and removal of senior officers of the Company, as well as set the compensation or indemnification, if any, payable to them in the event of removal.</p> <p>As an exception to the foregoing, based on a proposal made for such purpose by the chairman of the Board of Directors, the Audit and Risk Supervision Committee shall, if applicable, submit to the Board of Directors a proposal supported by the corresponding report regarding the selection, appointment, or removal of the director of the Internal Audit Area.</p> <p>Senior officers shall be those <del>officers</del> who report directly to the Board of Directors, to the chairman thereof, or to the chief executive officer of the Company, and shall in any case include the director of the Internal Audit Area and any other officer given such status by the Board of Directors.</p>
<p>E) Other powers:</p> <p>a) Prepare the <i>Dividend Policy</i> and submit the corresponding proposed resolutions on the</p>	<p>E) Other powers:</p> <p>a) Prepare the <del><i>Dividend Policy</i></del> <u>shareholder remuneration policy</u> and submit the corresponding</p>

<p>allocation of profits or losses and other modes of shareholder compensation to the shareholders at the General Shareholders' Meeting, as well as decide upon the payment, if any, of interim dividends.</p>	<p>proposed resolutions on the allocation of profits or losses and other modes of shareholder <del>compensation</del> <u>remuneration</u> to the shareholders at the General Shareholders' Meeting, as well as decide upon the payment, if any, of interim dividends..</p>
<p><b>Article 44. Audit and Risk Supervision Committee</b></p>	<p><b>Article 44. Audit and Risk Supervision Committee</b></p>
<p>3. The Board of Directors shall appoint a chair of the Audit and Risk Supervision Committee from among the independent directors forming part thereof, as well as its secretary, who need not be a director. The position of chair of the Audit and Risk Supervision Committee shall be held for a maximum period of three (3) years, after which period the chair may not be re-elected until the passage of at least one year from ceasing to act as such, without prejudice to the continuance or re-election thereof as a member of the committee.</p>	<p>3. The Board of Directors shall appoint a chair of the Audit and Risk Supervision Committee from among the independent directors forming part thereof, as well as its secretary, who need not be a director. The position of chair of the Audit and Risk Supervision Committee shall be held for a maximum period of <del>three (3)</del> <u>four (4)</u> years, after which period the chair may not be re-elected until the passage of at least one year from ceasing to act as such, without prejudice to the continuance or re-election thereof as a member of the committee.</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 ELEVEN ON THE AGENDA FOR THE GENERAL SHAREHOLDERS' MEETING CALLED TO BE HELD ON 28 AND 29 MARCH 2014, 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 eleven 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**

The Board of Directors of the Company, by resolution adopted at its meeting of 22 October 2013, amended the Company’s *Dividend Policy* in order to, among other things, contemplate the possibility that issuances of shares in the capital increases used to implement the “Iberdrola Flexible Dividend” system are offset by capital reductions such as those proposed, as already occurred during financial year 2013, so that the number of the Company’s shares in circulation, which is used to calculate the profit per share, tends to be approximately 6,240 million.

This avoids dilution caused to shareholders from the repeated issuance of new shares, contributing to the maintenance of the profit per share of the Company, all of which benefits the shareholders.

Therefore, the Board of Directors has resolved to propose the Capital Reduction to the shareholders at the General Shareholders’ Meeting to offset the increase in share capital by means of scrip issue approved by the shareholders at the General Shareholders’ Meeting held on 22 March 2013 under item B on the Agenda, such that the Company’s treasury shares are retired if said proposal is ultimately approved, with a corresponding reduction in share capital by an amount equal to the nominal value of such shares, and the number of shares in circulation would be established at the target figure of 6,240 million.

Moreover, the Board of Directors resolved 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 on the authorisation granted by the shareholders at the General Shareholders' Meeting held on 26 March 2010 under item eight on the agenda, which shall also be retired within the framework of the Capital Reduction. Thus, the purpose of this initiative is to favour the liquidity of the shares as well as the abovementioned benefits of reducing both 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) 68,478,978.00 euros, through the retirement of 91,305,304 treasury shares, each with a nominal value of 0.75 euro, representing 1.433% 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 31,621,272.00 euros, of the Company's own shares, each with a nominal value of 0.75 euro, with a maximum of 42,161,696 shares (representing not more than 0.662% of the share capital), that are acquired for their retirement under the buy-back programme approved by the Board of Directors today, 18 February 2014, under the provisions of Commission Regulation (EC) No 2273/2003 of 22 December 2003 (the "**Buy-back Programme**").

Consequently, the maximum amount of the reduction would be 100,100,250.00 euros, through the retirement of a maximum of 133,467,000 shares of Iberdrola, S.A., each with a nominal value of 0.75 euro, representing not more than 2.094% 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 18 February 2014 and that they authorise the Board of Directors to implement the Reduction in Capital resolution (with the express power of substitution, under the provisions of section 249.2 of the Companies Act) within a period not to exceed one month following the expiration of the Buy-back Programme, with authority to establish any terms that are not expressly set forth in the resolution 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 ELEVEN ON THE AGENDA**

**Approval of a reduction in share capital by means of the retirement of 91,305,304 treasury shares of Iberdrola, representing 1.433% of the share capital, and acquisition of a maximum of 42,161,696 shares of the Company, representing 0.662% 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.**

##### **RESOLUTION**

- Reduction in Share Capital by means of the Retirement of both Treasury Shares and Shares of the Company acquired through a Buy-back Programme 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) 68,478,978.00 euros, through the retirement of 91,305,304 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 31,621,272.00 euros, of the shares of the Company, each with a nominal value of 0.75 euro, that are acquired for their retirement under the buy-back programme approved by the Board of Directors on 18 February 2013 under the provisions of Commission Regulation (EC) No 2273/2003 of 22 December 2003 and expiring on or before 31 May 2014 (the "**Buy-back Programme**").

Consequently, the maximum amount of the capital reduction (the "**Capital Reduction**") will be 100,100,250.00 euros, through the retirement of a maximum of 133,467,000 shares of Iberdrola, S.A., each with a nominal value of 0.75 euro, representing not more than 2.094% 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 18 February 2014, the Company may acquire a maximum number of 42,161,696 shares of the Company with a nominal value of 0.75 euro each and representing 0.662% of the share capital of the Company 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 42,161,696 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 the Company, 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, 18 February 2014