



Julián Martínez-Simancas

General Secretary and Secretary of the Board of Directors

Bilbao, March 14, 2011

**To the National Securities Market Commission**

**Re: Execution of a Strategic Memorandum of Understanding with QATAR HOLDING LLC and acquisition of a stake in the share capital of IBERDROLA, S.A. by QATAR HOLDING LUXEMBOURG II S.À R.L.**

Dear Sirs,

Pursuant to the provisions of Section 82 of Law 24/1988, of July 28, on the Securities Market (*Ley 24/1988, de 28 de julio, del Mercado de Valores*) and related provisions, we hereby advise you that the Board of Directors of IBERDROLA, S.A. (hereinafter, “**Iberdrola**” or the “**Company**”) has resolved: (i) to execute a Strategic Memorandum of Understanding with QATAR HOLDING LLC (“**Qatar Holding**”); and (ii) to increase the share capital of the Company with exclusion of pre-emptive rights and to sell treasury stock of the Company to QATAR HOLDING LUXEMBOURG II S.À R.L. (a wholly-owned subsidiary of Qatar Holding) so that it may acquire an interest of 6.16% in the share capital of Iberdrola after the capital increase; all of the foregoing pursuant to the terms outlined below:

**1. EXECUTION OF A STRATEGIC MEMORANDUM OF UNDERSTANDING WITH QATAR HOLDING**

On the date hereof, Iberdrola and Qatar Holding have executed a Strategic Memorandum of Understanding, the purpose of which is the creation and consolidation of a cooperation framework for the development of their respective business activities by means of establishing a strategic long lasting alliance.

In particular, Iberdrola and Qatar Holding will collaborate to develop new business opportunities in different areas of the electricity value chain globally, with special focus on emerging and developing markets.

In this context, Iberdrola intends to establish its headquarters for the Middle East region in the State of Qatar where, among other issues, it will conduct research and development operations (“R&D”).

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## **2. ACQUISITION OF A SHAREHOLDING INTEREST IN THE SHARE CAPITAL OF IBERDROLA BY QATAR HOLDING LUXEMBOURG II S.À R.L.**

In addition, the Board of Directors of the Company has resolved to increase the share capital of Iberdrola with exclusion of pre-emptive rights of existing shareholders and to sell treasury stock of the Company to allow, among other things, the acquisition by QATAR HOLDING LUXEMBOURG II S.À R.L. of a shareholding interest in the share capital of Iberdrola of 6.16% after the capital increase in accordance with the terms outlined below:

### **2.1. Share capital increase**

In exercise of the delegation of powers granted by the General Shareholders' Meeting of Iberdrola held on March 30, 2006, the Board of Directors of the Company has resolved to increase the share capital of Iberdrola for a nominal effective amount of TWO HUNDRED AND FIFTY-THREE MILLION SEVEN HUNDRED SIXTY-FOUR THOUSAND SEVEN HUNDRED AND FIFTY EUROS (253,764,750.00 euros); in accordance with the terms summarized below:

#### **2.1.1. Purpose of the share capital increase**

This share capital increase has two purposes:

- (i) On the one hand, to enable the Company to raise new resources to strengthen its balance sheet and, thus, to reinforce and optimize its capital structure. In particular, this share capital increase is intended to meet the Company's needs to (a) avoid a significant increase of its current financial indebtedness, which could be increased, as it is described below, as a consequence of the future integration of the Brazilian company ELEKTRO ELECTRICIDADE E SERVIÇOS, S.A. (“**Elektro**”) in the Iberdrola group and, if approved, as a result of the merger by absorption of IBERDROLA RENOVABLES, S.A.; and (b) take measures to contribute to the maintenance or improvement of the credit ratings of the Company and, in particular, of those referred to cash flow<sup>1</sup> and, therefore, to preserve or, where appropriate, enhance the current credit ratings of the Company.
- (ii) And, on the other hand, this share capital increase will allow QATAR HOLDING LUXEMBOURG II S.À R.L. to subscribe for an interest in the share capital of Iberdrola.

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<sup>1</sup> Mainly, FFO (funds from operations) / net debt and RCF (retained cash flow) / net debt



***Avoid a significant increase in the current financial indebtedness of the Company and enhancement or maintenance of credit ratings***

Funds raised through this share capital increase will contribute to maintain the indebtedness of the Iberdrola group within reasonable margins, in line with best financial management practices.

In this regard, it should be noted that the indicated level of indebtedness could be significantly increased as a result of the assumption of additional debt by the Company due to: (a) the future integration in the Iberdrola group of the Brazilian company Elektro; and (b) if approved, the merger by absorption of IBERDROLA RENOVABLES, S.A., transactions which were both notified to this National Commission on December 19 and 29, 2010 (registry numbers 136,620 and 136,621) and on March 8, 2011 (registry number 139,847), respectively. In addition, it will be necessary to raise funds to finance the payment of the purchase price of the above referred Brazilian company.

Likewise, funds collected from this share capital increase will be used to mitigate (either totally or in part) the aforementioned risk of downgrade of the credit ratings of the Company and, therefore, to optimize the cost of raising external resources, which, eventually, will facilitate the provision of financing resources to those subsidiaries of the Iberdrola group which may require it.

***Acquisition by QATAR HOLDING LUXEMBOURG II S.À R.L. of an interest in the share capital of Iberdrola***

Finally, this share capital increase will allow QATAR HOLDING LUXEMBOURG II S.À R.L. (a wholly-owned subsidiary of Qatar Holding, as mentioned above) to subscribe for an interest of 5.81% of the ordinary share capital of Iberdrola resulting from its share capital increase, consequently strengthening the establishment of a the strategic stable and long term cooperation with Qatar Holding referred to in section 1 above.

Qatar Holding, a wholly-owned subsidiary of QATAR INVESTMENT AUTHORITY, is a world-class investment corporation and a preferred partner of choice for investors, financiers and other stakeholders. It is envisaged that the already significant investment portfolio of Qatar Holding will continue to grow. Key investments of Qatar Holding include Agricultural Bank of China, Barclays plc, Canary Wharf Group, Credit Suisse, Harrods Group, Hassad Food Company, J Sainsbury plc, London Stock Exchange, Lagardere, Porsche, Qatar Exchange, Qatar Telecom, Qatar National Bank, Banco Santander and Volkswagen AG.



### **2.1.2. Issue price and share premium**

The issue price (face value plus share premium) of each new share of Iberdrola will amount to FIVE EUROS WITH SIX HUNDRED AND THIRTY THREE THOUSANDTHS OF EURO (5.633 euros).

This amount is greater than FIVE EUROS WITH THREE HUNDRED AND THIRTY ONE THOUSANDTHS OF EURO (5.331 euros) (net book value per share of the existing shares of Iberdrola, pursuant to the consolidated financial statements of the Company as of December 31, 2010, which have been audited by the external auditor of the Company) and is equivalent to a discount of 4.784% to the price of the shares of Iberdrola at closing of the trading session of March 10, 2011 and of 5.5% to the price of the shares of Iberdrola at closing of the trading session of March 11, 2011.

The share premium of each new share of Iberdrola will be the result of subtracting to the issue price the face value of each new share (that is, seventy-five cents (EUR 0.75)). Therefore, the share premium for each new share will be FOUR EUROS, WITH EIGHT HUNDRED EIGHTY THREE THOUSANDTHS OF EURO (4.883 euros) per share.

### **2.1.3. Disbursement**

According to the above described structure, the new shares of Iberdrola will be paid-up by cash contributions.

### **2.1.4. Addressee of the share capital increase - Exclusion of pre-emption rights**

The shares are exclusively allocated to QATAR HOLDING LUXEMBOURG II S.À R.L. Therefore, no tender offer in any securities market will be carried out in connection with this issue.

As required by the corporate interest, it has been resolved to eliminate the pre-emption rights of the existing shareholders of the Company, as such elimination is necessary to use the above mechanism, which allows, among other advantages: (a) the investment in the share capital of Iberdrola by Qatar Holding (through QATAR HOLDING LUXEMBOURG II S.À R.L.) as an strategic shareholder; (b) a faster and more flexible implementation of the share capital increase, (c) the avoidance of risks stemming from the fragile situation in international debt markets; and (d) cost savings. For these purposes, the Board of Directors of Iberdrola has drafted the relevant report which will be made available and communicated to shareholders at the time when the next General Shareholders' Meeting is held by the Company.



Additionally, under the applicable rules, the issue price of the shares to be issued must correspond to their fair value. For the purposes of determining the fair value of the shares to be issued, the Company has requested the appointment of an auditor, other than the Company's auditor, in accordance with the provisions of Section 506.4 of the Capital Companies Act.

The Biscay Mercantile Registry has appointed KPMG AUDITORES, S.L. as the auditor other than the auditor of the Company who, having accepted such appointment, has issued under its liability its special report about the fair value of the shares of the Company, the theoretical value of pre-emption rights whose exercise is proposed to be eliminated and the reasonableness of the data contained in the report issued by the Board of Directors of the Company in connection with the share capital increase. Such report has been made available to the Board of Directors of Iberdrola prior to the adoption of the resolution approving the share capital increase and, likewise, will be made available to the Company's shareholders and communicated to the next General Shareholders' Meeting to be held.

In particular, from the above referred special report results an issue price equal to FIVE EUROS WITH SIX HUNDRED AND THIRTY THREE THOUSANDTHS OF EURO (5.633 euros), which is higher to the net book value of each share of Iberdrola.

It is further stated that the Board of Directors has been advised on financial matters by investment banks of renowned international prestige at an international level to determine the issue price.

#### **2.1.5. Rights of the new shares**

Newly-issued shares will be ordinary shares, equal to those currently trading. Such shares will be represented by account entries whose accounting registry is attributed to SOCIEDAD DE GESTIÓN DE LOS SISTEMAS DE REGISTRO, COMPENSACIÓN Y LIQUIDACIÓN DE VALORES, S.A. UNIPERSONAL (IBERCLEAR).

The newly-issued shares of Iberdrola will have the same voting and economic rights as those shares currently trading. In particular, the purchaser of the new shares will be entitled to receive the amounts of dividends and complementary dividend-payments to be satisfied to shareholders of Iberdrola from the date on which the increase is declared to be subscribed for and paid up.



### **2.1.6. Secondary markets where securities are traded. Application for admission to official trading**

Iberdrola will request the admission to official trading of the new shares of the Company issued as a consequence of the share capital increase in the Stock Exchanges of Madrid, Barcelona, Bilbao and Valencia, for its negotiation through the Automated Quotation System (Continuous Market).

### **2.2. Sale of shares of the Company held as treasury stock**

Likewise, upon a resolution of the Board of Directors of the Company, Iberdrola has agreed to sale to QATAR HOLDING LUXEMBOURG II S.À R.L. TWENTY MILLION FOUR HUNDRED THOUSAND (20,400,000.00) shares of Iberdrola held by the Company as treasury stock, representing 0.35% of the ordinary share capital of Iberdrola resulting from the share capital increase referred to in section 2.1 above for an aggregate purchase price of ONE HUNDRED FOURTEEN MILLION NINE HUNDRED THIRTEEN THOUSAND AND TWO HUNDRED EUROS (114,913,200.00 euros).

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

Yours truly,

General Secretary and Secretary of the Board of Directors



## IMPORTANT INFORMATION

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

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

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

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

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