



**IBERDROLA**

**Qatar Holding LLC**

**Entry of a new shareholder**

**Strategic Memorandum of Understanding**

**14 March 2011**

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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 documents sent by Iberdrola, S.A. to the Comisión Nacional del Mercado de Valores, which are accessible to the public.

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**Strategic fit**

**Description of the Strategic Memorandum of Understanding**

**Share capital increase**

**Effect on the merger proposal with Iberdrola Renovables**

**Qatar Holding LLC**

**Conclusions**

**Entry of  
Qatar Holding LLC  
into the  
Shareholders' base**

**Financing of the  
transactions  
underway**

**Share buy-back  
program**

**Improving strategic and financial position**

**Iberdrola has two strategic transactions in progress**

**Reorganisation plan of its Brazilian businesses**

**Acquisition of 100% of Elektro in Brazil: USD 2.9 bn\***

**Possibility of acquiring more assets in the reorganisation**

**Merger with Iberdrola Renovables**

**Extraordinary Dividend\*\* : Eur 981.1 M**

**Financing needs of over Eur 3.0 bn**

(\*) Equity Value + Debt assumption.

(\*\*) Subject to approval by the Board of Iberdrola Renovables (with the abstention of the Directors representing Iberdrola in the Board of Directors) of the payment of an extraordinary dividend in cash and its later approval at the Iberdrola Renovables AGM.

Appropriate financing through a share capital increase to ...

Strengthen the Balance Sheet

Maintain credit ratios

Guarantee the access to credit markets

In a moment  
of fragility in  
the financing  
markets

Growing inflation

Sovereign debt  
of peripheral countries

North Africa situation



Possible increase in  
interest rates in the EU

Moody's downgrading of Spain  
rating from Aa1 to Aa2

Impact on oil price

## Rationale for the transaction

Allows to reinforce interest in Brazil

Acquisition of 100% of Elektro

Adaptation of the Group's financing requirements' timetable

Payment of Elektro in the next weeks

Closing of the merger with Iberdrola Renovables in July\*

With no immediate impact on the ratios A3/A- (negative outlooks)

## Rationale for the transaction

An investor with the aim of stability and a long term horizon

The Strategic Memorandum of Understanding provides access to business opportunities in Middle East and other geographic areas

Shares from the buy-back program will be used in the share exchange for the Iberdrola Renovables merger

Share buy-back program: Up to 247.5 M shares\*

Share buy-back should give support to Iberdrola's share

EPS dilution around 2% after Elektro's acquisition, capital increase and merger with Iberdrola Renovables\*\*

(\*) Subject to the approval of the extraordinary dividend in cash by Iberdrola Renovables' AGM.

(\*\*) Subject to the approval by Iberdrola and Iberdrola Renovables' AGMs.



## The acquisition by Qatar Holding LLC of an interest in Iberdrola's share capital increases Iberdrola's strength

### Seeking opportunities in Brazilian business

- Acquisition of 100% of Elektro (USD 2.9 bn)
- Opportunity to participate actively in the reorganisation

### Iberdrola Renovables merger transaction\*

- Cash component: Eur 981.1 M\*\*
- Share buy-back program up to 247.5 M\* shares due to Iberdrola Renovables share exchange ratio

(\*) Subject to approval by Iberdrola and Iberdrola Renovables' AGMs.

(\*\*) Subject to the approval of the extraordinary dividend in cash by Iberdrola Renovables' AGM.

**The strategic agreement with Qatar Holding LLC offers Iberdrola the possibility to explore potential opportunities**

## **Joint investments in the global electricity sector**

- Latam
- Access to other areas:
  - Middle East
  - Asia (including India)
- Others projects with a strong need for capital

## **Prospects in the State of Qatar**

- Development of energy policy
- Renewable energy
- Electricity developments for the 2022 World Cup
- Electric car

Share capital increase excluding pre-emptive rights to allow Qatar Holding LLC\* to acquire an interest in the share capital of Iberdrola

6.17% IBE capital pre-increase\*\*  
5.81% post-increase

338.4 million shares\*\*\*

Eur 1,905.9 M

Share price: Eur 5.633  
5.5% discount on closing price of 11 March 2011\*\*\*\*

Sale of treasury stock representing 0.37% of capital pre-increase  
(final stake reaches 6.16%)

(\*) Through Qatar Holding Luxembourg II S.à.r.l. (100% subsidiary of Qatar Holding LLC).

(\*\*) Based on number of shares outstanding as at 11-mar-2011.

(\*\*\*) Approximately

(\*\*\*\*) 4.784% on closing price on 10 March 2011

## Share buy-back program

To attend the share exchange with Iberdrola Renovables:  
Buy-back up to 247.5 M shares

### Iberdrola Offer

#### Proposal:

- 0.50069760 Iberdrola shares for each Iberdrola Renovables share

Iberdrola Renovables  
General  
Shareholders'  
Meeting

Approval

Extraordinary dividend charged to share premium reserve of at least 40% of the Iberdrola offer price\*

### Iberdrola Renovables Shareholders

#### Received:

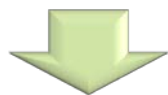
- Extraordinary dividend equivalent to 40% of the adjusted valuation of Iberdrola Renovables shares (Eur 2.978/share)
- New exchange ratio: 0.30041856 Iberdrola shares for each Iberdrola Renovables share

(\* ) Subject to approval by the Board of Iberdrola Renovables (with the abstention of the Directors representing Iberdrola in the Board of Directors) of the payment of an extraordinary dividend in cash and its later approval at the Iberdrola Renovables AGM.

Qatar Holding LLC is the investment vehicle of Qatar Investment Authority (QIA), which manages the resources coming from Qatar's gas and oil

USD 85 bn assets under management\*

Target: diversification of the country's economy, through worldwide investments in different sectors that provide



Strategic benefits to the State of Qatar



Long term financial profitability

Investments in Barclays, Credit Suisse, Santander Brazil, Agricultural Bank of China, London Stock Exchange, Harrods, Hochtief, Sainsbury, Porsche-Volkswagen, Lagardere.

### **Opportunity to raise funds and deepen the strategic development**

**Financing of the  
two strategic  
operations  
underway**

**Maintaining  
A3/A- rating**

**Minimum dilution  
after Elektro  
acquisition, capital  
increase and  
merger with IBR**