



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

Bilbao, 20 November 2012

**To the National Securities Market Commission**

**Re: Approval of the second implementation of the paid-up capital increase approved by the shareholders acting at the General Shareholders' Meeting of Iberdrola, S.A. of 22 June 2012 and of the relevant information memorandum (*documento informativo*)**

Dear Sirs,

Pursuant to article 82 of Law 24/1988, of 28 July, on the Securities Market (*Ley 24/1988, de 28 de julio, del Mercado de Valores*) and related provisions, we are pleased to inform you that the Board of Director of Iberdrola, S.A. has decided at its meeting held today to carry out the second implementation of the paid-up capital increase, approved by the shareholders acting at the General Shareholders' Meeting of Iberdrola, S.A. held on 22 June 2012 under item six on the agenda (the "**Second Implementation**").

Likewise, and for the purposes of articles 26.1.e) and 41.1.d) of Royal Decree 1310/2005, of 4 November, we provide you, attached hereto as an annex, with the information memorandum (*documento informativo*) approved by the Board of Directors of Iberdrola, S.A. in the aforementioned meeting regarding the Second Implementation.

Yours faithfully,

The 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 exception 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 on its entirety by the cautionary statement above. All the 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.



**Annex**

**Information memorandum relating to the second implementation of the paid-up capital increase approved by the shareholders of Iberdrola, S.A. acting at the General Shareholders' Meeting of 22 June 2012**

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.

**INFORMATION MEMORANDUM RELATING TO THE SECOND IMPLEMENTATION OF THE PAID-UP CAPITAL INCREASE APPROVED BY THE SHAREHOLDERS AT THE GENERAL SHAREHOLDERS' MEETING OF IBERDROLA OF 22 JUNE 2012**

**1. PURPOSE**

**1.1. Background**

At the General Shareholders' Meeting of Iberdrola, S.A. (hereinafter, "**Iberdrola**" or the "**Company**") held on 22 June 2012, the shareholders approved, under item six on the agenda (the "**Shareholders' Resolution**"), an increase in wholly paid-up share capital with a charge to the reserves contemplated in article 303.1 of the Companies Act (*Ley de Sociedades de Capital*), by means of the issuance of ordinary shares for the free allocation thereof to the shareholders of the Company (the "**Capital Increase**").

Under the Shareholders' Resolution, the maximum market value of reference of the Capital Increase would be 2,018 million euros and it could be implemented within one year following approval thereof, on one or at most two occasions, without such market value of reference exceeding 1,012 million euros on the first implementation, and 1,006 million euros on the second implementation, if carried out.

Moreover, by means of the Shareholders' Resolution, the following powers were delegated in favour of the Board of Directors, with express substitution powers and in accordance with article 297.1.a) of the Companies Act: (i) to determine the date or dates, within one year following the approval of the Shareholders' Resolution, on which the Capital Increase should take place; (ii) to determine in each implementation the specific discount to be applied within the range established in the Shareholders' Resolution –as further explained below– to calculate the number of rights needed to obtain a new share; (iii) to determine in each implementation the reserves, among those included in the Shareholders' Resolution, with a charge to which each implementation of the Capital Increase and the acquisition by the Company of the free allocation rights pursuant to the purchase commitment assumed by Iberdrola will be carried out; (iv) to determine in each implementation, within the boundaries set forth the Shareholders' Resolution, the object of such purchase commitment; and (v) to establish the conditions of the Capital Increase in all matters not provided in the Shareholders' Resolution.

In this regard, the Board of Directors of the Company approved, on 22 June 2012, the first implementation of the Capital Increase, in connection with what would otherwise have been the supplemental payment of the dividend for the fiscal year ended on 31 December 2011. The aforementioned resolution was supplemented by a resolution adopted by the Board of Directors of Iberdrola at its meeting held on 29 June 2012, which modified the object of the



purchase commitment approved at its meeting held on 22 June 2012, and by the decisions adopted by the chairman and chief executive officer of the Company on 2 July 2012, which set the maximum number of shares that could be issued on the first implementation of the Capital Increase, at 284,422,142 ordinary shares. In addition, on 19 July 2012, the chairman and chief executive officer of Iberdrola, in exercise of the powers delegated under the resolutions adopted by the Board of Directors at its meeting of 22 June 2012, completed and declared closed the first implementation of the Capital Increase, increasing the share capital of Iberdrola by a nominal amount of 124,521,000 euros, through the issuance and flotation of 166,028,000 new shares with a nominal value of 0.75 euros each, with no share premium.

Likewise, upon a proposal of the Executive Committee, the Board of Directors of the Company has approved, on the date hereof, the second implementation of the Capital Increase, in connection with what would otherwise have been the the interim payment of the dividend for the fiscal year ended on 31 December 2012 had the “Iberdrola Flexible Dividend” system not been implemented (the “**Second Implementation**”). In addition, the Board of Directors has decided to set the maximum market value of reference for the Second Implementation in 919 million euros. This amount is within the limits established in the Shareholders’ Resolution in connection with the Second Implementation.

All the foregoing without prejudice to the payment of an ordinary dividend in a gross amount of 0.03 euros per share of Iberdrola that was approved by the shareholders acting at the General Shareholders’ Meeting of the Company under item five of the agenda and that took place on 4 July 2012.

## 1.2. Purpose

Pursuant to the provisions of articles 26.1.e) and 41.1.d) of Royal Decree 1310/2005, of 4 November, the issuance and the admission to trading of the new shares of Iberdrola issued on this Second Implementation shall not require the preparation or publication of a prospectus relating thereto, *“provided that there is a document available containing information regarding the number and types of shares and the rationale for and details of the offer.”*

In view of the foregoing, Iberdrola issues this information memorandum, the purpose of which is to provide all of the information referred to in the preceding paragraph that is available on the date of issuance thereof with respect to the Second Implementation. Upon determination of the number of free allocation rights needed to allocate one new share of Iberdrola, as well as the fixed price for the purchase of such rights under the purchase commitment assumed by the Company, this information will be made available to the public by means of a supplement to this memorandum that shall be published through a notice of a significant event (*comunicación de hecho relevante*) that is expected to occur on 28 December 2012. In addition, once the Second Implementation has been completed and all of the remaining information is available, it will be made available to the public by means of the

corresponding notice of significant event. It is expected that this notice regarding the completion of the Second Implementation will take place on 18 January 2013.

## **2. REASONS FOR THE CAPITAL INCREASE AND PROCEDURE FOR THE SECOND IMPLEMENTATION**

### **2.1. Reasons for the Capital Increase**

The Capital Increase was approved by the shareholders at Iberdrola's General Shareholders' Meeting in order to implement, for the third consecutive year, a system for compensating shareholders in a flexible and efficient manner, called "Iberdrola Flexible Dividend" ("*Iberdrola Dividendo Flexible*"). Through this system, which was implemented by the Company for the first time in the fiscal year 2010, Iberdrola intends to:

- (i) give its shareholders the ability to decide whether they prefer to receive all or a portion of their compensation of the system in cash or in new paid-up shares of the Company;
- (ii) allow those shareholders who so desire to benefit from the favourable tax treatment applicable to paid-up shares, without in any way limiting their ability to receive the amount of the compensation to which they are entitled in cash; and
- (iii) improve its policy for compensating shareholders in line with recent transactions carried out by other domestic and international companies.

In particular, on this Second Implementation, Iberdrola hopes to achieve these goals on occasion of what would otherwise have been the traditional interim payment of the dividend for the fiscal year 2012.

### **2.2. Procedure for the Second Implementation**

Pursuant to the terms provided for each implementation of the Capital Increase, and thus for this Second Implementation, the Company's shareholders will receive one free allocation right for each share of Iberdrola that they hold. These rights will be traded on the Bilbao, Madrid, Barcelona and Valencia Stock Exchanges between 3 January and 17 January 2012, both inclusive. At the end of this period, the free allocation rights shall be automatically converted into newly-issued shares of the Company.

As a new feature of this flexible compensation system vis-à-vis prior years, 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 allocation rights on the market, the Shareholders' Resolution sets forth the application of a discount, ranging between 0% and 10% of the listing price taken as a reference to calculate the number of free allocation rights needed to obtain a new share; all in line with the practice adopted by other European listed companies.



Additionally, the Shareholders' Resolution delegates to the Board of Directors the power to determine, with respect to each implementation of the Capital Increase, the discount rate to be applied within the referred range. Taking into account the current market conditions, the Board of Directors has resolved, in its meeting held today, to apply a discount rate of 0% (the "**Discount**").

In addition, in order that the shareholders that decide to transfer their free 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 such Discount, the Shareholders' Resolution also sets forth the assumption of a commitment by the Company to guarantee that the Purchase Price (as this term is defined below) will at no time be lower than that they would have received if the discount rate was 0%.

Under the "Iberdrola Flexible Dividend" system, the shareholders of Iberdrola will be able to freely choose among<sup>1</sup>:

- (a) Not transferring their free allocation rights. In this case, at the end of the trading period, the shareholders will receive the number of new totally paid-up shares to which they are entitled.
- (b) Transfer all or a portion of their free allocation rights to Iberdrola pursuant to the purchase commitment assumed under this Second Implementation and which will be referred to later in this document. In this way, the shareholders may choose to monetise their rights and receive an amount equal to the interim payment of the dividend for the fiscal year ended on 31 December 2012 that Iberdrola would have proceeded to distribute in the event that this system had not been implemented.
- (c) Transfer all or a portion of their free allocation rights on the market. In this case, the shareholders may also choose to monetise their rights, although in this case they would not receive a guaranteed fixed price, but rather the consideration for the rights would depend on market conditions in general, and on the listing prices for such rights in particular.

The shareholders of the Company will be able to combine any of the alternatives mentioned in paragraphs (a) through (c) above based on their needs. In this regard, it should be kept in mind that such alternatives will be subject to differing tax treatment.

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<sup>1</sup> The options available to the holders of American Depositary Receipts ("**ADRs**") or CREST Depositary Interests ("**CDIs**") may have special characteristics with respect to the options described herein given the terms and conditions applicable to the programs in which they participate.

For its part, and pursuant to the Shareholders' Resolution, Iberdrola has made an irrevocable commitment to acquire the free allocation rights at a fixed price. In turn, the Board of Directors is empowered to determine the extension of such commitment between the following two alternatives: (i) the free allocation rights received without a charge by the shareholders, excluding such rights as have been transferred on the market; or (ii) all of the free allocation rights, regardless of whether the holders thereof have received them from the Company without a charge or have acquired them on the market.

In the exercise of such powers and taking into account the current market conditions, the Board of Directors has resolved at its meeting held today that the referred purchase commitment will be extended to every free allocation right, regardless of whether the holders (i) have received them from the Company for appearing legitimated in the book-entry records of the *Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal (IBERCLEAR)* at 11:59 p.m. Madrid time on the date of the publication of the announcement of the Second Implementation in the Official Bulletin of the Commercial Registry or (ii) have acquired them on the market.

The fixed price at which Iberdrola will acquire such rights, which will be calculated prior to the commencement of the trading period for the free allocation rights<sup>2</sup> in accordance with the formula set forth below, allows the Company to guarantee its shareholders the ability to monetise their rights if they do not want to receive new shares. In this regard, it is estimated that the referred fixed price of the purchase commitment would amount to, approximately, 0.140 gross euros per right. This purchase commitment will take effect and may be accepted between 3 January and 14 January 2013, both inclusive.

The acquisition by Iberdrola of the free allocation rights as a consequence of the exercise of such purchase commitment in the Second Implementation shall be made with a charge to the unrestricted reserves account called "Voluntary Reserves" ("*Reservas Voluntarias*").

Specifically, the number of free allocation rights needed to receive one new share, as well as the fixed price for the purchase of such rights under such purchase commitment, will be calculated as follows:

- The number of free allocation rights required to receive one new share of Iberdrola will be the number resulting from the application of the following formula, rounded to the next highest whole number:

$$\text{Num. rights} = \text{TNShrs.} / \text{Provision num. of shrs.}$$

where,

<sup>2</sup> The calculation of this fixed price will occur on 28 December 2012.





“**Num. rights**” = Number of free allocation rights needed for the allocation of one new share of Iberdrola under the Second Implementation.

“**TNShrs**” = Number of outstanding shares of Iberdrola on the date of the Second Implementation<sup>3</sup>. For the purposes hereof, the “**date of the Second Implementation**” shall be that date on which the Executive Committee, or the chairman and chief executive officer of the Company, pursuant to the delegation of powers made by the Board of Directors at its meeting held today, performs the arithmetical calculations arising from the application of the formulas referred to herein in order to calculate the provisional number of shares to be issued, the number of free allocation rights needed for the allocation of one share, the “**ListPri**,” and the maximum nominal amount of the Capital Increase as a result of the Second Implementation, which is expected to occur on 28 December 2012.

“**Provisional num. of shrs.**” =  $919,000,000 / \text{ListPri}$ .

For these purposes, “**ListPri**” will be the arithmetic mean of the average weighted listing prices of the Company’s shares on the Bilbao, Madrid, Barcelona and Valencia Stock Exchanges at the five trading sessions corresponding to 19, 20, 21, 24 and 27 December 2012, as such average appears in a certification to be issued by the Governing Company (*Sociedad Rectora*) of the Bilbao Stock Exchange, rounded to the closest one-thousandth part of one euro. Given that the Discount adopted by the Board of Directors is 0%, it is not necessary to make any kind of corrections to the amount calculated in such a way.

The number of free allocation rights required to receive one new share of Iberdrola under this Second Implementation based on the application of this formula will be specified in a supplement to this memorandum, which is expected to be delivered to the National Securities Market Commission on 28 December 2012 by means of a notice of significant event.

If necessary, Iberdrola will waive the number of free allocation rights needed for the number of new shares to be a whole number and not a fraction. In such event, there will be an incomplete allocation of the portion of the Capital Increase implemented by means of the Second Implementation, and the share capital will be increased solely by

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<sup>3</sup> There are 6,138,893,000 outstanding shares of Iberdrola on the date of publication of this information memorandum.

the amount of free allocation rights that have not been waived, pursuant to the provisions of article 311 of the Companies Act.

- The purchase price of the free allocation rights under the purchase commitment made by Iberdrola will be calculated in accordance with the following formula (rounded to the closest one-thousandth part of one euro and, in case of a half of a thousandth part of one euro, to the next higher one-thousandth part of one euro):

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

where “**ListPri**” and “**Num. rights**” have the meaning provided above.

Given that the Discount has been determined to amount 0%, the adjustments set forth in the Shareholders’ Resolution for the calculation of the Purchase Price do not apply.

### **3. DETAILS OF THE SECOND IMPLEMENTATION**

#### **3.1. Timetable**

The timetable for the Second Implementation will be as follows:

- 28 December 2012      • Notice of significant event regarding the number of free allocation rights required to receive one newly-issued share and the guaranteed fixed price of the commitment assumed by Iberdrola to purchase free allocation rights.
- 2 January 2013      • Publication of the announcement of the Second Implementation in the Official Gazette of the Commercial Registry (*Boletín Oficial del Registro Mercantil*).
  - Record date for the assignment of free allocation rights (11:59 p.m. Madrid time).
- 3 January 2013      • Commencement of the trading period for the free allocation rights and of the period to request compensation in cash under the purchase commitment assumed by Iberdrola.
- 14 January 2013      • End of the period to request compensation in cash under the purchase commitment assumed by Iberdrola.
- 17 January 2013      • End of the trading period for the free allocation rights. Acquisition by Iberdrola of the free allocation rights to shareholders who have elected to receive cash under the



purchase commitment assumed by Iberdrola.

- 22 January 2013      • Payment of cash to shareholders who have elected to receive cash under the purchase commitment assumed by Iberdrola.
- 24 January 2013      • Assignment of the registry-references regarding the newly-issued shares to be issued under the Second Implementation.
- 25 January 2013      • Expected commencement of trading of the newly-issued ordinary shares begins to be issued under the Second Implementation.

Both the period for accepting the commitment to purchase the free allocation rights as well as the scheduled dates for actual payment of cash and delivery of shares may be different for holders of ADRs (in the United States) and CDIs (in the United Kingdom) representing shares of the Company.

### **3.2. Allocation of free allocation rights and procedure for choosing cash or new shares of the Company**

The free allocation rights will be allocated to those appearing in the book-entry records of *Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal (IBERCLEAR)* at 11:59 p.m. Madrid time on 2 January 2013. The free allocation rights will be traded on the Bilbao, Madrid, Barcelona and Valencia Stock Exchanges through the Automated Quotation System (Electronic Market) between 3 January and 17 January 2013. During such term, a sufficient number of free allocation rights may be acquired on the market in the proportion required to receive new shares<sup>4</sup>.

During the period for trading the free allocation rights, shareholders may choose between receiving newly-issued shares of the Company or an amount in cash equal to what, if applicable, they would have been entitled to under the traditional interim payment of the dividend for the fiscal year 2012 if the “Iberdrola Flexible Dividend” system had not been implemented, all upon the terms described above, as well as acquiring sufficient free allocation rights on the market in the proportion required to subscribe new shares. However,

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<sup>4</sup> Shareholders that do not have free allocation rights in a number sufficient to receive one new share under this Second Implementation may: (a) acquire on the market a sufficient number of free allocation rights which, added to those already held by them, give them the right to receive one new share; (b) transfer all or part of their free allocation rights to Iberdrola under the purchase commitment at a guaranteed fixed price; or (c) transfer all or part of their free 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).

shareholders who wish to accept the irrevocable commitment assumed by Iberdrola to purchase the free allocation rights, in the terms described above, and thus receive an amount in cash, equal to the fixed and guaranteed purchase price, to which they are entitled, must communicate their decision to the entity with which their shares are deposited no later than 14 January 2013.

In order to choose from among the options that Iberdrola is offering on occasion of the Second Implementation, shareholders must contact the entities with which their shares and corresponding free allocation rights are deposited within the periods set forth in the preceding paragraph. A failure to make an express decision will cause the shareholder to receive a number of new shares in proportion to their totally paid-up shares.<sup>5 6</sup>

### **3.3. Expenses and fees**

This Second Implementation is made free of expenses and fees with respect to the allocation of newly-issued shares. Iberdrola will assume the expenses of issuance, subscription, flotation, admission to trading and other expenses relating to the Second Implementation.

Without prejudice to the foregoing, the shareholders of the Company must bear in mind that the member entities of the *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 legislation, establish such pass-through management fees and expenses as they may freely determine as a consequence of maintaining the securities in their book-entry registries. Likewise, such member entities may, pursuant to applicable legislation, establish such pass-through fees and expenses as they may freely determine for the processing of orders to purchase and sell free allocation rights.

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<sup>5</sup> However, as regards the conditions described in this paragraph, the holders of ADRs and CDIs must comply with the particularities of the programs in which they participate.

<sup>6</sup> It is possible that, at the end of the trading period for the free allocation rights, the number of rights possessed by a particular holder is a number that, taking into account the calculation formulas referred to in this document, does not give such holder the right to receive a whole number of shares. In such case, the entity with which the holder of the free allocation rights has deposited them may sell the number of rights resulting in a fraction of a new share, such that the holder will receive the proceeds from the sale in cash and will not lose the intrinsic value of such rights. Notwithstanding the foregoing, this possibility is subject to the terms and conditions of the securities deposit and management agreement signed with the depository entity in question or the instructions that the holder of the rights has given thereto.

#### 4. NUMBER AND NATURE OF THE SHARES

##### 4.1. Maximum number of shares to be issued in the Second Implementation

The maximum number of shares to be issued as a result of the Second Implementation will be the result of the formula approved by the shareholders at Iberdrola's General Shareholders' Meeting, which is set forth below (the result to be rounded to the next lower integer):

$\text{NNS} = \text{TNshrs} / \text{Num. rights}$
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where,

“NNS” = Maximum number of new shares to be issued; and

“TNShrs” and “Num. shares” have the meanings set forth above.

In any event, in accordance with the text of the Shareholders' Resolution, as well as the resolution of the Board of Directors of the Company approved at its meeting held on the date hereof, the maximum number of shares to be issued in the Second Implementation shall be such that the reference market value of such shares (calculated at the “ListPri”) will in no event be greater than 919 million euros.

It is expected that the maximum number of new shares to be issued will be publicly disclosed on 28 December 2012 by means of a supplement to this information memorandum.

However, the number of shares actually issued will depend on the number of shareholders who decide not to transfer their free allocation rights. Iberdrola will waive the new shares corresponding to the free allocation rights acquired by application of the above-referenced purchase commitment<sup>7</sup>. In any event, the final number of shares to be issued within the context of the Second Implementation will be made available to the public on a timely basis by means of a notice of significant event regarding the close of this Second Implementation, the publication of which is expected to occur on 18 January 2013.

Attached hereto as an annex to this memorandum is an example of the calculation of the maximum number of shares that would be issued on this Second Implementation, of the number of free allocation rights required for the allocation of a new share, and of the purchase

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<sup>7</sup> In addition, in the event that the number of outstanding Iberdrola shares after deducting the shares corresponding to the free allocation rights acquired by Iberdrola pursuant to the purchase commitment (which Iberdrola will waive pursuant to the Shareholders' Resolution) is a fraction, Iberdrola will also waive that number of its free allocation rights that are required for the number of new shares ultimately issued under the Second Implementation to be a whole number and not a fraction.

price of each free allocation right corresponding to the irrevocable purchase commitment made by Iberdrola.

#### **4.2. Rights attaching to the new shares**

The new shares to be issued in the Second Implementation will be ordinary shares having a par value of 0.75 euros each, of the same class and series as those currently outstanding, for which reason the capital increase effected by means of this Second Implementation will be made at par, and therefore without a share premium. The new shares to be issued will be 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)*.

The new shares will grant the holders thereof the same political and financial rights as the ordinary shares of Iberdrola currently outstanding as from the date that the portion of the Capital Increase implemented in the Second Implementation is declared to be subscribed and paid up. In particular, the holders of the new shares will be entitled to receive the interim dividends and supplemental dividend amounts, if any, that are paid as from the date that the portion of the Capital Increase implemented in this Second Implementation is declared to be subscribed and paid up.

#### **4.3. Balance sheet and reserve with a charge to which the Second Implementation is carried out**

The balance sheet used as a basis for the Second Implementation is the one for the fiscal year ended 31 December 2011, which has been audited by Ernst & Young, S.L., and which was approved by the General Shareholders' Meeting of Iberdrola held on 22 June 2012, under item one on the agenda.

The Second Implementation will be carried out with a charge to the reserve called "RDL Update 7/1996" ("*Actualización RDL 7/1996*"), which, as of 31 December 2011, amounted to 1,170,551,195.24 euros.

Likewise, it is expressly stated that, as of the date hereof, the aforementioned reserve amounts to 978,248,945.24 euros, and that the difference between the two amounts (192,302,250.00 euros) is solely due to (i) the partial appropriation of such balance to pay up the second implementation of the paid-up capital increase approved by the shareholders acting at the General Shareholders' Meeting of the Company held on 27 May 2011 under item six of its agenda, which was formalised in January 2012 and (ii) the partial appropriation of such balance to pay up the first implementation of the Capital Increase, which was formalised in July 2012.

#### **4.4. Shares on deposit**

At the end of the period for trading the free allocation rights (*i.e.*, at the end of the trading session on 17 January 2012), the new shares that could not be allocated for reasons not attributable to Iberdrola will be maintained on deposit for disposition by the parties who show that they are the rightful owners of the corresponding free allocation rights. After the passage of three years from the date of completion of such trading period for the free allocation rights (*i.e.*, at the close of the trading session for 18 January 2016 -since 17 January 2016 is a non-trading day-), the new shares that are still pending allocation may be sold in accordance with the provisions of article 117 of the Companies Act, for the account and risk of the interested parties. The cash amount of such sale shall be deposited with *Banco de España* or *Caja General de Depósitos*, and will be available to the interested parties.

#### **4.5. Admission of the new shares to trading**

Iberdrola will make application for the trading of the new shares to be issued as a consequence of this Second Implementation on the Bilbao, Madrid, Barcelona and Valencia Stock Exchanges, through the Automated Quotation System (Electronic Market), and will carry out such acts and formalities as are required for the admission of the new shares to trading.

#### **4.6. Tax treatment**

On the occasion of the implementation of the “Iberdrola Flexible Dividend” system, the Company submitted a binding consultation to the General Tax Directorate (*Dirección General de Tributos*) (the “**GTD**”) regarding the tax treatment applicable to the Iberdrola shareholders in Spain that was filed with the referred body on 23 November 2009. Such consultation was answered by the GTD on 27 April 2010, and, in turn, was clarified by the GTD —at Iberdrola’s request— on 1 October 2010.

The treatment that derived from the answer to such consultation is as follows (which has not been modified since the date of issuance of the mentioned consultation for shareholder residing in the common territory (*territorio común*) as well as for non-residents; however, it must be kept in mind that the Historic Territories of Bizkaia and Araba/Álava (*Territorios Históricos de Bizkaia y Araba/Álava*) have made an amendment to the foral rules of the Personal Income Tax (*Impuesto sobre la Renta de las Personas Físicas*) (“**IRPF**”), regulating this type of operations):

Pursuant to the Spanish tax legislation, both in the common territory and in the Historic Territories of the Basque Country (*Territorios Históricos del País Vasco*) and in the Autonomous Region of Navarre (*Comunidad Foral de Navarra*), shareholders who choose to receive newly-issued shares as a consequence of the Capital Increase will not be subject to taxation for the purposes of the **IRPF**, of the Corporate Income Tax (*Impuesto sobre Sociedades*) (“**IS**”) nor 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. Furthermore they will not be subject to any withholdings or payments on account.

The acquisition value for these shareholders of both the new shares received as a consequence of the Capital Increase and the shares from which they derive will result from distributing the total cost of acquisition among the number of securities (both those existing and those issued as paid-up shares corresponding thereto). Such paid-up shares belonging to those shareholders 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 amount obtained will be calculated with reference to this 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 allocation rights on the market is subject to the same treatment that tax regulations provide for pre-emptive rights. Accordingly, the amount obtained in the transfer of the free allocation rights decreases 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 the foregoing without prejudice to the potential application to taxable persons of the IRNR acting without a permanent establishment of the treaties subscribed by Spain for the avoidance of double taxation and the prevention of tax evasion on Income Tax and to those to whom they may be entitled.

For individual shareholders residing in the Historic Territories of Bizkaia or Araba/Álava the transfer of the free allocation rights shall be deemed as a capital gain as from 1 January 2012.

- 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, in such case, to the special regimes applicable to the shareholders subject to the above referred taxes.

In the event that the holders of such free allocation rights, with respect to which the Company has made the purchase commitment, decide to use the purchase commitment assumed by Iberdrola, the tax treatment applicable to the amount received for the transfer to the Company of their free 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 taxation.

It should be borne in mind that this analysis (which has been performed on the basis of concrete assumptions) does not cover all the possible tax consequences of this Second Implementation. Specifically, the consequences that may arise for those shareholders who are not resident in Spain for fiscal purposes are not detailed. Therefore, it is recommended that attention be paid to any amendments that may be made both to the law applicable as of the date of this memorandum and to the rules for interpretation thereof and to any changes that may occur in the circumstances of each shareholder or holder of free allocation rights.

The holders of ADRs and CDIs representing shares of the Company are advised to consult with their tax advisors before making a decision in connection with the Capital Increase.

Finally, it must be noted that new rules on taxation are expected to come into force prior to 31 December 2012 which, occasionally, could affect the above mentioned tax treatment. The various draft rules processed at the Spanish Congress and Senate do not include, as of the date hereof, any proposal that alters the referred regime, nor is there any rule being processed at the various Regional Governments of the Basque Country (*Diputaciones Forales de País Vasco*) or at the Autonomous Region of Navarre (*Comunidad Foral de Navarra*) that anticipates its modification.

## **5. SUPPLEMENTS TO THIS INFORMATION MEMORANDUM**

As indicated in the preceding sections, a portion of the information regarding the Second Implementation is not available on the date of issuance of this memorandum. Specifically, the number of shares required to receive one share, as well as the final price of the commitment by Iberdrola to purchase each free allocation right pursuant to the referred commitment will be published by means of a supplement to this memorandum which will be made available to the public by means of a notice of significant event which is expected to occur on 28 December 2012. In turn, as soon as the Second Implementation is closed and all of the remaining information is available, such information will be made available to the public by means of a corresponding notice of significant event. It is expected that such notice regarding this Second Implementation will occur on 18 January 2013.

Both this memorandum as well as the supplement hereto will be available on Iberdrola's corporate website ([www.iberdrola.com](http://www.iberdrola.com)) and on the website of the National Securities Market Commission ([www.cnmv.es](http://www.cnmv.es)) as from the day of their publication.



In Bilbao, on 20 November 2012.

Iberdrola, S.A.

By

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

**ANNEX**

**SAMPLE CALCULATION OF THE MAXIMUM NUMBER OF NEW SHARES TO BE ISSUED, OF THE MAXIMUM NOMINAL AMOUNT OF THE SHARE CAPITAL INCREASED IN THE SECOND IMPLEMENTATION, OF THE NUMBER OF FREE ALLOCATION RIGHTS FOR THE ALLOCATION OF ONE NEW SHARE, AND OF THE PURCHASE PRICE THEREOF**

For the sole purpose of facilitating and understanding the calculation, included below is a sample calculation of the maximum number of new shares to be issued, of the maximum nominal amount of the share capital increased in the Second Implementation, of the number of free allocation rights required for the allocation of one new share, and of the Purchase Price under the commitment made by Iberdrola.

The results of these calculations are not representative of the results that may actually be obtained as a consequence of the implementation of this Second Implementation, which will depend on the different variables used in the formulas.

Merely for purposes of this example:

- The TNShr is 6,138,893,000 (number of shares of Iberdrola as of the date of this information memorandum).
- The Exercised Option Amount is 919,000,000 euros.
- A ListPri of 3.955 euros is assumed (solely for purposes of this example, a listing price per share of Iberdrola as of the close of trading on 19 November 2012 has been used). Given the 0% Discount, none of the additional adjustments to calculate ListPri apply.

Therefore:

Provisional num. shrs. = Exercised Option Amount / ListPri =  $919,000,000 / 3.955 = 232,364,096.0809102 \approx 232,364,096$  (rounded down)

Num. rights = TNShrs / Provisional num. shrs. =  $6,138,893,000 / 232,364,096 = 26.4192838 \approx 27$  (rounded up)

NNS = TNShrs / Num. rights =  $6,138,893,000 / 27 = 227,366,407.4074074 \approx 227,366,407$  (rounded down)

Therefore, in this example: (i) the maximum number of new shares to be issued in this Second Implementation would be 227,366,407, (ii) the maximum nominal amount of increased capital in this Second Implementation would come to 170,524,805.25 euros ( $227,366,407 \times$

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0.75), and (iii) 27 free allocation rights (or existing shares) would be required for the allocation of a new share<sup>8</sup>.

The Purchase Price would be calculated in accordance with the following formula (rounding the result to the closest one-thousandth of a euro):

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

where:

$$\text{Purchase Price} = 3.955 / (27 + 1) = 0.1412500 \text{ euros} \approx 0.141 \text{ euros}$$

Given the 0% Discount, it is not necessary to apply any adjustments to the Purchase Price obtained from the formula above.

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<sup>8</sup> In this sample calculation, Iberdrola should waive 11 free allocation rights corresponding to 11 shares of the Company for the number of new shares to be issued to be a whole number.

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