

Bilbao, February 22, 2010

**To the National Securities Market Commission**

**Re: Resolutions adopted by the Board of Directors regarding the preparation of the Annual Accounts and the call for the General Shareholders' Meeting**

Dear Sirs,

We hereby advise you that, on the date hereof, the Board of Directors of Iberdrola, S.A. (the "**Company**") has unanimously adopted, among others that are not inconsistent therewith, the following resolutions:

- I.** To prepare the Annual Financial Statements (Balance Sheet, Profit and Loss Statement, Statement of Changes in Shareholders' Equity, Statement of Cash Flows and Notes) the management report and the proposal for the allocation of the profits/losses of the Company as well as the consolidated Annual Financial Statements (Balance Sheet, Profit and Loss Statement, Statement of Changes in Shareholders' Equity, Statement of Cash Flows and Notes) and the consolidated management report of the Company and its controlled companies for fiscal year 2009. The proposed allocation of profits comprises the payment of the amount on account of the dividend corresponding to fiscal year 2009 of the amount of Euro 0.143 gross per share paid on December, 30, 2009.
- II.** To acknowledge the resignation of Mr. José Orbegozo Arroyo and Mr. Lucas María de Oriol López-Montenegro as Directors of the Company.
- III.** To call for the General Shareholders' Meeting to be held on March 26 or 27 on first and second call, respectively, with the following agenda:

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

**One.-** Approval of the individual annual financial statements of IBERDROLA, S.A. (balance sheet, profit and loss statement, statement of changes in shareholders' equity, statement of cash flows, and notes) and of the consolidated financial statements of IBERDROLA, S.A. and its subsidiaries (balance sheet, profit and loss statement, statement of changes in shareholders' equity, statement of cash flows, and notes) for the fiscal year ended on December 31, 2009.

**Two.-** Approval of the individual management report of IBERDROLA, S.A. and of the consolidated management report of IBERDROLA, S.A. and its subsidiaries for the fiscal year ended on December 31, 2009.

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**Three.-** Approval of the management and actions of the Board of Directors during the fiscal year ended on December 31, 2009.

**Four.-** Re-election of the auditor of the Company and of its Consolidated Group for fiscal year 2010.

**ITEMS RELATING TO SHAREHOLDER COMPENSATION:**

**Five.-** Approval of the proposal for the allocation of profits/losses and the distribution of dividends for the fiscal year ended on December 31, 2009.

**Six.-** Approval, for the free-of-charge allocation of the ordinary shares issued to the shareholders of the Company, of an increase in share capital by means of a scrip issue at a maximum reference market value of one thousand eight hundred sixty-six (1,866) million euros. The shareholders will be offered the acquisition of their free-of-charge allocation rights at a guaranteed price. Express provision for the possibility of an incomplete allocation. Application for admission of the resulting shares to listing on the Bilbao, Madrid, Barcelona and Valencia Stock Exchanges, through the Automated Quotation System (*Sistema de Interconexión Bursátil*). Delegation of powers to the Board of Directors, with the express power of substitution, including the power to implement the capital increase by means of a scrip issue on one or, at most, two occasions (provided always that the reference market value shall not exceed one thousand forty-eight (1,048) million euros in the first installment of the implementation or eight hundred eighteen (818) million euros in the second installment, if any) and the power to amend Article 5 of the By-Laws in each of the installments.

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

**Seven.-** Renewal of the Board of Directors.

**7.1.- Filling of vacancies:**

- a) Appointment of Ms. María Helena Antolín Raybaud as Director, with the status of external independent Director.
- b) Appointment of Mr. Santiago Martínez Lage as Director, with the status of external independent Director.

**7.2.- Re-election of Directors:**

- a) Re-election of Mr. Víctor de Urrutia Vallejo as Director, with the status of external independent Director.
- b) Re-election of Mr. Ricardo Álvarez Isasi as Director, with the status of external independent Director.

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- c) Re-election of Mr. José Ignacio Berroeta Echevarría as Director, with the status of external independent Director.
- d) Re-election of Mr. Juan Luis Arregui Ciarsolo as Director, with the status of external independent Director.
- e) Re-election of Mr. José Ignacio Sánchez Galán as Director, with the status of executive Director.
- f) Re-election of Mr. Julio de Miguel Aynat as Director, with the status of external independent Director.
- g) Re-election of Mr. Sebastián Battaner Arias as Director, with the status of external independent Director.

### **7.3.- Establishment of the number of Directors.**

**Eight.-** Authorization to the Board of Directors, with the express power of delegation, for the derivative acquisition of the Company's own shares by the Company itself and/or by its subsidiaries, upon the terms provided by applicable law, for which purpose the authorization granted by the shareholders at the General Shareholders' Meeting of March 20, 2009 is hereby deprived of effect to the extent of the unused amount.

**Nine.-** Delegation to the Board of Directors, with the express power of substitution, for a term of five (5) years, of the power to issue: a) bonds or simple debentures and other fixed-income securities of a like nature (other than notes), as well as preferred stock, up to a maximum amount of twenty (20) billion euros, and b) notes up to a maximum amount at any given time, independently of the foregoing, of six (6) billion euros; and authorization for the Company to guarantee, within the limits set forth above, new issuances of securities by subsidiaries, for which purpose the delegation approved by the shareholders at the General Shareholders' Meeting held on March 20, 2009 is hereby deprived of effect to the extent of the unused amount.

**Ten.-** Authorization to the Board of Directors, with the express power of delegation, to apply for the listing on and delisting from Spanish or foreign, official or unofficial, organized or other secondary markets of the shares, debentures, bonds, notes, preferred stock or any other securities issued or to be issued, and to adopt such resolutions as may be necessary to ensure the continued listing of the shares, debentures or other securities of the Company that may then be outstanding, for which purpose the authorization granted by the shareholders at the General Shareholders' Meeting of March 20, 2009 is hereby deprived of effect.

**Eleven.-** Authorization to the Board of Directors, with the express power of delegation, to create and fund associations and foundations, pursuant to applicable legal provisions, for which purpose the authorization granted by the shareholders at the General Shareholders' Meeting of March 20, 2009 is hereby deprived of effect to the extent of the unused amount.

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## **ITEM RELATING TO AMENDMENTS OF THE BY-LAWS:**

**Twelve.-** Amendment of Articles 11 and 62 of the By-Laws.

## **ITEM RELATING TO GENERAL MATTERS:**

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

## **INFORMATION TO THE SHAREHOLDERS:**

The shareholders at the General Meeting will be informed of: (1) the share capital increase resolution adopted by the Board of Directors on June 16, 2009 on the basis of the authority delegated to it by the General Shareholders' Meeting held on March 30, 2006, under item four of the Agenda, and the consequent amendment of the By-Laws; (2) the amendments to the Regulations of the Board of Directors approved on September 22, 2009; (3) the amendments to the Corporate Policies, to the Regulations of the Audit and Compliance Committee, to the Regulations of the Nominating and Compensation Committee; to the remainder documents being part of the Company's Corporate Governance System; and (4) the report explaining the aspects of the equity structure and the governance and control system of the Company set forth in Section 116 *bis* of the Securities Market Law will be submitted.

- IV.** As anticipated in the price sensitive information notice of 15 December 2009 (registry number 117,704), the calling of the General Shareholders' Meeting of the Company includes, under item six of its Agenda, the Board of Directors' proposal to carry out a fully-paid increase in share capital, for the purposes of offering those shareholders who may be interested in the possibility of receiving fully-paid shares of the Company instead of the supplemental dividend payment corresponding to fiscal year 2009, to be paid out on July 2010, as well as, if applicable, any payment of amounts on account of the dividend corresponding to fiscal year 2010; provided, however, that the appropriate measures are implemented to guarantee that those shareholders who wish so may receive an amount in cash equivalent to the supplemental dividend payment corresponding to fiscal year 2009, as well as, if applicable, the payment of amounts on account of the dividend corresponding to fiscal year 2010.
- V.** Approve the payment of an attendance premium in the gross amount of Euro 0.005 per share to the shareholders present or represented by proxy at the General Shareholders' Meeting who have provided due evidence of their attendance thereat in person or by proxy.

Notice of the call to General Shareholders' Meeting will be published in the coming days in the terms set forth by Law and Iberdrola's Corporate Governance System.

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Attached hereto is a copy the report explaining the aspects of the equity structure and the governance and control system of the Company set forth in Section 116 *bis* of the Securities Market Law. The foregoing report, together with the rest of the documentation relating to the General Shareholders' Meeting, will be available to shareholders on the Company's corporate website ([www.iberdrola.com](http://www.iberdrola.com)), without prejudice to the shareholders' right to examine at the Company's registered office the documents that must be made available to them from the publication of the call for the General Shareholders' Meeting or to request that such documents be delivered or sent to them immediately and without charge.

Yours faithfully,

Iberdrola, S.A.  
General Secretary and Secretary of the Board of Directors

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## REPORT ON THE EQUITY STRUCTURE AND THE GOVERNANCE AND CONTROL SYSTEM OF IBERDROLA, S.A.

(SECTION 116 *BIS* OF LAW 24/1988, OF JULY 28, ON THE SECURITIES MARKET)

**REPORT ON THE EQUITY STRUCTURE AND THE GOVERNANCE AND CONTROL SYSTEM OF IBERDROLA, S.A. (SECTION 116 BIS OF LAW 24/1988, OF JULY 28, ON THE SECURITIES MARKET)**

Pursuant to the provisions of Section 116 *bis* of Law 24/1988, of July 28, on the Securities Market, the Board of Directors of Iberdrola, S.A. (hereinafter, "IBERDROLA" or the "Company") resolved, at its meeting of February 22, 2010, to make available to the shareholders, as a separate document and for the sake of greater clarity, this report explaining the matters which, in compliance with such Section, have also been included in the management reports accompanying the individual annual financial statements of IBERDROLA and the consolidated financial statements of IBERDROLA and its subsidiaries for fiscal year 2009.

***a) Equity structure, including the securities that are not traded on a regulated market in the European Community, specifying, if applicable, the different classes of shares and, for each class of shares, the rights and obligations attaching thereto and the percentage of share capital that they represent.***

As provided in Chapter II of Title I, Articles 5 through 8, of the By-Laws, IBERDROLA's share capital is three billion nine hundred thirty-nine million two hundred forty-two thousand seven hundred eighty-seven (3,939,242,787) euros, represented by five billion two hundred fifty-two million three hundred twenty-three thousand seven hundred sixteen (5,252,323,716) common shares having a par value of seventy-five (0.75) euro cents each, numbered consecutively from one (1) to five billion two hundred fifty-two million three hundred twenty-three thousand seven hundred sixteen (5,252,323,716), both such numbers inclusive, belonging to a single class and series, fully subscribed and paid up. The shares are represented by book entries. Each share confers the status of shareholder on the lawful holder thereof and grants him the rights established in the Law and the By-Laws.

***b) Any restriction on the transferability of shares.***

As a result of the integration of Iberdrola USA (formerly "Energy East Corporation") into the IBERDROLA Group, effective as from September 16, 2008, the acquisition of an equity interest giving rise to the ownership of shares in an amount equal to or greater than ten (10%) percent of the share capital of IBERDROLA is subject to prior approval by the Federal Energy Regulatory Commission of the United States and the regulatory authorities of the various States of the Union in which Iberdrola USA or any company of the IBERDROLA Group carries out its activities in the United States, without prejudice to any other authorizations that might be

Specifically, the final order of the New York State Public Service Commission, published on January 6, 2009, which sets forth the complete text of the authorization of the acquisition of Iberdrola USA by IBERDROLA, provides that, pursuant to Section 70 of the Public Service Law, any transfer or lease of all or part of the gas or electricity network, infrastructure or system, the execution of any contracts for the operation of such infrastructure or systems, as well as the transfer of an interest resulting in ownership of a percentage greater than ten (10%) percent of the share capital of IBERDROLA, shall require the prior approval of such Commission.

However, the By-Laws establish no restrictions on the transferability of the securities representing the share capital.

**c) Significant direct and indirect interests in share capital.**

Listed in the table below are those shareholders that, as of December 31, 2009 and to the extent known by the Company, are the direct and indirect holders of a significant interest in the share capital of IBERDROLA:

Shareholder's corporate name	Number of direct voting rights	Number of indirect voting rights <sup>(*)</sup>	% of total voting rights
ACS, Actividades de Construcción y Servicios, S.A. ("ACS")	0	630,278,959	12.000
Bilbao Bizkaia Kutxa, Aurrezki Kutxa eta Bahitetxea ("BBK")	0	359,380,724	6.842
Caja de Ahorros de Valencia, Castellón y Alicante ("Bancaja")	0	301,282,820	5.736
<b>TOTAL</b>	<b>0</b>	<b>1,290,942,503</b>	<b>24.578</b>

<sup>(\*)</sup> Through:

Corporate name of direct holder of shares	Number of direct voting rights	% of total voting rights
<b>ACS</b>		
Residencial Montecarmelo, S.A.	360,619,672	6.866
Villa Aurea, S.L.	13,287,487	0.253
Nexgen Capital Limited, S.A. <sup>(1)</sup>	256,371,800	4.881
<b>BBK</b>		
Kartera 1, S.L. <sup>(2)</sup>	359,380,724	6.842
<b>Bancaja</b>		
Bancaja Inversiones, S.A. <sup>(3)</sup>	301,282,820	5.736
<b>TOTAL</b>	<b>1,290,942,503</b>	<b>24.578</b>

<sup>(1)</sup> As regards the interest owned by Nexgen Capital Limited, S.A. representing 4.881% of the share capital of IBERDROLA, S.A., on March 2, 2009, ACS notified the CNMV of the novation of an equity swap agreement, of which notice was given on December 10, 2008, pursuant to which the period for the exercise thereof was extended, with ACS able to exercise the voting rights inherent to the underlying shares. According to information published in the official records of the CNMV, Nexgen Capital Limited, S.A. is a wholly-owned subsidiary of Nexgen Financial Holdings, which in turn is the 100%-owned subsidiary of Natixis, S.A., which the direct holder of 0.058% (3,067,362 shares) of the share capital of IBERDROLA.



(2) *Kartera 1, S.L. is a wholly-owned subsidiary of BBK.*

(3) *Bancaja is the owner of 69.98% of the voting Rights of Bancaja Inversiones, S.A.*

**d) Any restrictions on voting rights.**

Section 34 of Royal Decree-Law 6/2000, of June 23, on Urgent Methods to Intensify Competition in the Goods and Services Markets, as amended by Law 14/2000 of December 29, by Royal Decree-Law 5/2005, of March 11 and by Law 17/2007, of July 4, provides that individuals or legal entities that have a direct or indirect interest in the share capital or voting rights of two or more companies that qualify as a Principal Operator in the same market or industry among those specified in the aforementioned provision (including electric power generation and supply and natural gas production and supply) in a proportion equal to or greater than three (3%) percent, may not exercise the voting rights corresponding to the excess over such percentage in more than one entity. The same rule applies in the event that a company that qualifies as a Principal Operator holds an interest in the capital or voting rights of another Principal Operator in the same economic industry.

However, and in either of both cases, the competent industry regulator (i.e., the National Energy Commission (*Comisión Nacional de Energía*) in the case of energy markets) may grant an authorization allowing for the free exercise of voting rights in excess of such three (3%) percent.

In addition, as provided in Article 29 of the By-Laws, no shareholder may cast a number of votes greater than those corresponding to shares representing ten (10%) percent of share capital, even if the number of shares held exceeds such percentage of capital. This limitation does not affect votes corresponding to shares in respect of which a shareholder holds a proxy, provided, however, that the above-mentioned limitation shall also apply to the number of votes attaching to the shares of each shareholder represented by proxy.

The limitation set forth in the preceding paragraph shall also apply to the maximum number of votes that may be collectively or individually cast by two or more shareholders which are entities or companies belonging to the same group. Such limitation shall also apply to the number of votes that may be cast collectively or individually by an individual and the shareholder entity, entities or companies controlled by such individual. A group shall be deemed to exist under the circumstances set forth in Section 42 of the Spanish Commercial Code, and an individual shall be deemed to control one or more entities or companies under the circumstances of control set forth in such Section 42.

Furthermore, Article 30 of the By-Laws, which governs shareholders' voting rights in the event of a conflict of interest, provides that shareholders participating in a merger or split-off with the Company or who are called to subscribe to an increase in capital with the exclusion of pre-emptive rights or to acquire by overall assignment all of the Company's assets, may not exercise their voting rights for the approval of such resolutions at the General Shareholders' Meeting. The foregoing shall also apply when the resolutions affect (i) in the case of an individual shareholder, the entities or companies controlled by such individual, and (ii) in the case of shareholders which are legal entities, the entities or companies belonging to its group, even when these latter companies or entities are not shareholders.

**e) Private shareholders' agreements (*pactos parasociales*).**

The Company is not aware of the existence of any private shareholders' agreements.

**f) Regulations applicable to the appointment and replacement of the members of the Board of Directors and to the amendment of the by-laws of the Company.**

Appointment and withdrawal of the members of the Board of Directors

Articles 36, 37 and 38 of the By-Laws and Articles 11, 12, 13, 14, 15 and 16 of the Regulations of the Board of Directors, as well as Articles 4, 15 and 16 of the Regulations of the Nominating and Compensation Committee, set forth the procedures for appointment, re-election, resignation and withdrawal of the members of the Board of Directors of IBERDROLA, the content of which is summarized below:

**Power:** The power to appoint Directors lies with the shareholders at the General Shareholders' Meeting, pursuant to the provisions of the By-Laws and the Companies Law.

The proposals for the appointment of Directors that the Board of Directors submits to the shareholders for consideration at a General Shareholders' Meeting, and the appointment decisions made by the Board in the exercise of the legally assigned power to make interim appointments to fill vacancies, shall be preceded by the corresponding proposal or report of the Nominating and Compensation Committee (depending on whether they are an independent or other type of director, respectively), which shall place the new Director in one of the categories contemplated in the Regulations of the Board.

Along these lines, in the case of Independent Directors, the Nominating and Compensation Committee will prepare proposals for interim appointments or, if applicable, for submission by the Board of Directors to a decision by the shareholders at a General Shareholders' Meeting.

Furthermore, in the case of other categories of Directors, the Nominating and Compensation Committee must give a prior well-reasoned report on the proposed nominations that the Board of Directors will submit for consideration by the shareholders at a General Meeting and the decisions on appointment made by the Board by virtue of the powers of interim appointment legally attributed thereto. Such report must also address any individual that is to represent a Director that is a legal entity. In the case of proprietary Directors, the report must also encompass and assess the circumstances of the shareholder or shareholders who propose, request or decide on the appointment, whatever the method or procedure for appointment, to the extent legally possible.

In all cases, the Nominating and Compensation Committee must verify compliance with all requirements by Law and by the IBERDROLA's Corporate Governance System (made up of the By-Laws, the Corporate Policies of the Board of Directors, the Internal Corporate Governance Rules and other internal Codes and procedures approved by the Company's decision-making bodies) applicable to any candidate for Director of the Company.

**Incompatibilities:** The following may not be appointed as Directors:

- (i) Domestic or foreign companies competing with the Company in the energy or other industries, or the directors or senior managers thereof, or the persons, if any, who are proposed by such companies in their capacity as shareholders.
- (ii) Persons holding the position of director in more than four (4) companies with shares trading on domestic or foreign securities exchanges.
- (iii) Persons who, during the two (2) years prior to their appointment, have occupied high-level positions in the government which are incompatible with the simultaneous

performance of the duties of a director of a listed company under national or autonomous community legislation, or positions of responsibility with entities regulating the energy industry, the securities markets or other industries in which the Company operates.

- (iv) Persons who are under any other circumstance of incompatibility or prohibition governed by provisions of a general nature, including those who have, in any manner, interests opposed to those of the Company.

**Directors' qualifications:** The Board of Directors (and the Nominating and Compensation Committee within its area of authority) shall endeavor to ensure that the candidates proposed to the shareholders at the General Shareholders' Meeting for appointment as Directors, and the Directors directly appointed by the Board to fill vacancies in the exercise of its power to make interim appointments, are respectable, qualified persons who are widely recognized for their expertise, competence and experience, and shall be particularly rigorous in connection with the selection of those persons who are to hold office as independent Directors.

In the case of a Director that is a legal entity, the individual representing it in the performance of the duties inherent in the position of Director shall also be subject to the requirements of respectability, capability, expertise, competence and experience mentioned in article 13 of the Regulations of the Board and shall likewise be personally bound by the duties of a Director set forth in such Regulations.

**Term of office:** The Directors shall serve in their positions for a term of five (5) years, so long as the shareholders acting at a General Shareholders' Meeting do not resolve to remove or dismiss them and they do not resign from their position. Directors may be re-elected to one or more terms of five (5) years. Vacancies which occur may, pursuant to the Law, be filled by the Board of Directors on an interim basis until the next General Shareholders' Meeting, whereat the shareholders shall confirm the appointments or elect the persons who should replace Directors which are not ratified, or it shall withdraw the vacant positions.

**Re-election:** The proposals for re-election of Directors that the Board of Directors decides to submit to the decision of the shareholders at the General Shareholders' Meeting shall be the result of a formal process of preparation, which shall include a proposal and report issued by the Nominating and Compensation Committee containing an assessment of the quality of the work performed and the dedication to the position shown by the proposed Directors during the preceding term of office.

**Resignation and withdrawal:** The Directors shall cease to hold office upon the expiration of the term of office to which they were appointed and when it is so resolved by the shareholders at a General Shareholders' Meeting in the exercise of the powers granted to them by law or the By-Laws.

The Directors shall tender their resignation to the Board of Directors and formally resign from their position in the following cases:

- (i) When, due to supervening circumstances, they are involved in any circumstance of incompatibility or prohibition governed by provisions of a general nature, the By-Laws or the Regulations of the Board of Directors (see the preceding sub-section on "*Incompatibilities*").
- (ii) When, as a result of any acts attributable to the Director in his capacity as such, serious damage is caused to the value of the Company or the Director ceases to deserve the

commercial and professional respect required to be a Director of the Company.

- (iii) When they are seriously reprimanded by the Board of Directors because they have breached their duties as Directors and such reprimand is approved by a two-thirds majority of the Directors at the proposal of the Audit and Compliance Committee.
- (iv) When their continuance in office on the Board may, due to their lack of competence, jeopardize directly, indirectly or through Persons Related to them, the loyal and diligent performance of their duties in furtherance of the corporate interests. Pursuant to Article 35.2 of the Regulations of the Board, lack of competence shall be deemed to exist in the event of a conflict of interest situation that is, or can reasonably be expected to be, of such nature that it constitutes a structural or permanent situation of conflict between the Director (or a Person Related to him or, in the case of a proprietary Director, the shareholder or shareholders that proposed or made his appointment or persons directly or indirectly related thereto) and the Company or the companies forming part of the IBERDROLA Group.
- (v) When the reasons why the Director was appointed cease to exist and, in any case, when a proprietary Director transfers his shareholding in the Company or when the shareholder which proposed his appointment to the Company sells its entire shareholding interest.
- (vi) When an independent Director is affected, at any time following his appointment as such, by any of the prohibitions to hold office established in Article 10.2 of the Regulations of the Board.

In any of the instances set forth in items (i) through (vi) above, the Board of Directors shall request the Director to resign from his position and, if applicable, shall propose his removal from office to the shareholders at the General Shareholders' Meeting. In this regard, the Nominating and Compensation Committee shall inform the Board of Directors for proposed removals due to a breach of the duties inherent to the position of Director or to supervening circumstances requiring withdrawal, and may propose the falling within the circumstances for mandatory withdrawal, and shall propose the removal of Directors in the event of incompatibility, structural conflict of interest or any other reason for withdrawal under Law of under IBERDROLA's Corporate Governance System.

By way of exception, the resignation provisions set forth in sections (v) and (vi) above shall not apply when the Board of Directors believes that there are reasons which justify the Director's continuance in office, without prejudice to the effect that the new supervening circumstances may have on his classification.

In the event that an individual representing a legal entity acting as a Director falls under any of the resignation instances set forth above, such individual shall be disqualified from acting as a representative of such legal entity.

The Board of Directors may propose the withdrawal of an independent Director before the passage of the period provided for in the By-Laws only upon sufficient grounds, evaluated by the Board after a report of the Nominating and Compensation Committee. Such withdrawal may also be proposed as a consequence of public tender offers, mergers or other similar corporate transactions resulting in a significant change in the structure of the Company's capital.

#### Amendment of the By-Laws

The procedure for amendment of the By-Laws of IBERDROLA is based on the general procedure set forth in Section 144 of the Companies Law, which requires the approval of the shareholders at the General Shareholders' Meeting of the Company, with the quorums and majorities established in Section 103 of such Law.

As an exception to the foregoing, paragraph two of Article 21 of the By-Laws provides that shareholders representing two-thirds of subscribed capital with voting rights must be in attendance at the General Shareholders' Meeting on first call, and shareholders representing sixty (60%) percent of such capital must be in attendance at the General Shareholders' Meeting on second call, in order to adopt resolutions regarding a change in the corporate purpose, transformation, total split-off, dissolution of the Company and amendment of the aforementioned paragraph two of such article.

In addition, pursuant to Article 56 of the By-Laws, all resolutions intended to eliminate or amend the provisions contained in Title III (regarding the neutralization of limitations in the event of tender offers), in Article 29 (paragraphs three to five, regarding limitations on voting rights) and in Article 30 of the By-Laws (regarding voting rights in cases of conflict of interest) shall require the affirmative vote of three-fourths of the share capital in attendance at a General Shareholders' Meeting.

*g) Powers of the members of the Board of Directors and, specifically, those regarding the possibility of issuing or repurchasing shares.*

Pursuant to the provisions of Article 46 of the By-Laws and Article 18 of the Regulations of the Board of Directors, the Chairman of the Board of Directors shall be considered the Chairman of the Company and of all of the management decision-making bodies thereof of which the Chairman is a member, which he shall permanently represent with the broadest powers, which shall include the power, in urgent cases, to adopt such measures as the Chairman deems advisable in the interests of the Company.

In addition, the Board of Directors has the following powers which have not been exercised, or which have been exercised only in part and are therefore in full force and effect:

(i) Convertible debentures

The shareholders at the General Shareholders' Meeting held on March 20, 2009 resolved under item nine on the agenda to delegate to the Board of Directors, with the Express power of substitution, for a term of five (5) years, the power to issue debentures or bonds that may be exchanged for and/or converted into shares of the Company or other companies, whether of the Group or otherwise, and to issue warrants on newly-issued or outstanding shares of the Company or other companies, whether of the Group or otherwise, without the power to exclude the pre-emptive rights of the shareholders and holders of convertible securities, up to a maximum limit of five thousand (5,000) million euros, including, in the case of convertible debentures and bonds and warrants on newly-issued shares, the delegation of the powers to increase capital to the extent necessary to meet requests for the conversion of debentures or the exercise of warrants.

The Board of Directors has not used this power to date.

(ii) Authorized capital

The shareholders at the General Shareholders' Meeting held on March 30, 2006 resolved to delegate to the Board of Directors, with the express power of substitution, for a term of five (5) years, the power to increase the share capital by up to one-half of the then-current share capital, on one or more occasions, and at the time and in the amount that it deems appropriate pursuant to the provisions of Section 153.1.b) of the Companies Law, with the power to exclude pre-emptive rights and to amend Article 5 of the By-Laws as a result.

Following the capital increases approved by the Board of Directors of the Company on June 26, 2007 and June 16, 2009, in the nominal amount of two hundred fifty-five (255) million euros and one hundred eighty-seven million five hundred thousand (187,500,000) euros, respectively, by means of an “accelerated bookbuilt offer.” The nominal amount that remains available under such delegation is nine hundred nine million eight hundred twenty-four thousand (909,824,000) euros, representing twenty-three and one-tenth (23.1%) percent of the share capital. All of the foregoing is as of the date of this report.

(iii) Simple fixed-income securities

Additionally, the shareholders at the General Shareholders’ Meeting held on March 20, 2009 resolved to delegate to the Board of Directors, with the express power of substitution, for a term of five (5) years, the power to issue: a) simple bonds or debentures and other fixed-income securities of a like nature (other than notes) as well as preferred stock up to a maximum amount of twenty (20) billion euros and b) notes up to a maximum amount, independently of the foregoing, of six (6) billion euros (maximum amount outstanding), and also resolved to grant the Board authorization for the Company to guarantee, within the limits set forth above, new issuances of securities by subsidiaries.

With respect to letter a) above, as of the date of this report, the Board of Directors has not made use of such delegated power.

Furthermore, with respect to letter b) above, it has authorized an increase by one thousand (1,000) million euros of the guarantee provided with respect to the Euro Commercial Paper (ECP) program of its Dutch subsidiary Iberdrola International B.V. and has approved a guarantee to secure the obligations of its Spanish subsidiary, Iberdrola Financiación, S.A.U. arising under a domestic note program in the amount of three thousand (3,000) million euros.

(iv) Treasury shares

As regards the possibility of acquiring shares of the Company’s own stock, the shareholders at the General Shareholders’ Meeting held on March 20, 2009 resolved to grant authorization to the Board of Directors, with the express power of substitution, for the derivative acquisition of the Company’s own shares by the Company and/or by its subsidiaries up to a maximum limit of five (5%) percent of share capital, under the provisions of applicable law.

Finally, at a meeting held on February 22, 2010, the Board of Directors resolved to propose to the shareholders at the next General Shareholders’ Meeting of the Company, called to be held on March 26 or 27, 2010, upon first and second call, respectively, the approval of new authorizations and delegations to it, as follows:

(i) Simple fixed-income securities

Delegation in favor of the Board of Directors, with the express power of substitution, for a term of five (5) years, of the power to issue: a) simple bonds or obligations and other fixed-income securities of a similar nature (other than notes), as well as preferred shares, with a maximum limit of twenty thousand (20,000) million euros, and b) notes with a maximum limit, independently of the foregoing, of six thousand (6,000) million euros; and authorization so that the Company may guarantee, within the limits set forth above, new issues of securities by dependent companies.

(ii) Shares of the Company's own stock

Authorization to the Board of Directors, with the express power of substitution, for the derivative acquisition by the Company and dependent companies of their own shares, upon the terms set forth in applicable legislation.

(iii) Increase in share capital for the fee-of-charge allocation of newly-issued shares to shareholders of the Company

Delegation to the Board of Directors, with the express power of substitution, of the powers necessary to set, to the extent not provided by the shareholders at the General Shareholders' Meeting, the terms of an increase in share capital for the free-of-charge allocation of newly-issued ordinary shares of IBERDROLA to the shareholders of the Company at a maximum reference market value of one thousand eight hundred sixty-six (1,866) million euros, offering to the shareholders the acquisition of their free-of-charge rights (pursuant to the commitment to be assumed by the Company at a guaranteed fixed price), as well as taking all actions necessary for the implementation thereof on one or at most two occasions (without the reference market value exceeding one thousand forty-eight (1,048) million euros on the first installment or eight hundred eighteen (818) million euros on the second installment, if any) , revising the text of Article 5 of the By-Laws on each installment.

If the proposed delegations and authorizations are approved by the shareholders at the General Shareholders' Meeting of the Company, they will revoke and deprive of effect the unutilized amounts of the current authorizations and delegations.

*h) Significant agreements entered into by the Company and which are to become effective, to be amended or to terminate upon a change of control in the Company as a result of a public tender offer, and effects thereof, except in those cases where the disclosure thereof would be seriously detrimental to the Company. Such exception shall not apply when the Company is under a legal duty to make such information public.*

IBERDROLA and its subsidiaries have loans or other agreements with financial institutions, the acceleration of which might be affected in the event of a change of control, the most significant of which are as follows:

- (i) There are loans that may be accelerated or under which additional guarantees may be required in the event of a change of control due to a public tender offer, amounting in the aggregate to the approximate sum of one thousand seven hundred seventy-seven (1,777) million euros worth of agreements that would be affected unless the change of control is not deemed to be detrimental.
- (ii) In addition, approximately one hundred fifty (150) million U.S. dollars and two thousand one hundred fifty (2,150) million euros worth of loans would be affected unless IBERDROLA's credit rating is maintained or improved.
- (iii) Similarly, approximately one thousand nine hundred thirteen (1,913) million euros worth of loans would be affected by corporate mergers unless such mergers occur as a result of intra-group reorganizations or are permitted by the lenders.
- (iv) An additional amount of approximately three billion, ten thousand seven hundred eight (10,708) million euros in relation to the issuance of securities on the Euromarket may be accelerated in the event of a change of control if IBERDROLA's credit rating falls below "investment grade" or, if already below investment grade, falls a notch and so long as

the Rating Agency indicates that the downgrade in the credit rating is a result of the change of control.

- (v) Finally, approximately eight hundred five (805) million dollars and three hundred forty-seven (347) million euros worth of loans may be accelerated in the event of a change of control of the borrower.

*i) Agreements between the Company and its directors and managers or employees that provide for indemnification if such directors, managers or employees resign or are dismissed without cause or if the employment relationship is terminated as a result of a public tender offer.*

(i) Chairman & Chief Executive Officer

As provided in his individual contract, the Chairman & Chief Executive Officer is entitled to receive indemnification in the event of termination of his relationship with the Company (including his non-reelection as Director by the shareholders at a General Shareholders' Meeting) or in the event of a change of control in the Company, so long as the relationship is terminated other than due to a breach attributable to the Chairman & Chief Executive Officer or to his own decision to sever it. The amount of the indemnification is five (5) times annual salary.

(ii) Senior Managers

The contracts with the Senior Managers of IBERDROLA contain specific indemnification provisions. The purpose of such provisions is to attain a suitable and sufficient degree of loyalty from the senior-level executives whose services are required for the management of the Company and thus avoid a loss of experience and knowledge that might jeopardize the achievement of the strategic objectives. The amount of indemnification is set based on seniority in the position and the reasons for the withdrawal of the Senior Manager, up to a maximum of five (5) times annual salary.

(iii) Employees

The contracts with employees whose ties to IBERDROLA stem from an ordinary employment relationship generally do not contain specific indemnification provisions and, accordingly, in the event of termination of the employment relationship, the common labor laws and regulations apply.

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