



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

To the National Securities Market Commission

Bilbao, December 17, 2010

Re: Second implementation of the paid-up capital increase implementing the “Iberdrola Flexible Dividend” system

Dear sirs:

Pursuant to the provisions of Section 82 of Act 24/1988, of July 28, on the Securities Markets (*Ley 24/1988, de 28 de julio, del Mercado de Valores*) and related provisions, and as a continuation of the notices of significant event sent to this National Commission on October 19, 2010 (registry number 131,752), November 16 (registry number 133,228), November 23 (registry number 133,608) and December 1, 2010 (registry number 134,074), regarding the second implementation of the paid-up capital increase (the “**Second Implementation**”) approved by the shareholders at the General Shareholders’ Meeting of Iberdrola, S.A. (“**Iberdrola**” or the “**Company**”) held on March 26, 2010 under item six of the Agenda thereof, and pursuant to which the “Iberdrola Flexible Dividend” system has been implemented, we hereby inform you that:

- The period for trading the free-of-charge allocation rights corresponding to the Second Implementation has ended on the date hereof.
- During the period established for such purpose, the holders of one thousand seven hundred ten million six hundred nineteen thousand nine hundred ninety-two (1,710,619,992) free-of-charge allocation rights have accepted the irrevocable commitment to purchase rights assumed by Iberdrola (the “**Purchase Commitment**”). Therefore, Iberdrola has acquired such rights in the total gross amount of two hundred forty-nine million seven hundred fifty thousand five hundred eighteen euros and eighty-three cents (249,750,518.83 euros).

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- Iberdrola has waived the shares the corresponding to the free-of-charge allocation rights acquired pursuant to the above.
- Therefore, the definitive number of ordinary shares with a unitary par value of seventy-five euro cents (€0.75) that will be issued in the Second Implementation is one hundred one million nine hundred seventy-nine thousand (101,979,000), with the nominal amount of the capital increase (on this Second Implementation) being seventy-six million four hundred eighty-four thousand two hundred fifty (76,484,250) euros, which entails an increase of one point eighty-nine (1.89) per cent. over the share capital of Iberdrola prior to the Second Implementation.
- It is expected that, subject to compliance with all legal requirements (particularly that of the verification of such compliance by the National Securities Market Commission), the new shares will be admitted to trading on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges, through the Automated Quotation System (Electronic Market), on Thursday, December 23, 2010. In this sense, the ordinary trading of the new shares is expected to commence on Monday, December 27, 2010.

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

Sincerely,

The General Secretary and Secretary of the Board of Directors

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IMPORTANT INFORMATION

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

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