



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

Bilbao, November 22, 2011

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 May 27, 2011 and the information memorandum (*documento informativo*) regarding such implementation**

Dear sirs,

Pursuant to article 82 of Law 24/1988, of July 28, on the Securities Market (*Ley 24/1988, de 28 de julio, del Mercado de Valores*) and related provisions, we are pleased to inform you that the Board of Director of Iberdrola, S.A. has decided at its meeting of 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 May 27, 2011 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 November 4, 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. at the General Shareholders' Meeting of May 27, 2011**

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 CAPITAL INCREASE WITH A CHARGE TO REVALUATION RESERVES OF IBERDROLA, S.A. APPROVED BY THE SHAREHOLDERS AT THE GENERAL SHAREHOLDERS' MEETING OF MAY 27, 2011**

**1. PURPOSE**

**1.1. Background**

At the General Shareholders' Meeting of Iberdrola, S.A. (hereinafter, "**Iberdrola**" or the "**Company**") held on May 27, 2011, under item six on the agenda, the shareholders approved (the "**General Shareholders' Meeting Resolution**") an increase in wholly paid-up share capital with a charge to the "RDL Update 7/1996" ("*Actualización RDL 7/1996*") reserves, by means of the issuance of ordinary shares for the free allocation thereof to the shareholders of the Company (the "**Capital Increase**").

Under the General Shareholders' Meeting Resolution, the maximum market value of reference of the Capital Increase would be 1,909 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 967 million euros on the first implementation, and 942 million euros on the second implementation, if carried out.

Moreover, by means of the General Shareholders' Meeting Resolution, the following powers were delegated in favor of the Board of Directors, with express substitution powers and in accordance with section 297.1.a) of the Companies Law (*Ley de Sociedades de Capital*): (i) to determine the date or dates on which the Capital Increase should take place; (ii) amend, in accordance with the rules set out in paragraph 10 of the General Shareholders' Meeting Resolution, the maximum market value of reference of the Capital Increase and of each of its implementations in the event that the capital increase set forth in paragraph 4 of item fifteenth on the agenda of the General Shareholders' Meeting, relating to the merger between Iberdrola (as the absorbing company) and Iberdrola Renovables, S.A. (as the absorbed company) (the "**Capital Increase of the Merger**") would not take place or would take place only partially; and (iii) establish the conditions of the Capital Increase in all matters not provided in the General Shareholders' Meeting Resolution.

Given that the Capital Increase of the Merger was not ultimately carried out, the Executive Committee of the Company, at its meeting held on June 7, 2011 and according to the delegation of powers in its favor approved by the Board of Directors at its meeting held on May 27, 2011, amended the maximum market value of reference of the shares to be issued in the context of the Capital Increase which was fixed in 1,846 million euros.



Additionally, the Executive Committee amended the amount of maximum market value of reference of the shares to be issued in the first implementation, and if carried out, in the second implementation, to 935 million euros and 911 million euros, respectively.

All the foregoing, in accordance with the terms set forth in the General Shareholders' Meeting Resolution.

In this regard, the Board of Directors of the Company approved, on June 21, 2011, 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 December 31, 2010. The aforementioned resolution of the Board of Directors was supplemented by a resolution adopted by the Executive Committee at its meeting held on July 11, 2011, which set the maximum number of shares that could be issued on the first implementation of the Capital Increase, at 153,215,684 ordinary shares. On July 28, 2011, the chairman and chief executive officer of Iberdrola, in exercise of the power delegated under the resolutions adopted by the Board of Directors at its meeting of June 21, 2011, completed and declared closed the first implementation of the Capital Increase, increasing the share capital of Iberdrola by a nominal amount of 45,220,550 euros, through the issuance and flotation of 60,294,000 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 has today approved, among other items, the second implementation of the Capital Increase on what would traditionally have been the interim payment of the dividend for the fiscal year ended December 31, 2011, 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 901 million euros.

## 1.2. Purpose

Pursuant to the provisions of articles 26.1.e) and 41.1.d) of Royal Decree 1310/2005, of November 4, the issuance and 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 of the Capital Increase. 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 December 30, 2011. 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 January 17, 2012.

## **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 second 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 during the last 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 favorable 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 have traditionally been the interim payment of the dividend for the fiscal year 2011, if the "Iberdrola Flexible Dividend" system had not been implemented.

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

Pursuant to the terms provided for each implementation of the Capital Increase, and thus 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 Madrid, Barcelona, Bilbao and Valencia Stock Exchanges between January 3 and January 17, 2012, both inclusive. At the end of this period, the free allocation rights shall be automatically converted into newly-issued shares of the Company. 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.

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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.



- (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 monetize their rights and receive an amount equal to the interim payment of the dividend for the fiscal year 2011 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 monetize 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.

For its part, as regards the holders of the free allocation rights, Iberdrola has made an irrevocable commitment to acquire such rights at a fixed price for this Second Implementation. This fixed price, 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 monetize their rights if they do not want to receive new shares. In light of the current share capital of Iberdrola and the market conditions as of the date hereof, it is estimated that the fixed price of the purchase commitment would amount to a minimum of 0,143 gross euros per right. This purchase commitment will take effect and may be accepted between January 3 and January 13, 2012, both inclusive.

The acquisition by Iberdrola of the free allocation rights as a consequence of the exercise of such purchase commitment 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:

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

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<sup>2</sup> The calculation of this fixed price will occur on December 30, 2011.



where,

“**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 of November 22, 2011, 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 December 30, 2011.

“**Provisional num. of shrs.**” =  $901,000,000 / \text{ListPri}$ .

For these purposes, “**ListPri**” will be the arithmetic mean of the average weighted listing prices of the Company’s shares on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges at the five trading sessions to be held on December 22, 23, 27, 28 and 29, 2011, rounded to the closest one-thousandth part of one euro, as such average appears in a certification to be issued by the Governing Company (*Sociedad Rectora*) of the Bilbao Stock Exchange.

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 December 30, 2011 by means of a notice of significant event (*comunicación de hecho relevante*).

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

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<sup>3</sup> There are 5,882,490,000 outstanding shares of Iberdrola on the date of publication of this information memorandum.





- 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):

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

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

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

#### **3.1. Timetable**

The timetable for the Second Implementation will be as follows:

- December 30, 2011      • 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.
- January 2, 2012      • Publication of the announcement of the Second Implementation of the Capital Increase 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. CET).
- January 3, 2012      • Commencement of the trading period for the free allocation rights and of the period to request compensation in cash.
- January 13, 2012      • End of the period to request compensation in cash under the purchase commitment assumed by Iberdrola.
- January 17, 2011      • 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.
- January 20, 2012      • Payment of cash to shareholders who have elected to receive cash under the purchase commitment assumed by Iberdrola.
- January 24, 2012      • Assignment of the registry-references regarding the newly-issued shares.
- January 25, 2012      • Expected commencement of trading of the newly issued



ordinary shares begins.

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 CET on January 2, 2012. The free allocation rights will be traded on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges through the Automated Quotation System (Electronic Market) between January 3 and January 17, 2012. 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, if necessary, what they would have been entitled to under the traditional interim payment of the dividend for the fiscal year 2011 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, shareholders who wish to accept the irrevocable commitment by Iberdrola to purchase free allocation rights, and thus receive an amount in cash equal to the fixed and guaranteed purchase price corresponding to the number of free allocation rights that they hold must communicate their decision to the entity with which their shares are deposited no later than January 13, 2012.

In order to choose from among the options that Iberdrola is offering on occasion of the Second Implementation of the Capital Increase, shareholders must contact the entities with which their shares and corresponding free allocation rights are deposited within the periods

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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).



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 of the Capital Increase.

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.

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

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

The maximum number of shares to be issued as a result of the Second Implementation of the Capital Increase 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):

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

where,

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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.



“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 General Shareholders’ Meeting 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 of the Capital Increase shall be such that the reference market value of such shares (calculated at the “ListPri”) will in no event be greater than 901 million euros.

It is expected that the maximum number of new shares to be issued will be publicly disclosed on December 30, 2011 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 January 17, 2012.

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 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)* and its member entities.

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

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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 General Shareholders’ Meeting 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.



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 of the Capital Increase is carried out**

The balance sheet used as a basis for the Second Implementation of the Capital Increase is the one for the fiscal year ended December 31, 2010, which has been audited by Ernst & Young, S.L., and which was submitted to the shareholders for approval at Iberdrola's General Shareholders' Meeting held on May 27, 2011, under item one on the agenda.

The Second Implementation of the Capital Increase will be carried out with a charge to the reserve called "RDL Update 7/1996" ("*Actualización RDL 7/1996*"), which, as of December 31, 2010, amounted to 1,215,771,695.24 euros. After the first implementation of the Capital Increase, the aforementioned reserve amounts to 1,170,551,195.24 euros.

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 January 17, 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 January 17, 2015), the new shares that are still pending allocation may be sold in accordance with the provisions of article 117 of the Companies Law, 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 Madrid, Barcelona, Bilbao 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**

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 November 23, 2009. Such



consultation was answered by the GTD on April 27, 2010, and, in turn, was clarified by the GTD -at Iberdrola's request - on October 1, 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):

The delivery of shares as a consequence of the Capital Increase will, for tax purposes, be deemed to be a delivery of paid-up shares and, therefore, does not constitute income for purposes of the Personal Income Tax (*Impuesto sobre la Renta de las Personas Físicas*) (“**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.

The acquisition value 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 among the number of securities (both those existing and those issued as paid-up shares corresponding thereto). Such paid-up shares will be deemed to have been held for as long as the shares from which they derive.

In the event that the shareholders sell their free 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 for the transfer of the free allocation rights decreases the acquisition value for tax purposes of the shares from which such rights derive, pursuant to article 37.1.a) of Law 35/2006, of November 28, on Personal Income Tax.

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.

- 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.

In the event that the holders of free allocation rights decide to use the purchase commitment assumed by Iberdrola, the tax treatment applicable to the amount received for the transfer to the Company of the free allocation rights held by them in their capacity as shareholders or acquired on the market will be equal to the treatment applicable to dividends directly



distributed in cash and, consequently, such amount will be subject to the corresponding withholding.

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. 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.

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

As indicated in the preceding sections, a portion of the information regarding the Second Implementation of the Capital Increase 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 purchase 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 December 30, 2011. 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 January 17, 2012.

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 November 22, 2011.

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 of 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:

- A ListPri of 4.661 euros is assumed (solely for purposes of this example, a listing price per share of Iberdrola as of the close of trading on November 21, 2011 has been used).
- The TNShr is 5,882,490,000 (number of shares of Iberdrola as of the date of this information memorandum).

Therefore:

Provisional num. shrs. = Exercised Option Amount / ListPri=  $901,000,000 / 4.661 = 193,306,157.4769360 \approx 193,306,157$  (rounded down)

Num. rights = TNShrs / Provisional num. shrs. =  $5,882,490,000 / 193,306,157 = 30.4309500 \approx 31$  (rounded up)

NNS = TNShrs / Num. rights =  $5,882,490,000 / 31 = 189,757,741.9354840 \approx 189,757,741$

Therefore, in this example: (i) the maximum number of new shares to be issued in this Second Implementation would be 189,757,741, (ii) the maximum nominal amount of increased capital in this Second Implementation would come to 142,318,305.75 euros (189,757,741 x 0.75), and (iii) 31 free allocation rights (or existing shares) would be required for the allocation of a new share<sup>8</sup>.

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<sup>8</sup> In this sample calculation, Iberdrola should waive 29 free allocation rights corresponding to 29 shares of the Company for the number of new shares to be issued to be a whole number.





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:

$$\text{Purchase Price} = 4.661 / (31 + 1)$$

where:

$$\text{Purchase Price} = 0.14565625 \text{ euros} \approx 0.146 \text{ euros}$$

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