

**A la Comisión Nacional del Mercado de Valores**

Bilbao, a 17 de abril de 2009

**Asunto: Nota publicada por Fitch Ratings**

Muy señores nuestros:

Acompañamos a la presente la nota publicada hoy por Fitch Ratings en relación con la Sociedad.

Atentamente,

## **FITCH DOWNGRADES IBERDROLA'S SENIOR UNSECURED TO 'A'; LT IDR OUTLOOK IS STABLE**

Fitch Ratings-London/Barcelona/New York-17 April 2009: Fitch Ratings has today downgraded Spanish energy company Iberdrola, S.A.'s (Iberdrola) senior unsecured rating to 'A' from 'A+' and downgraded its Long-term Issuer Default Rating (IDR) to 'A-' (A minus) from 'A' following an annual review of the company. Fitch has also downgraded Iberdrola's Short-term IDR to 'F2' from 'F1'. The Outlook on the Long-term IDR is Stable. Iberdrola's senior unsecured rating is kept one-notch higher than its IDR, reflecting higher-than-average recovery prospects due to its integrated, global asset base, which includes regulated networks.

These rating actions largely reflect Iberdrola's weakened credit ratios following the acquisitions of Energy East Corp. (EE, rated 'BBB'/Stable) in 2008 and Scottish Power Limited (SPL, rated 'A-' (A minus)/Stable) in 2007, and Fitch's concern is that it could take longer than initially expected for Iberdrola's credit ratios to return to levels that are more commensurate with an 'A' rating in a challenging macroeconomic environment. Fitch's adjusted consolidated net leverage for Iberdrola, (adjusted to exclude the tariff deficit and include a full year's contribution from EE) was just under 4x at financial year-end 2008 (FYE08) from around 3.5x at end-H108, which was high compared with Iberdrola's rated peer group. This increase is primarily due to the completion of the Energy East acquisition. Including the tariff deficit within the calculation results in FYE08 net leverage of around 4.3x. The tariff deficit creates regulatory uncertainty and has a negative impact on the financial profile of the sector. Fitch would view positively legislation that supports a swift recovery of the existing deficit through securitisation and will continue to monitor progress regarding the resolution of this issue.

The current rating level factors in the company's size, and its solid business model, with a geographically diversified business mix across the vertically integrated electricity chain. Fitch also views positively Iberdrola's commitment to maintaining its financial strength through measures such as the adaptation of its development plan to the current environment. These factors, together with a strong production profile driven by its relatively "clean" generation capacity- namely nuclear, renewable energy and gas combined cycles - place the company's ratings comfortably at the current rating level. The 'A-' (A minus) IDR also provides sufficient headroom in order for Iberdrola to fully implement its strategic plan for 2008-2010.

The Stable Outlook is supported by Iberdrola's further consolidated leadership position in renewable energy after its acquisition of SPL and its increased earnings diversification through the acquisitions of SPL and EE. Fitch acknowledges that management has, so far, demonstrated a commitment to efficiency and has been successful in integrating EE and SPL into the group. The EE acquisition (with an enterprise value of USD6.1bn, USD300m lower than initially expected) achieved one of the key objectives set in the strategic plan. However, Fitch believes that management of the enlarged group will continue to be a challenge.

In addition, as anticipated by Fitch, the company has taken further steps to address possible structural subordination of parent company debt through the relocation of all of EE's holdco debt (bonds totalling USD1.3bn) to the parent company level on 8 April 2009. Of the total amount, USD1.05bn (or approximately 80%) will be refinanced in the form of an inter-company loan, and the rest, USD250m, is considered an equity contribution. Iberdrola took a similar approach with regard to SPL's holdco debt. Following the debt relocation, Fitch estimates that around 75% of the group's gross debt (including non-recourse debt used to fund its Latin American business) is currently held at the holding level. The agency expects this figure to rise close to 80% over time.

(Please see Fitch's public website, [www.fitchratings.com](http://www.fitchratings.com), for further commentary on Iberdrola's acquisitions of Energy East Corp. and Scottish Power Limited, and for separate comments on EE and SPL.)

Contact: Sabrina Ran, London, Tel: +44 (0) 20 7070 5817; Erwin van Lumich, Barcelona, Tel: +34 93 323 8403.

Media Relations: Peter Fitzpatrick, London, Tel: + 44 (0)20 7417 4364, Email: peter.fitzpatrick@fitchratings.com; Cindy Stoller, New York, Tel: +1 212 908 0526, Email: cindy.stoller@fitchratings.com.

Fitch's rating definitions and the terms of use of such ratings are available on the agency's public site, [www.fitchratings.com](http://www.fitchratings.com). Published ratings, criteria and methodologies are available from this site, at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance and other relevant policies and procedures are also available from the 'Code of Conduct' section of this site.