



Julián Martínez-Simancas
Secretario general y del Consejo de Administración

Bilbao, May 10, 2012

To the National Securities Market Commission

Re: Call for the General Shareholders` Meeting of Iberdrola, S.A. and documentation made available to the shareholders

Dear Sirs:

Further to our notice of significant event (*comunicación de hecho relevante*) dated May 8, 2012 (official registry number 163,505), we are pleased to advise you that the notice of the call to the ordinary General Shareholders` Meeting of Iberdrola, S.A. (the “**Company**”) to be held on June 22 or 23 on first and second call, respectively, has been published today, May 10, 2012 on the Official Gazzete of the Mercantile Registry (*Boletín Oficial del Registro Mercantil*), the newspapers “Deia” and “El Correo” and the corporate website of Iberdrola (www.iberdrola.com), with the agenda communicated in the above referred notice of significant event.

Likewise, the proposed resolutions and directors reports in relation to the different items of the agenda of the referred General Shareholders` Meeting are attached hereto. Such proposed resolutions and directors reports, with the rest of the documentation in connection with the General Shareholders` Meeting, have been made available to the shareholders of the Company on its registered office and its corporate website as described in the notice of the call.

Yours truly,

General secretary and secretary of the Board of Directors

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.

Notice of the Call to the 2012 General Shareholders' Meeting

In compliance with the provisions of law, the *By-Laws*, and the *Regulations for the General Shareholders' Meeting*, the Board of Directors of IBERDROLA, S.A. has resolved to call its shareholders to a

General Shareholders' Meeting

to be held

in Bilbao, at Palacio Euskalduna (avenida Abandoibarra número 4), on 22 June 2012, at 11:30 on first call

or, in the event that the required quorum is not met, the next day, 23 June 2012, on second call, at the same place and time. Shareholder registration desks will be open as from 10:00.

The General Shareholders' Meeting is called in order for the shareholders to deliberate and decide upon the matters included in 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 the Company and of the annual financial statements consolidated with those of its subsidiaries for the fiscal year ended on 31 December 2011.

Two.- Approval of the individual management report of the Company and of the consolidated management report of the Company and its subsidiaries for the fiscal year ended on 31 December 2011.

Three.- Approval of the management and activities of the Board of Directors during the fiscal year ended on 31 December 2011.

Four.- Re-election of the auditor of the Company and of its consolidated group for fiscal year 2012.

ITEMS RELATING TO SHAREHOLDER COMPENSATION:

Five.- Approval of the proposal for the allocation of profits/losses and of the distribution of dividends for the fiscal year ended on 31 December 2011.

Six.- Approval of an increase in share capital by means of a scrip issue at a maximum reference market value of two thousand eighteen million euros for the free-of-charge allocation of new shares to the shareholders of the Company. Offer to the shareholders of 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 shares issued 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 express powers of substitution, including, among others, the power to implement the capital increase by means of a scrip issue on one or, at most, two occasions (with the reference market value not exceeding one thousand twelve million euros on the first

implementation or one thousand six million euros on the second implementation, if any) and the power to amend article 5 of the *By-Laws* in each implementation.

ITEMS RELATING TO THE COMPOSITION OF THE BOARD OF DIRECTORS AND EXPRESS AUTHORISATIONS AND DELEGATIONS REQUESTED:

Seven.- Ratification of the interim appointment of directors to fill vacancies and re-election and appointment of directors:

- a) To ratify the interim appointment of Mr José Luis San Pedro Guerenabarrena as director, classified as executive director.
- b) To ratify the interim appointment of Mr Ángel Jesús Acebes Paniagua as director, classified as other external director.
- c) To re-elect Mr Xabier de Irala Estévez as director, classified as external proprietary director.
- d) To re-elect Mr Iñigo Víctor de Oriol Ibarra as director, classified as external independent director.
- e) To re-elect Ms Inés Macho Stadler as director, classified as external independent director.
- f) To re-elect Mr Braulio Medel Cámara as director, classified as external independent director.
- g) To re-elect Ms Samantha Barber as director, classified as external independent director.
- h) To appoint Mr Francisco Pons Alcoy as director, classified as external proprietary director.

Eight.- Authorisation to the Board of Directors, with the express power of substitution, for a term of five years, to issue: (1) 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 limit of twenty billion euros, and (2) notes up to a maximum limit at any time, independently of the previously-mentioned limit, of six billion euros. Authorisation for the Company to guarantee, within the limits set forth above, new issuances of securities by its subsidiaries. Revocation of the authorisation granted for such purpose by the shareholders at the General Shareholders' Meeting of 27 May 2011 to the extent of the unused amount.

Nine.- Authorisation to the Board of Directors, with the express power of substitution, to apply for the listing on and delisting from Spanish or foreign, official or unofficial, organised 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 authorisation granted to such end by the shareholders at the General Shareholders' Meeting of 27 May 2011 is hereby deprived of effect.

Ten.- Authorisation to the Board of Directors, with the express power of substitution, to create and fund associations, entities, and foundations, up to a maximum limit of twelve million euros per annum, pursuant to applicable legal provisions, such that the authorisation granted for such purpose by the shareholders at the General Shareholders' Meeting of 27 May 2011 is hereby deprived of effect to the extent of the unused amount.

ITEMS RELATING TO AMENDMENTS OF THE *BY-LAWS* AND *REGULATIONS*:

Eleven.- Amendment of the *By-Laws*.

- a) Amendment of articles 19.1, 19.4, 20.1, 20.2, 20.4, and 23.3 of the *By-Laws* for adjustment thereof to the amendment of the Companies Act (*Ley de Sociedades de Capital*) by Act 25/2011.

b) Amendment of articles 24.1, 24.2, and 25.2 of the *By-Laws* in order to include technical improvements.

Twelve.- Amendment of articles 8.1, 8.3, 8.4, 9.2, 12.10 (formerly 12.9), 13.3, 14.1, 14.2, 28.1, 32.1, and 35.2 of the *Regulations for the General Shareholders' Meeting* and inclusion of two new articles: 12.9 and 13.5.

ITEMS RELATING TO GENERAL MATTERS:

Thirteen.- Approval of the corporate website (www.iberdrola.com).

Fourteen.- Delegation of powers to formalise and implement 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, further elaboration thereon, and registration thereof.

ITEM RELATING TO RESOLUTIONS SUBMITTED TO A CONSULTATIVE VOTE:

Fifteen.- Consultative vote regarding the *Annual Director Compensation Report*.

INFORMATION TO BE PROVIDED TO THE SHAREHOLDERS:

Information shall be provided to the shareholders at the General Shareholders' Meeting regarding: (1) the implementation by the Board of Directors, on 28 July 2011 and 19 January 2012, of a capital increase by means of a scrip issue for the free-of-charge allocation of ordinary shares to the shareholders of the Company, approved by the shareholders at the General Shareholders' Meeting of 27 May 2011 under item six on the agenda, and the resulting amendment of the *By-Laws*; (2) the amendments of the *Regulations of the Board of Directors* approved on 26 October and 13 December 2011; and (3) the amendments of the *Corporate Policies*, the regulations of the committees of the Board of Directors, and the other documents making up the Company's Corporate Governance System since the last General Shareholders' Meeting.

I.- Right to Attend the Meeting, to Proxy Representation, and to Distance Voting

All holders of voting shares may attend the General Shareholders' Meeting, with the right to be heard and to vote, so long as they have caused such shares to be registered in their name in the corresponding book-entry registry not later than 17 June or 18 June 2012, depending on whether the General Shareholders' Meeting is held on first or second call, respectively. Every shareholder having the right to attend may be represented at the General Shareholders' Meeting by another person, even though not a shareholder, by granting a proxy.

Shareholders having the right to attend may grant a proxy or cast a vote from a distance on the proposals relating to items included in the agenda of the call to meeting in writing or by postal correspondence (by sending to the Company the duly completed attendance, proxy-granting, and distance voting card, addressed to apartado de correos número 1113, 48008 Bilbao) or by electronic correspondence (by means of a communication issued under their recognised electronic signature, based on an electronic certificate issued by the Royal Spanish Mint (*Fábrica Nacional de Moneda y Timbre*) and in respect of which no revocation has been recorded), through the software application available on the corporate website (www.iberdrola.com).

Proxies and votes cast from a distance by postal or electronic correspondence must, as a general rule, be received by the Company before 24:00 on 21 June or 22 June, depending on whether the General Shareholders' Meeting is held on first or second call, respectively.

II.- Right to Receive Information

As from the date hereof, the shareholders have the right to examine at the registered office of the Company, to request the immediate delivery to them without charge (which delivery may be carried out by e-mail, with confirmation of receipt, if the shareholder accepts this form of delivery), and to obtain through the corporate website (www.iberdrola.com) a copy of the individual annual financial statements and management reports of the Company and of the consolidated annual financial statements and management report of the Company and its subsidiaries, together with the respective audit reports, for fiscal year 2011, of the proposed amendments to the *By-Laws* and the mandatory directors' reports, of the proposed resolutions, and of the other documents that must be made available to the shareholders in connection with the holding of this General Shareholders' Meeting.

In addition, starting on such date and until 15 June 2012, inclusive, shareholders may request in writing the information or clarifications that they deem are required, or ask the written questions they deem relevant, regarding the matters included in the agenda of the call to meeting, the information accessible to the public which has been provided by the Company to the National Securities Market Commission since the holding of the last General Shareholders' Meeting, i.e. since 27 May 2011, and the auditors' reports on the individual annual financial statements and management reports of the Company and on the consolidated annual financial statements and management report of the Company and its subsidiaries for fiscal year 2011.

III.- Right to Request the Publication of a Supplement to the Call to Meeting and to Submit Well-Founded Proposals for Resolutions

Shareholders representing at least 5% of the share capital may request the publication of a supplement to the call to the General Shareholders' Meeting including one or more items in the agenda, provided such new items are accompanied by the rationale therefor or, if appropriate, by a duly substantiated proposal for a resolution, and submit well-founded proposals for resolutions on matters already included or that must be included in the agenda of the call to meeting. Such rights must be exercised by duly authenticated notice that must be received at the registered office of the Company within five days of publication of this notice of call to meeting.

IV.- Exercise of the Rights to Receive Information, to Attend, to Proxy Representation, to Vote from a Distance, to Request the Publication of a Supplement to the Call to Meeting, and to Submit Well-Founded Proposals for Resolutions

The rights to receive information, to attend, to proxy representation, to vote from a distance, to request the publication of a supplement to the call to meeting, and to submit well-founded proposals for resolutions shall be exercised as provided by law and in accordance with the provisions of the Company's Corporate Governance System and the *Shareholder's Guide*, available both on the corporate website (www.iberdrola.com) and at the Office of the Shareholder, where the form of attendance, proxy-granting, and distance voting card will also be available.

V.- Additional Information and Documentation Available on the Corporate Website

The following documents and information are made continuously available to the shareholders on the Company's corporate website (www.iberdrola.com): (1) this notice of call to meeting; (2) the individual annual financial statements of the Company and the consolidated financial statements of the Company and its subsidiaries for the fiscal year ended on 31 December 2011, together with the respective audit reports; (3) the Company's individual management reports and the consolidated management report of

the Company and its subsidiaries for the fiscal year ended on 31 December 2011; (4) the directors' statement of responsibility provided for in section 35 of the Securities Market Act (*Ley del Mercado de Valores*), which, together with the documents set forth in the two preceding items, constitute the annual financial information of the Company for fiscal year 2011; (5) the full text of the proposed resolutions corresponding to the items included in the agenda of the call to meeting and of the amendments to the *By-Laws* and *Regulations* proposed to the shareholders for approval at the General Shareholders' Meeting, together with the mandatory reports of the Board of Directors in connection with the proposed resolutions requiring them or otherwise deemed appropriate; (6) the current restated texts of the *By-Laws*, the *Regulations for the General Shareholders' Meeting*, the *Regulations of the Board of Directors*, and the regulations of the committees of the Board of Directors; (7) the current texts of the *Corporate Policies* (in a full-text or summarised version) and of the other documents making up the Company's Corporate Governance System; (8) the *Annual Corporate Governance Report* for fiscal year 2011; (9) the *Annual Director Compensation Report*; (10) the *Annual Activities Report of the Audit and Risk Supervision Committee* for fiscal year 2011; (11) the *Sustainability Report* for fiscal year 2011; (12) the form of attendance, proxy-granting, and distance voting card; (13) the professional and biographical profile of the directors whose ratification, re-election, or appointment is proposed to the shareholders at the General Shareholders' Meeting; and (14) the *Shareholder's Guide* approved by the Board of Directors.

In addition, information is made continuously available to the shareholders on the Company's corporate website (www.iberdrola.com) concerning the total number of shares and voting rights on the date hereof.

VI.- Electronic Shareholders' Forum

Pursuant to the provisions of law, an Electronic Shareholders' Forum has been made available on the corporate website (www.iberdrola.com), the use of which shall conform to the legal purpose thereof and to the guarantees and operating rules established by the Company. Duly authorised shareholders or groups of shareholders may access such Forum.

VII.- Attendance Bonus

The Company shall pay an attendance bonus in the gross amount of 0.005 euro per share to the shareholders duly present in person or by proxy at the General Shareholders' Meeting.

VIII.- Participation of Notary Public

The Board of Directors has resolved to request the presence of a notary public to draw up the minutes of the General Shareholders' Meeting.

IX.- Dissemination of the Proceedings

All or part of the proceedings of the General Shareholders' Meeting may be recorded and broadcast by audiovisual means (through Internet video and availability to the public on the Company's corporate website (www.iberdrola.com)) and disseminated through social networks. In particular, the Company intends to broadcast the General Shareholders' Meeting live on Twitter, in both Spanish and English, and to provide information on the proceedings on all of the social networks in which it participates: Facebook, Flickr, SlideShare, and YouTube. By entering the premises where the General Shareholders' Meeting is to be held, attendees consent to the processing of their personal data (including voice, name, and image) through such media.

In addition, the Company intends to make premises available in Madrid (Spain), at calle Tomás Redondo número 1, and in Glasgow (Scotland), at Scotland's National Stadium, Hampden Park, Letherby Drive, where duly identified shareholders may follow the proceedings of the General Shareholders' Meeting through distance connection systems, without this entailing in any way the possibility of exercising the right to attend, to participate, or to vote at such premises.

X.- Personal Data Protection

The personal data that the shareholders provide to the Company (upon the exercise or delegation of their rights to receive information, to attend, to proxy representation, and to vote at the General Shareholders' Meeting) or that are provided by the financial institutions and by the investment services companies that are depositaries or custodians of the shares held by such shareholders, as well as by the entities that, pursuant to securities market regulations, are in charge of the book-entry registries, shall be dealt with by the Company in order to manage the development, compliance with, and supervision of the existing shareholding relationship (specifically, but without limitation, in connection with the call to and holding of the General Shareholders' Meeting, and the dissemination thereof). To such end, the data will be kept in computer files for which the Company is responsible. Such data will be provided to the notary public solely in connection with the drawing-up of the notarial minutes of the General Shareholders' Meeting.

In all cases and when legally applicable, the owner of the data will be entitled to exercise the rights of access, correction, opposition, or deletion of the data collected by the Company. Such rights may be exercised, on such terms and in compliance with such requirements as are established by applicable law for such purpose, by means of a letter addressed to the Company at Plaza Euskadi número 5, 48009 Bilbao.

If the shareholder includes personal data of other individuals on the attendance, proxy-granting, and distance voting card, the shareholder must advise them of the details set forth in the preceding paragraphs and comply with any other requirements that may apply for the proper provision of the personal data to the Company, without the Company having to take any additional action.

XI.- Simultaneous and Consecutive Interpretation

The Company will make available the equipment required for the simultaneous interpretation of presentations made in Spanish into English, Euskera, Portuguese, and Spanish sign language, as well as for the consecutive interpretation into Spanish of the presentations of shareholders wishing to speak in Euskera, English, or Portuguese.

XII.- Additional Information

For further information on the General Shareholders' Meeting, shareholders may contact the Office of the Shareholder (address: Plaza Euskadi número 5, 48009 Bilbao and calle Tomás Redondo número 1, 28033 Madrid / phone: (34) 900 100 019 (hours: Monday through Friday, from 9:00 to 19:00) / e-mail: accionistas@iberdrola.com).

Furthermore, within the framework of its commitment to transparency and to the provision of information to all its shareholders, the Company has made available a section on its corporate website called the Quick Shareholder's Guide, which allows for simple and intuitive access to information of interest relating to the Company, in both Spanish and English. In this section, which may be accessed directly through www.iberdrola.com/guiarapidadelaccionista/en, information may be viewed on all

matters relating to the holding of the General Shareholders' Meeting and the exercise of the right to proxy representation.

Although this notice contemplates two calls to meeting, the Board of Directors advises shareholders, in order to save them unnecessary inconvenience, that it is expected that the quorum required by law, the *By-Laws*, and the *Regulations for the General Shareholders' Meeting* will be met on first call and that therefore, in all likelihood, the General Shareholders' Meeting will be held on 22 June 2012.

Bilbao, 8 May 2012

The general secretary and secretary of the Board of Directors

ITEM ONE ON THE AGENDA

Approval of the individual annual financial statements of the Company and of the annual financial statements consolidated with those of its subsidiaries for the fiscal year ended on 31 December 2011.

PROPOSED RESOLUTION RELATING TO ITEM ONE

To approve 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 the consolidated annual 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 31 December 2011, which were finalised by the Board of Directors at its meeting held on 20 February 2012.

ITEM TWO ON THE AGENDA

Approval of the individual management report of the Company and of the consolidated management report of the Company and its subsidiaries for the fiscal year ended on 31 December 2011.

PROPOSED RESOLUTION RELATING TO ITEM TWO

To approve the individual management report of IBERDROLA, S.A. and the consolidated management report of IBERDROLA, S.A. and its subsidiaries for the fiscal year ended on 31 December 2011, which were finalised by the Board of Directors at its meeting held on 20 February 2012.

ITEM THREE ON THE AGENDA

Approval of the management and activities of the Board of Directors during the fiscal year ended on 31 December 2011.

PROPOSED RESOLUTION RELATING TO ITEM THREE

To approve the management of the Company and the activities of the Board of Directors during the fiscal year ended on 31 December 2011.

ITEM FOUR ON THE AGENDA

Re-election of the auditor of the Company and of its consolidated group for fiscal year 2012.

PROPOSED RESOLUTION RELATING TO ITEM FOUR

To re-elect Ernst & Young, S.L. as auditor of the Company and of its consolidated group to conduct the audits for fiscal year 2012, authorising the Board of Directors, with express powers of substitution, to enter into the respective services agreement, on the terms and conditions it deems appropriate, with authority to make such amendments as may be required in accordance with the law applicable at any time.

This resolution is adopted at the proposal of the Board of Directors and upon the prior proposal, in turn, of the Audit and Risk Supervision Committee.

It is stated for the record that Ernst & Young, S.L. has its registered office in Madrid, at Plaza Pablo Ruiz Picasso s/n, Edificio Torre Picasso, 28020, Tax Identification Code (C.I.F.) number B-78970506. It is registered with the Madrid Commercial Registry at folio 1, volume 1,225, page M-23123, and with the Official Auditors' Registry (*Registro Oficial de Auditores de Cuentas*) (ROAC) under number S0530.

ITEM FIVE ON THE AGENDA

Approval of the proposal for the allocation of profits/losses and the distribution of dividends for the fiscal year ended on 31 December 2011.

PROPOSED RESOLUTION RELATING TO ITEM FIVE

To approve the allocation of profits/losses and the distribution of dividends presented by the Board of Directors at its meeting held on 20 February 2012, which is described below.

To distribute, with a charge to the results for the fiscal year ended on 31 December 2011, a gross dividend of three euro cents for each share of IBERDROLA, S.A. carrying the right to receive it and that is outstanding on the date that the respective payment is made.

Payment of the aforementioned dividend is planned to be made on 4 July 2012.

This dividend shall be distributed through the entities members of *Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal* (Securities Registration, Clearing, and Settlement Systems Management Company) (Iberclear), the Board of Directors being hereby authorised for such purpose, with the express power of substitution, to establish the specific date for payment of the dividend, to designate the entity that is to act as paying agent, and to take such other steps as may be required or appropriate for the successful completion of the distribution.

The basis for distribution and the resulting distribution are as follows:

BASIS FOR DISTRIBUTION:

Balance from prior fiscal years:	1,020,556,921.20
Profits for fiscal year 2011:	219,980,492.70
TOTAL:	1,240,537,413.90

DISTRIBUTION:

To legal reserve (minimum amount):	21,998,049.27
To dividends (maximum amount – amount corresponding to payment of the dividend for fiscal year 2011 in the gross amount of three euro cents per share)	179,185,950.00
To remainder:	1,039,353,414.63
TOTAL:	1,240,537,413.90

ITEM SIX ON THE AGENDA

Approval of an increase in share capital by means of a scrip issue at a maximum reference market value of two thousand eighteen million euros for the free-of-charge allocation of new shares to the shareholders of the Company. Offer to the shareholders of 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 shares issued 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 express powers of substitution, including, among others, the power to implement the capital increase by means of a scrip issue on one or, at most, two occasions (with the reference market value not exceeding one thousand twelve million euros on the first implementation or one thousand six million euros on the second implementation, if any) and the power to amend article 5 of the *By-Laws* in each implementation.

PROPOSED RESOLUTION RELATING TO ITEM SIX

1. **Capital Increase with a Charge to Reserves**

It is hereby resolved to increase the share capital by the amount resulting from multiplying (a) the par value of each share of IBERDROLA, S.A. (“**Iberdrola**” or the “**Company**”), equal to seventy-five euro cents, by (b) the total determinable number of new shares of Iberdrola to be issued, in accordance with the formula set forth in section 2 below, on the date or dates of implementation of the increase in share capital (the total number of new Iberdrola shares issued by way of implementation of this resolution will be referred to as the “**Total New Shares**”, and the number of Total New Shares issued on a specific implementation date, the “**New Shares**” and each, individually, a “**New Share**”), which amount may not in any event exceed the sum of the reference market value of the New Shares equal to a maximum of two thousand eighteen million euros (the “**Capital Increase**”).

The Capital Increase will be carried out by means of the issuance and flotation, if applicable, on each of the two possible implementation dates, of the New Shares, which will be ordinary shares having a par value of seventy-five euro cents each, of the same class and series as those currently outstanding, represented by book entries.

The Capital Increase will be entirely carried out with a charge to the reserves contemplated in section 303.1 of the Companies Act. On the occasion of each Instalment of the Capital Increase, the Board of Directors (with express powers of substitution) will determine the reserve(s) to be used and the amount of such reserve(s) in accordance with the balance sheet used as a basis for the transaction.

The Total New Shares will be issued at par, i.e. at their par value of seventy-five euro cents, without a share premium, and will be allocated to the shareholders of the Company without charge.

Within the year following the date of approval of this resolution, the Capital Increase may be implemented by the Board of Directors (with express powers of substitution) on one date, or, at most, on two different dates, at its sole discretion and, therefore, without having to resort again to the shareholders at a General Shareholders' Meeting, and by taking into consideration the legal and financial conditions prevailing at the time of implementing the Capital Increase, with a view to offering the Company's shareholders a flexible and efficient compensation formula. The dates on which the Capital Increase is expected to be implemented will be, in the case of the first instalment, around the month of July 2012, and if there is a second instalment, around the months of December 2012 – January 2013 (each total or partial implementation of the Capital Increase will be referred to as an “**Instalment**” and, collectively, the “**Instalments**”). The number of New Shares to be issued in each Instalment will be such as results from the formula set forth in section 2 below, provided, however, that neither the Exercised Option Amount (as such term is defined in section 2 below) in each Instalment –taken individually– nor the sum of the Exercised Option Amounts may in any event exceed the maximum amount of two thousand eighteen million euros.

It is expected, in any event, that the Exercised Option Amount at the time of the first Instalment will be a maximum of one thousand twelve million euros.

Pursuant to the provisions of section 311 of the Companies Act (*Ley de Sociedades de Capital*), the possibility of an incomplete allocation of the Capital Increase is contemplated in the event that Iberdrola, a company within its group, or a third party waives all or part of the free-of-charge allocation rights to which they are entitled under each Instalment, for which reason, in the event of such waiver, the share capital will be increased by the corresponding amount.

2. New Shares in Each Instalment

The number of New Shares to be issued in each Instalment will be the number resulting from the application of the following formula, rounded downwards to the next lower integer:

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

where:

NNS = Number of New Shares to be issued on the date of the applicable Instalment;

TNShrs. = Number of outstanding Iberdrola shares on the date of the applicable Instalment; and

Num. rights = Number of free-of-charge allocation rights required for the allocation of one New Share under the applicable Instalment, which number will result from the application of the following formula, rounded to the next higher integer:

$$\text{Num. rights} = \text{TNShrs.} / \text{Provisional number of shares.}$$

where:

$$\text{Provisional number of shares} = \text{Exercised Option Amount} / \text{ListPri}$$

For these purposes, “**Exercised Option Amount**” will mean the maximum reference market value of the portion of the Capital Increase that the Board of Directors (with express powers of substitution) implements on a particular Instalment date. The Exercised Option Amount under the first Instalment (which is expected to take place in July 2012) will not be greater than one thousand twelve million euros. In the event that there is a second (and last) Instalment (which would take place on dates close to the months of December 2012 or January 2013), the Exercised Option Amount will depend on the New Shares that have ultimately been allocated to the Company’s shareholders under the first Instalment, and it may in no event exceed one thousand six million euros. Thus, the sum of each of the Exercised Option Amounts may in no event exceed the sum of two thousand eighteen million euros.

For its part, “**ListPri**” will be the result of applying a discount between 0% and 10% (the “**Discount**”) to the arithmetic mean of the average weighted listing prices of the Company’s shares on the Bilbao, Madrid, Barcelona, and Valencia Stock Exchanges in the five trading sessions prior to the resolution of the Board of Directors (or of the body acting by delegation therefrom) which determines the number of free-of-charge allocation rights needed for the allocation of one new share, as well as the “Purchase Price” (as such term is defined below), rounded to the closest one-thousandth part of one euro.

For purposes of the calculation of the ListPri (and, therefore, of the Number of free-of-charge allocation rights needed for the allocation of one New Share under the respective Instalment), as well as of the Purchase Price (as defined below), the Board of Directors of Iberdrola will be specifically authorised (with express powers of substitution) to establish the specific Discount rate, taking into account market conditions and the corporate interest.

3. Free-of-charge Allocation Rights

Under each Instalment, each outstanding share of the Company will grant its holder one free-of-charge allocation right. The number of free-of-charge allocation rights required to receive a New Share will be automatically determined according to the ratio existing between the number of New Shares and the number of outstanding shares (TNShrs.), calculated by using the formula contained in section 2 above. Specifically, the shareholders will be entitled to receive one New Share for as many

free-of-charge allocation rights, determined as provided in section 2 above (Num. rights), as are held by them.

In the event that, under a specific Instalment, the number of free-of-charge allocation rights required for the allocation of one share (Num. rights) multiplied by the number of New Shares (NNS) results in a number that is lower than the number of outstanding shares (TNShrs.), Iberdrola (or such entity within its Group, if any, as holds Iberdrola shares) will waive a number of free-of-charge allocation rights equal to the difference between both figures for the sole purpose that the number of New Shares be a whole number and not a fraction.

Free-of-charge allocation rights will be allocated under each Instalment to the Iberdrola shareholders that are registered as such in the book-entry records of *Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal* (IBERCLEAR) at 23:59, Madrid time, on the day of publication of the notice of implementation of each Instalment of the Capital Increase in the Official Bulletin of the Commercial Registry. The free-of-charge allocation rights will be transferable upon the same terms as the shares from which they derive. The free-of-charge allocation rights may be traded on the market during such term as is established by the Board of Directors (with express powers of substitution), which term will not be less than fifteen calendar days, beginning on the day following the day of publication of the announcement of the implementation of each Instalment of the Capital Increase in the Official Bulletin of the Commercial Registry. During such term, a sufficient number of free-of-charge allocation rights may be acquired on the market in the proportion required to receive New Shares.

4. Irrevocable Commitment to Acquire the Free-of-charge Allocation Rights

In each Instalment, the Company will assume, on the terms and conditions set forth below, the irrevocable commitment to purchase the free-of-charge allocation rights at the price set forth below (the “**Purchase Commitment**”). The Purchase Commitment will be in effect and may be accepted during such term, within the period for trading the rights, as is established by the Board of Directors (with express powers of substitution) in respect of each Instalment. For such purpose, it is hereby resolved to authorise the Company to acquire the aforementioned free-of-charge allocation rights up to the maximum limit of the total number of rights issued, in all cases with due observance of any applicable legal restrictions.

The subject matter of the Purchase Commitment assumed by the Company will be such as is determined by the Board of Directors of Iberdrola, in exercise of the powers delegated thereto by the shareholders at the General Shareholders’ Meeting (with express powers of substitution) and taking into account market conditions and the corporate interest, based on the following two alternatives:

- (i) the free-of-charge allocation rights received without charge by the shareholders appearing to have status as such in the book-entry records of

Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal (IBERCLEAR) at 23:59, Madrid time, on the day of publication of the announcement of each Instalment of the Capital Increase in the Official Bulletin of the Commercial Registry, excluding such rights as have been transferred on the market; or

- (ii) all of the free-of-charge allocation rights, regardless of whether the holders thereof have received them from the Company without charge because of their status as shareholders at the time of allocation thereof or have acquired them on the market.

The “**Purchase Price**” will be the fixed price at which the Company will acquire each free-of-charge allocation right under the Purchase Commitment in each Instalment, and will be calculated in accordance with the following formula, rounded to the closest one-thousandth part of one euro and, in the case of one-half of one-thousandth of one euro, to the next higher one-thousandth part of one euro:

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

In addition, the Company will guarantee to the shareholders that decide to transfer their rights under the Purchase Commitment that the Purchase Price that they will obtain will at no time be lower than that that would result if no discount were applied.

Therefore, in the event that the Discount applied is other than zero, the term “**Purchase Price**” will mean the greater of the following amounts: (a) the Purchase Price calculated in accordance with the formula set forth above, and (b) the price resulting from the application of the mathematical formulas described in this section and in section 2 above, assuming a Discount of 0% solely for the purpose of calculating the Purchase Price.

The acquisition by the Company of the free-of-charge allocation rights as a consequence of the Purchase Commitment under each Instalment will be effected with a charge to the reserves contemplated in section 303.1 of the Companies Act.

5. Balance Sheet for the Transaction and Reserve with a Charge to which the Capital Increase is Carried Out

The balance sheet used as a basis for the transaction is the one for the fiscal year ended on 31 December 2011, duly audited and submitted for approval of the shareholders at this General Shareholders’ Meeting under item one on the agenda.

The Capital Increase will be entirely carried out with a charge to the reserves contemplated in section 303.1 of the Companies Act. On the occasion of each Instalment of the Capital Increase, the Board of Directors (with express powers of substitution) will determine the reserve(s) to be used and the amount of such reserve(s) in accordance with the balance sheet used as a basis for the transaction.

6. Representation of the Total New Shares

The Total New Shares will be represented by book entries, the book-entry registration of which is entrusted to *Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal* (IBERCLEAR) and its member entities.

7. Rights Attaching to the New Shares

The New Shares will grant the holders thereof the same financial, voting, and like rights as the ordinary shares of Iberdrola currently outstanding, as from each date on which a portion of or the entire Capital Increase is declared to be subscribed and paid up. In particular, the holders of the New Shares will be entitled to receive the interim dividend and supplemental dividend amounts, if any, that are paid as from each date on which the Capital Increase is declared to be subscribed and paid up.

8. Shares on Deposit

In each Instalment, once the period for trading the free-of-charge allocation rights has ended, the New Shares that could not be allocated for reasons not attributable to Iberdrola will be kept on deposit for those who provide evidence that they are the lawful holders of the corresponding free-of-charge allocation rights. Once three years have passed from the end of the aforementioned period for trading the free-of-charge allocation rights, the New Shares that are still pending allocation may be sold in accordance with the provisions of section 117 of the Companies Act, at the expense and peril of the interested parties. The cash amount from such sale will be deposited with Banco de España or with Caja General de Depósitos at the disposal of the interested parties.

9. Application for Admission to Listing

It is hereby resolved to make application, in each Instalment, for listing the New Shares to be issued pursuant to this capital increase resolution on the Bilbao, Madrid, Barcelona, and Valencia Stock Exchanges, through the Automated Quotation System (*Sistema de Interconexión Bursátil*) (Electronic Market), and to carry out such acts and formalities as are required and submit the documents needed to the appropriate bodies for admission to listing of the New Shares issued in each Instalment as a consequence of the approved Capital Increase, with an express statement for the record of Iberdrola's submission to the rules that may now or hereafter exist with respect to Stock Exchange matters, and especially regarding trading, continued listing, and delisting on or from official markets.

It is expressly stated for the record that, in the event of a subsequent request for delisting of the Iberdrola shares, such delisting will be carried out with such formalities as apply thereto and, in such event, the interests of the shareholders opposing or not voting on the resolution to delist will be safeguarded, in compliance with the

requirements set out in the Companies Act and related provisions, all in accordance with Act 24/1988, of 28 July, on the Securities Market and the provisions issued by way of implementation thereof in effect at any time.

10. Implementation of the Capital Increase

Within a period of one year from the date of this resolution, the Board of Directors (with express powers of substitution) may set the date or dates on which the Capital Increase resolution is to be carried out (each of such dates, an Instalment under the Capital Increase, bearing in mind that the Capital Increase may only be implemented on two occasions at most) and set the terms and conditions thereof as to all matters not provided for in this resolution (including, in particular, the Discount). Notwithstanding the foregoing, if the Board of Directors (with express powers of substitution) does not deem it advisable to implement, in whole or in part, the Capital Increase whereby the Option is provided, it may, within the aforementioned period, refrain from implementing the Capital Increase, with the duty to inform the shareholders thereof at the next General Shareholders' Meeting held. Specifically, the Board of Directors will analyse and take into account the market conditions, the circumstances of the Company itself, or those deriving from an event that has social or financial significance, and if these or other factors make it inadvisable, in its opinion, to implement the Capital Increase, it may decide not to implement it. In addition, the Capital Increase will be deprived of any and all effect in the event that the Board of Directors does not exercise the powers delegated thereto within the period of one year established by the shareholders at the General Shareholders' Meeting for implementation of the resolution.

Once each period for trading the free-of-charge allocation rights in respect of each Instalment has ended:

(a) The New Shares will be allocated to those who, according to the records maintained by the *Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal* (IBERCLEAR) and its member entities, are the holders of free-of-charge allocation rights in the proportion resulting from section 3 above.

(b) The period for trading the free-of-charge allocation rights will be declared to have ended and the appropriation of the account(s) with a charge to which the Instalment will be implemented will be formalised on the books in the amount of the Capital Increase that has been approved for implementation on such Instalment date, with which appropriation such portion will be paid up.

Likewise, once each period for trading the free-of-charge allocation rights has ended, the Board of Directors (with express powers of substitution) will adopt the resolutions required to amend the *By-Laws*, so that they reflect the new amount of the share capital and the number of New Shares resulting from each Instalment, and to make application, in each Instalment, for listing the New Shares on the Spanish Stock Exchanges.

11. Delegation of Powers to Implement the Capital Increase

Pursuant to the provisions of section 297.1.a) of the Companies Act, it is hereby resolved to delegate to the Board of Directors, with express powers of substitution, the power to set the date or dates on which the Capital Increase resolution is to be carried out, if at all (such dates being the Instalment dates, bearing in mind that, in any event, the maximum number of Instalments shall be two) and to set the terms and conditions of the Capital Increase as to all matters not provided for in this resolution. In particular, and by way of example only, the following powers are delegated to the Board of Directors, with express powers of substitution:

(a) Set the Instalment dates on which the resolution adopted to increase the share capital must be implemented (on one or two occasions), which shall in any case be within a period of one year from approval thereof.

(b) Determine the Discount within the margins established in this resolution for purposes of the calculation of the number of rights needed for the allocation of one New Share in each Instalment.

(c) Set the exact amount of the Capital Increase, the number of Total New Shares, each of the Exercised Option Amounts, the number of Total New Shares in each Instalment, and the free-of-charge allocation rights necessary for the allocation of New Shares under each Instalment, applying the rules established by the shareholders at this General Shareholders' Meeting for such purpose.

(d) Determine, in each Instalment, the reserves, among those contemplated in this resolution, with a charge to which each Instalment of the Capital Increase and the acquisition by the Company of the free-of-charge allocation rights as a consequence of the Purchase Commitment will be implemented.

(e) Designate, on each Instalment date, the company or companies that will assume the duties of agent and/or financial advisor in connection with each Instalment, and sign all required contracts and documents for such purpose.

(f) Set, for each Instalment, the duration of each period for trading the free-of-charge allocation rights.

(g) In each Instalment, set the period during which the Purchase Commitment will be in effect and determine the subject matter of the Purchase Commitment within the limits established in this resolution.

(h) In each Instalment, fulfil the Purchase Commitment, paying the corresponding amounts to those who have accepted such commitment

(i) In each Instalment, declare the portion of the Capital Increase resolved to be carried out to be closed and implemented, setting, for such purpose, the number of New

Shares actually allocated under each Instalment and, therefore, the amount by which the Company's share capital must be increased in accordance with the rules established by the shareholders at this General Shareholders' Meeting, as well as declare, if applicable, the existence of an incomplete allocation.

(j) Amend, in each Instalment, article 5 of the *By-Laws* of Iberdrola regarding share capital, in order for it to conform to the result of the implementations of the Capital Increase.

(k) Waive, in each Instalment, the New Shares corresponding to the free-of-charge allocation rights held by the Company at the end of each period for trading such rights as a result of the Purchase Commitment.

(l) Waive, in each Instalment (on one or more occasions), any free-of-charge allocation rights to subscribe for New Shares, for the sole purpose of facilitating the number of New Shares being a whole number and not a fraction.

(m) Take, in each Instalment, all steps necessary for the New Shares covered by the capital increase to be included in the book-entry records of *Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal* (IBERCLEAR) and admitted to listing on the Bilbao, Madrid, Barcelona, and Valencia Stock Exchanges.

(n) Take any actions that are necessary or appropriate to implement and formalise the Capital Increase before any public or private entities or agencies, whether domestic or foreign, including acts for purposes of representation or supplementation or to cure defects or omissions that might prevent or hinder the full effectiveness of the foregoing resolutions.

Pursuant to the provisions of section 249.2 of the Companies Act, the Board of Directors is expressly authorised to in turn delegate the powers referred to in this resolution.

ITEM SEVEN ON THE AGENDA

Ratification of the interim appointment of directors to fill vacancies, and re-election and appointment of directors.

PROPOSED RESOLUTIONS RELATING TO ITEM SEVEN

- a) To ratify the appointment of Mr José Luis San Pedro Guerenabarrena as director designated on an interim basis by resolution adopted by the Board of Directors at the meeting held on 24 April 2012, after a favourable report from the Nominating and Compensation Committee, with the status of “executive director” and with his term of office expiring on 26 March 2015, i.e. the date of expiration of the term of office of the member previously in such position, Mr José Ignacio Berroeta Echevarría, whom he replaces.
- b) To ratify the appointment of Mr Ángel Jesús Acebes Paniagua as director designated on an interim basis by resolution adopted by the Board of Directors at the meeting held on 26 April 2012, after a favourable report from the Nominating and Compensation Committee, with the status of “other external director” and with his term of office expiring on 24 March 2015, i.e. the date of expiration of the term of office of the member previously in such position, Mr Ricardo Álvarez Isasi, whom he replaces.
- c) To re-elect Mr Xabier de Irala Estévez as director to a term of four years, as provided in the *By-Laws*. The re-election of the director, classified as external proprietary director, is submitted by the Board of Directors to the shareholders at the General Shareholders’ Meeting after a favourable report from the Nominating and Compensation Committee.
- d) To re-elect Mr Iñigo Víctor de Oriol Ibarra as director to a term of four years, as provided in the *By-Laws*. The re-election of the director, classified as external independent director, is submitted by the Board of Directors to the shareholders at the General Shareholders’ Meeting at the proposal of the Nominating and Compensation Committee.
- e) To re-elect Ms Inés Macho Stadler as director to a term of four years, as provided in the *By-Laws*. The re-election of the director, classified as external independent director, is submitted by the Board of Directors to the shareholders at the General Shareholders’ Meeting at the proposal of the Nominating and Compensation Committee.
- f) To re-elect Mr Braulio Medel Cámara as director to a term of four years, as provided in the *By-Laws*. The re-election of the director, classified as external independent director, is submitted by the Board of Directors to the shareholders at the General Shareholders’ Meeting at the proposal of the Nominating and Compensation Committee.

- g) To re-elect Ms Samantha Barber as director to a term of four years, as provided in the *By-Laws*. The re-election of the director, classified as external independent director, is submitted by the Board of Directors to the shareholders at the General Shareholders' Meeting at the proposal of the Nominating and Compensation Committee.
- h) To appoint Mr Francisco Pons Alcoy as director to a term of four years, as provided in the *By-Laws*. The appointment of the director, classified as external proprietary director, is submitted by the Board of Directors to the shareholders at the General Shareholders' Meeting after a favourable report from the Nominating and Compensation Committee.

ITEM EIGHT ON THE AGENDA

Authorisation to the Board of Directors, with the express power of substitution, for a term of five years, to issue: (1) 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 limit of twenty billion euros, and (2) notes up to a maximum limit at any time, independently of the previously-mentioned limit, of six billion euros. Authorisation for the Company to guarantee, within the limits set forth above, new issuances of securities by its subsidiaries. Revocation of the authorisation granted for such purpose by the shareholders at the General Shareholders' Meeting of 27 May 2011 to the extent of the unused amount.

PROPOSED RESOLUTION RELATING TO ITEM EIGHT

To delegate to the Board of Directors, as permitted by section 319 of the Regulations of the Commercial Registry and the general provisions governing the issuance of debentures, as well as pursuant to the *By-Laws*, the power to issue negotiable securities under the following terms:

1. Securities to be Issued.- The negotiable securities contemplated in this delegation may be simple debentures or bonds, notes, and other fixed-income securities of a like nature, as well as preferred stock.

2. Period of the Delegation.- The Board of Directors may use this delegation on one or more occasions within a maximum period of five years following the date of adoption of this resolution.

3. Maximum Amount under this Delegation.-

- a) The aggregate maximum amount of the issuance or issuances of simple debentures or bonds and other fixed-income securities of a like nature (other than notes), as well as of preferred stock, approved under this delegation shall be twenty billion euros or the equivalent thereof in another currency.
- b) The outstanding balance of the notes that are issued under this delegation shall at no time exceed the sum of six billion euros or the equivalent thereof in another currency. This limit is independent of the limit established in sub-section a) above.

4. Scope of the Delegation.- The delegation of powers to issue the securities contemplated in this resolution shall extend, as broadly as is required by law, to the establishment of the different terms and conditions applicable to each issuance (par value, issue price, reimbursement price, domestic or foreign currency of the issuance, form of representation, interest rate, amortisation, subordination clauses, guarantees supporting the issuance, place of issuance, applicable law, if appropriate, establishment

of the internal regulations of the bondholders' syndicate and appointment of the bondholders' syndicate representative (*comisario*) in the case of the issuance of simple debentures or bonds, if required, etc.) and to the conduct of any and all formalities that may be necessary, including those provided for in the applicable securities market regulations, for the implementation of the specific issuances that may be resolved to be effected under this delegation.

5. Admission to Listing.- The Company shall, where appropriate, make application for listing on Spanish or foreign, official or unofficial, organised or other secondary markets of the securities issued by the Company pursuant to this delegation, and the Board of Directors is authorised, as broadly as is required by law, to carry out all formalities and acts required for this purpose with the appropriate authorities of the various securities markets.

It is expressly stated for the record that if application is subsequently made for delisting of the securities issued by the Company under this delegation, it shall be made by complying with the same formalities as the application for listing, to the extent applicable, and, in such case, the interests of the shareholders or bondholders opposing or not voting on the resolution shall be safeguarded in compliance with the requirements established by applicable law. It is also expressly stated that the Company undertakes to abide by all current or future Stock Market laws or regulations and, particularly, by those governing trading, continued listing, and delisting of securities.

6. Guarantee in Support of Issuances of Securities Effected by the Company's Subsidiaries.- As permitted by the *By-Laws*, the Board of Directors is also authorised to guarantee, on behalf of the Company and within the limits set forth above, new issuances of securities carried out by the subsidiaries of the Company during the effective period of this resolution.

7. Power of Substitution.- The Board of Directors is hereby expressly authorised to delegate the powers contemplated in this resolution, as permitted by section 249.2 of the Companies Act.

This resolution deprives of effect, to the extent of the unused amount, the authorisation to issue simple debentures or bonds and other fixed-income securities of a like nature, as well as preferred stock and notes, granted for such purpose to the Board of Directors by the shareholders at the General Shareholders' Meeting held on 27 May 2011.

ITEM NINE ON THE AGENDA

Authorisation to the Board of Directors, with the express power of substitution, to apply for the listing on and delisting from Spanish or foreign, official or unofficial, organised 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 authorisation granted to such end by the shareholders at the General Shareholders' Meeting of 27 May 2011 is hereby deprived of effect.

PROPOSED RESOLUTION RELATING TO ITEM NINE

To authorise the Board of Directors to:

1. Apply, if appropriate, for the listing on Spanish or foreign, official or unofficial, organised or other secondary markets of the shares, debentures, bonds, notes, preferred stock, or any other securities issued or to be issued by the Company, subject to applicable regulations and, particularly, to the regulations governing trading, continued listing, and delisting of securities.
2. Apply, if appropriate, for the delisting of the securities mentioned in the preceding sub-section, which will be carried out by complying with the same formalities and with strict observance of all applicable securities market regulations.
3. Adopt all such resolutions as it deems necessary or appropriate in order to cancel or transform into book-entry securities the securities representing the debentures or bonds issued by the Company, whenever required for such securities to be admitted to listing and, once admitted, for the continued listing thereof, executing all such private or public documents as may be required for such purpose.
4. Delegate all or any of the powers mentioned in this resolution.

This resolution cancels and deprives of effect the authorisation to apply for the listing on and delisting from Spanish or foreign, official or unofficial, organised or other secondary markets of the shares, debentures, bonds, notes, preferred stock, or any other securities issued or to be issued, and to adopt the resolutions required to ensure the continued listing of the shares, debentures, or other securities of the Company that may then be outstanding granted to the Board of Directors by the shareholders at the General Shareholders' Meeting of 27 May 2011.

ITEM TEN ON THE AGENDA

Authorisation to the Board of Directors, with the express power of substitution, to create and fund associations, entities, and foundations, up to a maximum limit of twelve million euros per annum, pursuant to applicable legal provisions, for which purpose the authorisation granted by the shareholders at the General Shareholders' Meeting of 27 May 2011 is hereby deprived of effect to the extent of the unused amount.

PROPOSED RESOLUTION RELATING TO ITEM TEN

To authorise the Board of Directors, on behalf of the Company –either directly or through its wholly-owned subsidiaries– to participate, either alone or together with other Spanish or foreign individuals or legal entities, and as founder, in the creation of one or more associations, entities, and foundations governed by private Law for purposes of general interest (social assistance, public-spirited, educational, cultural, scientific, sports, health, cooperation for development, environmental protection, economic promotion or promotion of research, promotion of volunteerism, defence of human rights, or any other purposes permitted by law), with the covenants, clauses, conditions, representations and agreements it deems appropriate, providing for such purpose, as initial funding or as mere contributions, on a single occasion, or in part or successively, cash or such other property or rights as it deems appropriate for each of them, and to contribute cash or such other property or rights as it deems appropriate to the entities and foundations in which the Company –or its wholly-owned subsidiaries– is a member of the board of trustees or has participated in the creation thereof or has established an agreement for collaboration therewith, up to the aggregate amount, for both items, of twelve million euros a year (which amount is the result of adding to the sum of ten million euros authorised by the shareholders at the General Shareholders' Meeting of 27 May 2011 the sum of two million euros, corresponding to the sponsorship activities of the Brazilian distribution company Elektro, acquired during fiscal year 2011) or the equivalent thereof in other currencies for all foundations, entities, and associations during the effective period of this authorisation. To such end, the Board of Directors is expressly authorised to execute the notarial instruments of creation, draft, and approve the by-laws of each such association, entity, and foundation, with authority to accept positions on behalf of the Company and, generally, to take all such decisions as may be required or appropriate for the implementation of and compliance with this resolution.

This authorisation is granted for a maximum period that will expire on the date of the General Shareholders' Meeting at which the annual financial statements for the fiscal year ending 31 December 2012 are approved. Such authorisation may be expressly extended by subsequent resolutions of the shareholders at the General Shareholders' Meeting. The maximum period of this authorisation is deemed to be established without prejudice to the possible successive funding which, in accordance with applicable legislation and within the established limit, may have been committed in

the above-mentioned period and be pending contribution by the Company –or its wholly-owned subsidiaries– upon expiration of such period.

The use made of the authorisation approved by this resolution will be reported to the shareholders at a General Shareholders' Meeting.

The Board of Directors may, in turn, delegate all powers granted to it hereby.

This resolution cancels and deprives of effect, to the extent of the unused amount, the authorisation to create and fund associations and foundations granted to the Board of Directors by the shareholders at the General Shareholders' Meeting held on 27 May 2011.

ITEM ELEVEN ON THE AGENDA

Amendment of the *By-Laws*.

PROPOSED RESOLUTIONS RELATING TO ITEM ELEVEN

a) Amendment of articles 19.1, 19.4, 20.1, 20.2, 20.4, and 23.3 of the *By-Laws* for adjustment thereof to the amendment of the Companies Act by Act 25/2011.

In order to adjust the text of the Company's *By-Laws* to the amendments made to the Companies Act (*Ley de Sociedades de Capital*) by Act 25/2011, of 1 August, on the partial amendment of the Companies Act and the adoption of Directive 2007/36/EC, of the European Parliament and of the Council, of 11 July, on the exercise of certain rights of shareholders in listed companies, it is proposed to amend articles 19.1, 19.4, 20.1, 20.2, 20.4, and 23.3 of the *By-Laws*, which shall hereafter read as follows:

Article 19. Call of the General Shareholders' Meeting

"1.- The General Shareholders' Meeting must be formally called by the Board of Directors through an announcement published as much in advance as required by law.

The announcement of the call to meeting shall be disseminated through the following media, at a minimum:

- a) The Official Bulletin of the Commercial Registry or one of the more widely circulated newspapers in Spain.*
- b) The website of the Spanish National Securities Market Commission (Comisión Nacional del Mercado de Valores).*
- c) The Company's corporate website.*

The notice published on the Company's website shall be accessible on an uninterrupted basis until at least the holding of the General Shareholders' Meeting."

"4. Shareholders representing at least five (5%) per cent of the share capital may request the publication of a supplement to the call of the Ordinary General Shareholders' Meeting including one or more items in the agenda of the call to meeting, so long as the new items are accompanied by a rationale or, if applicable, by a duly substantiated proposal for a resolution, and submit well-founded proposed resolutions regarding matters already included or that should be included in the agenda of the call to meeting of the General Shareholders' Meeting being called."

Article 20. Shareholders' Right to Receive Information

- “1. From the date of publication of the call of the General Shareholders' Meeting through and including the seventh day prior to the date provided for the first call to meeting, the shareholders may request in writing the information or clarifications that they deem are required, or ask written questions that they deem pertinent, regarding the matters contained in the agenda of the call to meeting. In addition, upon the same prior notice and in the same manner, the shareholders may request information or clarifications or ask written questions regarding information accessible to the public which has been provided by the Company to the Spanish National Securities Market Commission (Comisión Nacional del Mercado de Valores) since the holding of the last General Shareholders' Meeting and regarding the auditor's report.”*
- “2. During the holding of the General Shareholders' Meeting, the shareholders may verbally request the information or clarifications that they deem appropriate regarding the matters contained in the agenda, the information accessible to the public that has been provided by the Company to the National Securities Market Commission since the holding of the last General Shareholders' Meeting, and regarding the auditor's report.”*
- “4. The call of the General Shareholders' Meeting shall set forth the means whereby any shareholder may obtain from the Company, without charge and on an immediate basis, the documents that must be submitted for approval by the shareholders at such General Shareholders' Meeting, as well as, if applicable, the management report and the auditors' report.”*

Article 23. Right to Be Represented at the Meeting

- “3. Proxy and voting instructions of shareholders acting through brokers, representatives, or depositaries shall be governed by the provisions of the Company's Corporate Governance System, without prejudice to the regulations applicable to the relations between financial intermediaries and their customers for purposes of the exercise of the rights to grant a proxy and to vote pursuant to law.”*

b) Amendment of articles 24.1, 24.2, and 25.2 of the By-Laws in order to include technical improvements.

In order to replace the name “Vizcaya” with “Bizkaia” (Biscay) in articles 24.1 and 24.2 of the original Spanish version of the text and to replace the cross-reference to article 49.3 with a cross-reference to article 49.2 in article 25.2, it is proposed to amend such articles, which shall hereafter read as follows:

Article 24. Place and Time of the Meeting

- “1. The General Shareholders’ Meeting shall be held at the place indicated in the call to meeting in any municipality within the Historical Territory of Biscay (Bizkaia).”*
- “2. The General Shareholders’ Meeting may be attended by going to the place where the meeting is to be held or, if applicable, to other places provided by the Company and indicated in the call to meeting, and which are connected therewith by any valid systems that allow recognition and identification of the parties attending, permanent communication among the attendees regardless of their location, and participation and voting, all in real time. The principal place of the meeting must be located in the municipality of the Historical Territory of Biscay (Bizkaia) indicated in the call to meeting, but supplemental locations need not be so located. For all purposes relating to the General Shareholders’ Meeting, attendees at any of the sites shall be deemed attendees at the same individual meeting. The meeting shall be deemed to have been held at the principal location thereof.”*

Article 25. Chairman, Secretary, and Presiding Committee of the General Shareholders’ Meeting

- “2. The secretary of the Board of Directors or, in his absence, the vice-secretary of the Board of Directors, shall act as the secretary for the General Shareholders’ Meeting. If there are several vice-secretaries, the order set forth in article 49.2 below shall apply. In the absence of all of the foregoing, the person appointed by the Presiding Committee shall act as secretary for the General Shareholders’ Meeting.”*

ITEM TWELVE ON THE AGENDA

Amendment of articles 8.1, 8.3, 8.4, 9.2, 12.10 (formerly, 12.9), 13.3, 14.1, 14.2, 28.1, 32.1, and 35.2 of the Regulations for the General Shareholders' Meeting and inclusion of two new articles: 12.9 and 13.5.

PROPOSED RESOLUTION RELATING TO ITEM TWELVE

In order to adjust the text of the Company's *Regulations for the General Shareholders' Meeting* to the amendments made to the Companies Act (*Ley de Sociedades de Capital*) by Act 25/2011, of 1 August, on the partial amendment of the Companies Act and the adoption of Directive 2007/36/EC, of the European Parliament and of the Council, of 11 July, on the exercise of certain rights of shareholders in listed companies, and to make technical improvements, it is proposed to amend articles 8.1, 8.3, 8.4, 9.2, 12.10 (formerly, 12.9), 13.3, 14.1, 14.2, 28.1, 32.1, and 35.2 of the *Regulations for the General Shareholders' Meeting* and to include two new articles, 12.9 and 13.5, which shall hereafter read as follows:

Article 8. Requirements of the Call

"1. Pursuant to the provisions of the By-Laws, the General Shareholders' Meeting must be formally convened by the Board of Directors through an announcement published as much in advance as required by law.

The announcement of the call to meeting shall be disseminated through the following media, at a minimum:

- a) *The Official Bulletin of the Commercial Registry (Boletín Oficial del Registro Mercantil) or one of the more widely circulated newspapers in Spain.*
- b) *The website of the National Securities Market Commission (Comisión Nacional del Mercado de Valores).*
- c) *The Company's corporate website."*

"3. The notice of the call must contain all of the mentions required by law in each case and shall state:

- a) *The day, place, and time of the meeting upon first call and all matters to be dealt with.*
- b) *A clear and specific description of the procedures and periods that the shareholders must observe in order to request the publication of a supplement to the call to an Ordinary General Shareholders' Meeting, submit well-founded proposals for resolutions, or exercise their rights to*

receive information, to vote from a distance, and to grant a proxy, upon the terms provided by law.

- c) The date on which the holders of the Company's shares must have them registered in their name in the relevant book-entry registry to be able to attend and vote at the General Shareholders' Meeting being called.*
- d) Where and how the complete text of the documents to be submitted at the General Shareholders' Meeting can be obtained, particularly including the reports of the directors, auditors, and independent experts to be submitted and the complete text of the proposed resolutions that are expected to be adopted.*
- e) The address of the Company's corporate website.*

The announcement may also set forth the date on which the General Shareholders' Meeting shall proceed upon second call, if applicable."

"4. Shareholders representing at least five (5%) per cent of the share capital may:

- a) Request the publication of a supplement to the call to the Ordinary General Shareholders' Meeting including one or more items in the agenda of the call to meeting, so long as the new items are accompanied by a rationale or, if applicable, by a well-founded proposal for a resolution.*
- b) Present well-founded proposed resolutions regarding matters already included or that should be included in the agenda of the call to the General Shareholders' Meeting. The Company shall ensure the dissemination to the other shareholders of such proposed resolutions and any documentation attached thereto in accordance with the provisions of law.*

The written notice of the exercise of such rights shall specify the name or corporate name of the requesting shareholder or shareholders, and there shall be attached thereto such documentation as evidences the status thereof as shareholder, in order to check such information against that provided by the Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (Iberclear), as well as the contents of the item or items proposed. Under the circumstances set forth in letter a), the Board of Directors may require that the shareholder also attach the proposed resolution or resolutions and, if legally required, in the instances set forth in letters a) and b), the report or reports providing a rationale for the proposals."

Article 9. Right to Receive Information Prior to the Holding of the General Shareholders' Meeting

- “2. *From the first date of publication of the call to the General Shareholders' Meeting through and including the seventh day prior to the date provided for the first call to meeting, the shareholders may request in writing the information or clarifications that they deem are required, or ask written questions that they deem pertinent, regarding the matters contained in the agenda of the call to meeting. In addition, upon the same prior notice and in the same manner, the shareholders may request information or clarifications or ask written questions regarding information accessible to the public which has been provided by the Company to the National Securities Market Commission since the holding of the last General Shareholders' Meeting and regarding the auditor's report.*

All such requests for information may be made by delivery of the request to the Company's registered office, or by delivery to the Company via mail or other means of electronic or long-distance data communication sent to the address specified in the notice of the meeting or, in the absence of such specification, to the Office of the Shareholder (Oficina del Accionista). Requests shall be allowed in which the document by virtue of which the information is requested includes a recognised electronic signature used by the requesting party or other mechanisms which, pursuant to a resolution previously adopted for such purpose, the Board of Directors deems sufficient to ensure the authenticity and identity of the shareholder exercising such right to receive information.

Whatever the means used to issue the requests for information, the request of the shareholder must include the shareholder's first and last names, with evidence of the shares owned, in order for this information to be checked against the list of shareholders and the number of shares in the shareholders' name provided by the Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (Iberclear), for the General Shareholders' Meeting in question. The shareholder shall be responsible for maintaining proof of delivery of the request to the Company as and when due.”

Article 12. Right to Proxy Representation

- “9. *Before being appointed, the proxy-holder shall provide detailed information to the shareholder regarding whether a conflict of interest exists. If the conflict is subsequent to the appointment and the shareholder granting the proxy has not been advised of the possible existence of such conflict, the proxy-holder shall immediately inform the shareholder thereof. In both cases, if the proxy-holder has not received new specific voting instructions regarding each of the matters on which the proxy-holder has to vote on behalf of the shareholder, the proxy-holder shall abstain from voting, without prejudice to the provisions of the following paragraph.”*

“10. Unless otherwise expressly indicated by the shareholder granting the proxy, in the event that the proxy-holder is subject to a conflict of interest and does not have specific voting instructions, it shall be deemed for such circumstance that the shareholder granting the proxy has appointed as proxy-holders, jointly and severally and successively, in the order set forth below in the event that any of them is in turn subject to a conflict of interest: the chairman of the General Shareholders’ Meeting, the secretary for the General Shareholders’ Meeting, and the vice-secretary of the Board of Directors, if any. In this latter event, if there are several vice-secretaries, the order to be used shall be the order established at the time of their appointment (first vice-secretary, second vice-secretary, etc.).”

Article 13. Attendance, Proxy-Granting, and Distance Voting Cards

“3. If a broker, representative, or depositary sends to the Company an attendance, proxy-granting, or distance voting card or verification instrument of a shareholder duly identified therein with the signature, stamp, and/or mechanical impression of the entity, and unless the shareholder expressly indicates otherwise, it shall be deemed that the shareholder has instructed such entity to exercise the proxy or voting right, as applicable, in the direction indicated in such card or instrument verifying the proxy or vote. If there are questions regarding such instructions, it shall be deemed that the shareholder grants the shareholder’s proxy to the chairman of the Board of Directors with the scope set forth in these Regulations and that the shareholder gives specific instructions to vote in favour of the proposals made by the Board of Directors in connection with the items of the agenda of the call to meeting.”

“5. All of the foregoing shall be without prejudice to the regulations applicable to the relations between financial intermediaries and their customers for purposes of the exercise of the rights to grant a proxy and to vote pursuant to law.”

Article 14. Place of the Meeting

“1. The General Shareholders’ Meeting shall be held at the place indicated in the call to meeting in any municipality belonging to the Historical Territory of Biscay (Bizkaia). If no place is indicated in the call, it shall be deemed that the meeting will take place at the registered office.”

“2. The General Shareholders’ Meeting may be attended by going to the place where the meeting is to be held or, if applicable, to other places provided by the Company and indicated in the call to meeting, and which are connected therewith by any valid systems that allow for recognition and identification of the parties attending, permanent communication among the attendees regardless of their location, and participation and voting, all in real time. The principal place of the meeting must be located within such municipality of the Historical Territory of Biscay (Bizkaia) as is indicated in the call to meeting, but supplemental locations need not be so located. For all purposes relating to the General Shareholders’

Meeting, attendees at any of the sites shall be deemed attendees at the same individual meeting. The meeting shall be deemed to be held at the principal location thereof.”

Article 28. Right to Receive Information during the General Shareholders’ Meeting

“1. During the presentation period, shareholders or their duly accredited proxy-representatives may verbally request information or clarifications that they deem are necessary regarding the matters contained in the agenda of the call to meeting, information accessible to the public that has been provided by the Company to the National Securities Market Commission since the holding of the last General Shareholders’ Meeting, and regarding the auditor’s report. They must have previously identified themselves for this purpose in accordance with the provisions of article 25 above.”

Article 32. Continuation

“1. The shareholders acting at the General Shareholders’ Meeting may, provided that there is good reason for doing so, agree to a continuation of the Meeting over one or more consecutive days, at the proposal of the chairman of the General Shareholders’ Meeting, of the majority of the directors attending the Meeting, or at the request of a number of shareholders representing at least one-fourth (1/4) of the share capital present. Regardless of the number of sessions, the General Shareholders’ Meeting shall be deemed to be a single meeting, and a single set of minutes shall be prepared for all of the sessions.”

Article 35. Adoption of Resolutions and Announcement of Voting Results

“2. The approval of resolutions shall require the favourable vote of more than one-half of the voting shares represented in person or by proxy at the General Shareholders’ Meeting. The foregoing does not affect situations in which a greater majority is required by law or the By-Laws.”

ITEM THIRTEEN ON THE AGENDA

Approval of the corporate website (www.iberdrola.com).

PROPOSED RESOLUTION RELATING TO ITEM THIRTEEN

To approve the corporate website of IBERDROLA, S.A. for purposes of the provisions of section 11 *bis* of the Companies Act, the address of which website is: www.iberdrola.com. It is stated for the record and for all relevant purposes that such corporate website was created prior to the inclusion of sections 11 *bis et seq.* in the Companies Act.

ITEM FOURTEEN ON THE AGENDA

Delegation of powers to formalise and implement all resolutions adopted by the shareholders at the General Shareholders' Meeting, for conversion thereof into a public instrument, and for the interpretation, correction, supplementation thereof or further elaboration thereon, and registration thereof.

PROPOSED RESOLUTION RELATING TO ITEM FOURTEEN

Without prejudice to the powers delegated in the preceding resolutions, to authorise the Board of Directors to carry out such resolutions, with the Board of Directors being also authorised to delegate powers to any one or more of the Executive Committee, the chairman & chief executive officer Mr José Ignacio Sánchez Galán, and the general secretary and secretary of the Board of Directors Mr Julián Martínez-Simancas Sánchez, to the fullest extent permitted by law, to carry out the foregoing resolutions, for which purpose they may:

a) Elaborate on, clarify, make more specific, complete and correct the resolutions adopted by the shareholders at this General Shareholders' Meeting or those set forth in the notarial instruments or documents that may be executed to carry out such resolutions and, in particular, all omissions, defects, or errors, whether substantive or otherwise, that might prevent the access of these resolutions and the consequences thereof to the Commercial Registry, the Land Registry (*Registro de la Propiedad*), the Spanish Patent and Trademark Office (*Oficina Española de Patentes y Marcas*), the National Associations Registry (*Registro Nacional de Asociaciones*), the Registry of Government-Managed Foundations (*Registro de Fundaciones de Competencia Estatal*) or, if appropriate, the territorial registries of associations and foundations of the respective autonomous communities or any other registries.

b) Carry out such acts or legal transactions as may be necessary or appropriate for the implementation of the resolutions adopted by the shareholders at this General Shareholders' Meeting, executing such public or private documents as may be deemed necessary or appropriate for the full effectiveness of these resolutions.

c) Delegate to one or more of its members all or part of the powers of the Board of Directors it deems appropriate, as well as the powers expressly granted by the shareholders at this General Shareholders' Meeting, jointly or severally.

d) Finally determine all other circumstances that may be required, adopt and implement the necessary resolutions, publish the notices, and provide the guarantees that may be required for the purposes established in the law, formalise the required documents, and carry out all necessary proceedings and comply with all requirements under the law for the full effectiveness of the resolutions adopted by the shareholders at the General Shareholders' Meeting.

ITEM FIFTEEN ON THE AGENDA

Consultative vote regarding the *Annual Director Compensation Report*.

PROPOSED RESOLUTION RELATING TO ITEM FIFTEEN

To approve, on a consultative basis, the *Annual Director Compensation Report*, the full text of which was made available to the shareholders together with the other documentation relating to the General Shareholders' Meeting from the date of publication of the announcement of the call to meeting.

REPORT SUBMITTED BY THE BOARD OF DIRECTORS OF IBERDROLA, S.A. ON 8 MAY 2012, REGARDING THE PROPOSAL TO MAKE A CAPITAL INCREASE BY MEANS OF A SCRIP ISSUE, INCLUDED IN ITEM SIX ON THE AGENDA FOR THE GENERAL SHAREHOLDERS' MEETING CALLED TO BE HELD ON 22 AND 23 JUNE 2012, ON FIRST AND SECOND CALL, RESPECTIVELY

1. Purpose of the Report

This report is prepared by the Board of Directors of IBERDROLA, S.A. (the “**Company**”) pursuant to the provisions of sections 286 and 296 of the Companies Act (*Ley de Sociedades de Capital*), in order to provide the rationale for the proposal relating to an increase in share capital by means of a scrip issue, through the issuance of new shares with a charge to reserves.

Pursuant to such sections, the Board of Directors must prepare a report setting forth the rationale for the proposal being submitted to the shareholders at the General Shareholders’ Meeting, to the extent that the approval of this and each implementation thereof necessarily entails the amendment of article 5 of Iberdrola’s *By-Laws*, regarding share capital.

For purposes of easier understanding by the shareholders of the transaction that gives rise to the proposal for an increase in share capital submitted to them at the General Shareholders’ Meeting, a description of the purpose of and rationale for such increase in share capital is first provided. A description is then presented of the main terms and conditions of the increase in share capital by means of a scrip issue with a charge to the reserves contemplated in section 303.1 of the Companies Act covered by this report. Finally, the proposed resolution to increase share capital submitted for approval at the General Shareholders’ Meeting is included.

2. Purpose of and Rationale for the Proposal

2.1 Purpose of the Proposal

Iberdrola has traditionally compensated its shareholders by paying cash dividends, and it plans to maintain a policy whereby shareholders may, if they so wish, continue to receive their entire compensation in cash. Notwithstanding the foregoing, in order to improve its dividend payment policy, in 2010 the Company first offered its shareholders an option (known as the “Iberdrola Flexible Dividend”) that allowed them to receive, in the alternative, bonus shares of the Company, giving them the benefit of favourable tax treatment, but without limiting their ability to receive in cash an amount equivalent to the payment of a dividend. Such formula was repeated in 2011. Given the good reception this formula received in both fiscal years, the Company has decided to offer the same possibility this year.

Accordingly, the purpose of the proposal to increase share capital submitted to the shareholders at the General Shareholders’ Meeting and covered by this report is to offer all of the Company’s shareholders, under each instalment of the increase, newly-issued

bonus shares or, ultimately, and through the transfer to the Company of the free-of-charge allocation rights that they receive for the shares they hold (as set forth in section 2.2 below), the possibility of obtaining, at a minimum, equivalent value to that of the traditional dividend payments, without the shareholder compensation policy being altered as a result. Furthermore, the shareholders of the Company would have under this system the option to monetise their free-of-charge allocation rights through the transfer thereof on the market, without having in this case the right to receive a guaranteed fixed price.

2.2 Structure of the Proposal

The proposal, which consists of offering the Company's shareholders the option to receive, at their choice, bonus shares or a cash amount that is, at a minimum, equivalent, in both cases, to the payment of the dividend, if any, that they are entitled to receive (the "**Option**"), has been structured in the form of an increase in share capital with a charge to the reserves contemplated in section 303.1 of the Companies Act (the "**Capital Increase**"), which is submitted for approval of the shareholders at the General Shareholders' Meeting under item six on the agenda. In any event, the foregoing should be understood to be without prejudice to the distribution of a cash dividend that may be approved by the shareholders at the Company's General Shareholders' Meeting under item five on the agenda.

The total number of shares to be issued in the Capital Increase will depend on the specific number of shares to be issued on each of the dates on which the Board of Directors (with express powers of substitution) resolves, if at all, to implement the Capital Increase in whole or in part (each total or partial implementation of the Capital Increase will be referred to as an "**Instalment**" and, collectively, the "**Instalments**"). In any event, as explained below, the total number of shares to be issued in the Capital Increase will be such that the sum of the reference market value of such shares at the time of the implementation thereof (calculated in accordance with the procedure described in this report) will come to the maximum amount of two thousand eighteen million, which is the Total Amount of the Option (as defined in section 2.4 below) established for the Capital Increase.

The Capital Increase will be implemented on one or, at most, on two different dates. It is expected that the first of the Instalments will take place on dates around the month of July 2012, and it is also expected that the Exercised Option Amount in this first Instalment will not be greater than one thousand twelve million euros.

The Exercised Option Amount, in the event that a second (and last) Instalment is implemented—which is expected to take place on dates around the months of December 2012 or January 2013—will depend on the new shares that are ultimately allocated to the shareholders of the Company in the first Instalment, and may in no event exceed one thousand six million euros.

On each of the two dates that the Board of Directors (with express powers of substitution) decides to implement an Instalment:

(a) The Company's shareholders will receive one free-of-charge allocation right for each Iberdrola share they hold at that time. These rights will be tradable and, therefore, transferable on the same terms as the shares from which they derive on the Madrid, Barcelona, Bilbao, and Valencia Stock Exchanges for a term of at least fifteen calendar days, at the expiration of which term such rights will automatically become newly-issued shares, which will be allocated to those who are then holders of free-of-charge allocation rights.

As a new feature of this flexible compensation system vis-à-vis prior years, and in order to offer a more attractive alternative to those shareholders that decide to receive new shares of the Company or to sell their free-of-charge allocation rights on the market, it is proposed to the shareholders at the General Shareholders' Meeting to apply a discount on the listing price taken as a reference to calculate the number of free-of-charge allocation rights needed to obtain a new share, all in line with the practice adopted by other European listed companies.

Additionally, in order that the shareholders that decide to transfer their free-of-charge allocation rights to the Company pursuant to the purchase commitment assumed by it do not suffer any loss as a consequence of the application of this discount, the Company will guarantee that the Purchase Price (as defined below) is at no time lower than that they would have received if no discount had been applied.

In this way, the specific number of shares to be issued in one Instalment and, consequently, the number of rights required for the allocation of one new share will depend on: (i) the listing price of the Company's shares at the time the Instalment is approved, in accordance with the procedure described in this report and (ii) the discount rate that the Board of Directors, in exercise of the power delegated thereto by the shareholders at the General Shareholders' Meeting (with express powers of substitution) and taking into account market conditions and the corporate interest, resolves to apply in order to calculate the aforementioned figures and the Purchase Price (as defined below) (the "**Discount**"). The Discount may not be less than 0% or greater than 10%. Such listing price of the Company's shares once the Discount has been applied thereto shall hereinafter be referred to as the "**Listing Price**" or "**ListPri**".

In any event, as explained below, the total number of shares to be issued in each Instalment will be such that the reference market value of such shares (calculated at the Listing Price) will in no event be greater than the Exercised Option Amount (as defined in section 2.4 below) established for such Instalment (which, in the case of the first Instalment, may not exceed one thousand twelve million euros, and in the case of the second Instalment, if any, may not exceed one thousand six million euros). In addition, neither the Exercised Option Amount under one Instalment, taken individually, nor the sum of each and every Exercised Option Amount may exceed the Total Amount of the Option, i.e. the maximum amount of two thousand eighteen million euros.

(b) In each Instalment, the Company will assume, upon the terms and conditions set forth below, an irrevocable commitment to acquire such free-of-charge allocation rights at a fixed price (the "**Purchase Commitment**"). Such fixed price will be calculated prior to the commencement of each period for trading the free-of-charge

allocation rights in accordance with the provisions of section 3.3 below. In this way, the Company assures all of the shareholders of the ability to monetise their rights if they do not wish to receive new shares.

The subject matter of the Purchase Commitment assumed by the Company will be such as is determined by the Board of Directors of Iberdrola, in exercise of the powers delegated thereto by the shareholders at the General Shareholders' Meeting (with express powers of substitution) and taking into account market conditions and the corporate interest, based on the following two alternatives:

- (i) the free-of-charge allocation rights received without charge by the shareholders appearing to have status as such in the book-entry records of *Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal* (IBERCLEAR) at 23:59, Madrid time, on the day of publication of the announcement of each Instalment of the Capital Increase in the Official Bulletin of the Commercial Registry, excluding such rights as have been transferred on the market; or
- (ii) all of the free-of-charge allocation rights, regardless of whether the holders thereof have received them from the Company without charge because of their status as shareholders at the time of allocation thereof or have acquired them on the market.

Therefore, within the context of each Instalment, all Iberdrola shareholders will have the option, at their own discretion:¹

(a) Not to transfer their free-of-charge allocation rights. In this case, at the end of each trading period, shareholders will receive such number of new shares as they are proportionately entitled to receive, entirely as bonus shares.

(b) To transfer all or part of their free-of-charge allocation rights to the Company pursuant to the Purchase Commitment, at a guaranteed fixed price for such Instalment. In this way, shareholders would choose to monetise their rights and receive an amount that is, at a minimum, equivalent to the dividend, if any, that the Company would have paid.

(c) To transfer all or part of their free-of-charge allocation rights on the market. In this case, shareholders would also choose to monetise their rights, but they would not receive a guaranteed fixed price; rather, the consideration for such rights would depend on market conditions in general and on the listing price of such rights in particular.

The Company's shareholders may combine any of the alternatives mentioned in items (a) through (c) above. In this regard, it should be noted, however, that: (i) the tax treatment of such alternatives is different and (ii) the analysis of the advisability of

¹ The options available to the holders of ADRs (in the United States of America) and of CDIs (in the United Kingdom) may have peculiarities of their own as compared to the options described in this report, based on the terms and conditions applicable to the programmes in which such holders participate.

choosing each of the aforementioned options may be affected by the Discount that the Board of Directors, in exercise of the power delegated thereto by the shareholders at the General Shareholders' Meeting (with express powers of substitution), may apply in order to calculate the number of rights needed for the allocation of one new share and the Purchase Price (as this term is defined below).

2.3 Coordination with the Traditional Dividend Policy

As stated above, within the period of one year from the date on which the shareholders acting at the General Shareholders' Meeting approve the resolution proposed herein, and provided that the legal and financial conditions prevailing at any time so advise, the Company could again put into practice the shareholder compensation system known as the "Iberdrola Flexible Dividend", carrying out the Instalments for such purpose and thus replacing the traditional payment of dividends in cash with an issuance of bonus shares, which may be implemented on one or, at most, on two occasions, maintaining in all events the possibility for the shareholders to receive, at their choice, a cash amount that is, at a minimum, equivalent to their entire customary cash compensation (through the Option, as such term is defined in section 2.2 above). In this way, the Company seeks to ensure that shareholders that so wish will receive a cash amount that is, at a minimum, equivalent to what could have been the traditional dividend amounts paid.

However, the foregoing should be understood to be without prejudice to the distribution of a cash dividend, if approved by the shareholders at the Company's General Shareholders' Meeting under item five on the agenda.

2.4 Total Amount of the Option

The structure of the proposal consists of offering bonus shares to the shareholders, on one or, at most, on two occasions, during the period of one year from the date of approval of the proposed resolution by the shareholders acting at the General Shareholders' Meeting and provided that the legal and financial conditions prevailing at each time so advise.

The aggregate market value of the bonus shares to be issued in the Capital Increase, calculated on the basis of the Listing Price applicable to each Instalment, will come to a maximum gross amount of two thousand eighteen million euros (the "**Total Amount of the Option**").

Under each of the two Instalments, a portion of the Total Amount of the Option will be delivered to the shareholders through the issuance of bonus shares (each portion of such Amount, an "**Exercised Option Amount**").

The Exercised Option Amount under the first Instalment (expected for the month of July 2012) will come to a maximum gross amount of one thousand twelve million euros. If there is a second (and last) Instalment (which is expected for dates around the months of December 2012 – January 2013), the Exercised Option Amount will depend on the new shares that have ultimately been allocated to the Company's shareholders

under the first Instalment. In any event, the Exercised Option Amount corresponding to this second Instalment may not exceed the gross amount of one thousand six million euros.

3. Main Terms and Conditions of the Capital Increase

Set forth below are the main terms and conditions of the Capital Increase.

3.1 Amount of the Capital Increase, Number of Shares to be Issued, Number of Free-of-Charge Allocation Rights Required for the Allocation of One New Share, and Discount

The number of shares to be issued in the Capital Increase will be the sum of the total number of shares issued under each of the two possible Instalments of the Capital Increase. The amount of the Capital Increase will be the result of multiplying such number of new shares by the par value of the shares of the Company (seventy-five euro cents per share). The Capital Increase will thus be carried out at par, without a share premium.

In addition, the number of shares to be issued under each Instalment will be the result of dividing the Exercised Option Amount by the Listing Price.

The “**Listing Price**” or “**ListPri**” will be the result of applying the Discount (which shall not be less than 0% or greater than 10%) to the arithmetic mean of the average weighted listing prices of the Company’s shares on the Bilbao, Madrid, Barcelona, and Valencia Stock Exchanges in the five trading sessions prior to the resolution of the Board of Directors (or of the body acting by delegation therefrom) which determines the number of free-of-charge allocation rights needed for the allocation of one new share, as well as the “**Purchase Price**” (as such term is defined below), rounded to the closest one-thousandth part of one euro.

The specific Discount shall be determined by the Board of Directors of the Company, in exercise of the power delegated thereto by the shareholders at the General Shareholders’ Meeting (with express powers of substitution), taking into account market conditions and the corporate interest.

The number thus calculated will be rounded as required to obtain a whole number of shares and a ratio for the conversion of rights into shares that is also an integer. In addition, and for the same purposes, the Company or a company of its group that holds shares of the Company will waive the corresponding free-of-charge allocation rights as provided in section 3.2 below.

Once the number of shares to be issued under each Instalment has been determined, the amount of the Capital Increase corresponding to each Instalment will be the result of multiplying such number of new shares by the par value of the shares (seventy-five euro cents per share).

Specifically, at the time of the decision to implement an Instalment, the Board of

Directors (with express powers of substitution) will determine the number of shares to be issued and, as a consequence, the amount of the Capital Increase that will be implemented at that time, as well as the number of free-of-charge allocation rights required for the allocation of one new share, by using the following formula (the result to be rounded to the next lower integer):

$$\text{NNS} = \text{TNShrs.} / \text{Num. rights}^2$$

Attached hereto as Exhibit-1 is a sample calculation of the maximum number of new shares to be issued, of the maximum par value of the Capital Increase corresponding to a specific Instalment date, of the number of free-of-charge allocation rights required for the allocation of one new share, and of the Purchase Price (as such term is defined below). Exhibit-1 contemplates two alternative scenarios: one in which a Discount of 0% is applied (i.e. a scenario that is equivalent to the system applied by the Company in prior implementations of the “Iberdrola Flexible Dividend” system) and (ii) one in which a Discount of 10% is applied.

3.2 Free-of-Charge Allocation Rights

In each Instalment, each outstanding share will grant its holder one free-of-charge allocation right.

The number of free-of-charge allocation rights required to receive one new share under each Instalment will be automatically determined according to the ratio existing between the number of new shares issued in each Instalment and the number of shares then outstanding, calculated by using the formula contained in section 3.1 above. Specifically, the shareholders will be entitled to receive one new share in exchange for the number of free-of-charge allocation rights held by them that is determined as provided in section 3.1 above.

In the event that the number of free-of-charge allocation rights required for the allocation of one share multiplied by the number of new shares results in a number that is lower than the number of shares then outstanding, the Company (or such entity within its group, if any, as holds shares of the Company) will waive a number of free-of-charge allocation rights equal to the difference between both figures for the sole purpose that the number of new shares be a whole number and not a fraction. In such an event, there will be an incomplete allocation of the portion of the Capital Increase implemented at that time, and share capital will be increased solely by the amount corresponding to the free-of-charge allocation rights that have not been waived (for which purposes, the

² **NNS** = Number of new shares to be issued;
TNShrs. = Number of shares of the Company outstanding on the date that the Board of Directors or the body acting by delegation therefrom resolves to implement an Instalment;
and
Num. rights = Number of free-of-charge allocation rights required for the allocation of one new share under the applicable Instalment, which number will result from the application of the following formula, rounded to the next higher integer:
$$\text{Num. rights} = \text{TNShrs.} / \text{Provisional number of shares}$$

where:
$$\text{Provisional number of shares} = \text{Exercised Option Amount/ListPri}$$

provisions of section 3.3 below will also have to be taken into account), pursuant to the provisions of section 311 of the Companies Act.

In each Instalment, the free-of-charge allocation rights will be allocated to the shareholders that are registered as such in the book-entry records of *Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal* (IBERCLEAR) at 23:59, Madrid time, on the day of publication of the notice of implementation of each Instalment of the Capital Increase in the Official Bulletin of the Commercial Registry. The free-of-charge allocation rights may be traded during such term as is established by the Board of Directors (with express powers of substitution), which term will not be less than fifteen calendar days, beginning on the day following the day of publication of the notice of implementation of each Instalment of the Capital Increase in the Official Bulletin of the Commercial Registry. During such term, a sufficient number of free-of-charge allocation rights may be acquired on the market in the proportion required to receive new shares.³

3.3 Irrevocable Commitment to Acquire the Free-of-charge Allocation Rights

As explained above, within the context of each Instalment, the Company will assume the irrevocable commitment to acquire the free-of-charge allocation rights corresponding to the Instalment in question (as defined earlier, the “**Purchase Commitment**”) on the terms and conditions set forth in section 2.2 (b) above. In this way, the Company’s shareholders will be assured of the possibility of selling their rights to the Company and of receiving, at their choice, all or part of the Option in cash. The Purchase Commitment will be in effect and may be accepted during such term, within each period for trading the free-of-charge allocation rights, as is established for each Instalment by the Board of Directors (with express powers of substitution).

For such purposes, the Company is granted authority to acquire the aforementioned free-of-charge allocation rights up to the maximum limit of the total number of rights issued, and must in any event observe such legal restrictions as may apply at any time. The purchase price under the Purchase Commitment will be a fixed price that will be different in each Instalment and will be calculated prior to the commencement of the corresponding period for trading the free-of-charge allocation rights in accordance with the following formula (in which the definitions set forth in section 3.1 above apply), rounded to the closest one-thousandth part of one euro and, in the case of one-half of one-thousandth of one euro, to the next higher one-thousandth part of one euro (the “**Purchase Price**”):

³ Shareholders that do not have free-of-charge allocation rights in a number sufficient to receive a new share under each Instalment may: (a) acquire on the market a sufficient number of free-of-charge allocation rights which, added to those already held by them, grant them the right to receive a new share; (b) transfer all or part of their free-of-charge allocation rights to the Company under the Purchase Commitment at a guaranteed fixed price; or (c) transfer all or part of their free-of-charge 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).

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

The Company will guarantee to the shareholders that decide to transfer their rights to it under the Purchase Commitment that the Purchase Price that they will obtain will at no time be lower than that that would result if no discount were applied.

Therefore, in the event that the Discount applied is other than zero, the term “**Purchase Price**” will mean the greater of the following amounts: (a) the Purchase Price calculated in accordance with the formula set forth above, and (b) the price resulting from the application of the mathematical formulas described in this section and in section 3.1 above, assuming a Discount of 0% solely for the purpose of calculating the Purchase Price.

The final Purchase Price thus calculated will be announced at the time of approval of the corresponding Instalment.

The acquisition by the Company of the free-of-charge allocation rights as a consequence of the Purchase Commitment will be effected with a charge to the reserves contemplated in section 303.1 of the Companies Act.

It is contemplated that, in each Instalment, the Company will waive the new shares corresponding to the free-of-charge allocation rights that the Company has acquired under the Purchase Commitment. In such an event, there will be an incomplete allocation of the portion of the Capital Increase implemented under an Instalment at that time, and share capital will be increased solely by the amount corresponding to the free-of-charge allocation rights that have not been waived, pursuant to the provisions of section 311 of the Companies Act.

3.4 Rights Attaching to the New Shares

The new shares issued under each Instalment will be ordinary shares having a par value of seventy-five euro cents each, of the same class and series as those currently outstanding, 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.

As from the date that the portion of the Capital Increase implemented in an Instalment is declared to be subscribed and paid up, the new shares will grant the holders thereof the same financial, voting, and like rights as the ordinary shares of the Company currently outstanding. In particular, the holders of the new shares will be entitled to receive the interim dividend and supplemental dividend amounts, if any, that are paid after such date.

The Capital Increase will be carried out free of expenses and fees as to the allocation of the new shares issued. The Company will bear the costs of issuance, subscription, flotation, admission to listing, and other costs associated with the Capital Increase.

Without prejudice to the foregoing, the Company's shareholders should bear in mind that the entities members of *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 records. Moreover, 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-of-charge allocation rights.

3.5 Balance Sheet and Reserves with a Charge to which the Capital Increase is Carried Out

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

The Capital Increase will be entirely carried out with a charge to the reserves contemplated in section 303.1 of the Companies Act. On the occasion of each Instalment under the Capital Increase, the Board of Directors (with express powers of substitution) will determine the reserve(s) that will be used and the amount of such reserve(s) in accordance with the balance sheet used as a basis for the transaction.

3.6 Tax Regime

Within the framework of the implementation of the "Iberdrola Flexible Dividend" system, the Company submitted a binding consultation to the General Tax Authority (*Dirección General de Tributos*) (the "DGT") regarding the tax treatment applicable to its shareholders in Spain, which was submitted to such agency on 23 November 2009. The consultation was answered by the DGT on 27 April 2010 and, in turn, the answer was clarified by the DGT, at the Company's request, on 1 October 2010.

The answer indicates that such treatment is the following (which has not changed since the date of issuance of such answer for shareholders residing in common regions (*territorio común*) and for non-residents; however, it should be taken into account that the Historical Territories of Biscay (Bizkaia) and Araba/Álava have amended their territorial regulations (*normas forales*) on Personal Income Tax to cover this type of transaction):

Pursuant to Spanish tax regulations, both in the common regions and in the Historical Territories of the Basque Country and in the Foral Community of Navarre, the shareholders that choose to receive new shares as a consequence of the Capital Increase will not be subject to tax 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"), or of 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, nor will they be subject to any withholding or

payment on account.

The acquisition value for these shareholders of both the new shares received as a consequence of the Capital Increase and the shares from which they derive will result from distributing the total cost of acquisition among the applicable number of securities, including both existing securities and those issued as bonus shares. In respect of these shareholders, such bonus shares will be deemed to have been held for as long as the shares from which they derive. Consequently, in the event of a subsequent transfer, the income obtained will be calculated by reference to such new value.

In the event that the shareholders sell their free-of-charge allocation rights on the market, the amount obtained for the transfer of such rights on the market will be subject to the following tax treatment:

- For purposes of the IRPF and the IRNR on non-residents without a permanent establishment in Spain, the amount obtained for the transfer of the free-of-charge 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-of-charge allocation rights reduces the acquisition value for tax purposes of the shares from which such rights derive.

Thus, if the amount obtained for the aforementioned transfer is larger than the acquisition value of the securities from which they derive, the difference will be deemed to be a financial profit earned by the transferor in the tax period in which the transfer is effected, all without prejudice to the potential application to persons subject to the IRNR without a permanent establishment of the agreements for the avoidance of double taxation and for the prevention of tax evasion in the area of Income Tax entered into by Spain and to which they might be entitled.

In the case of shareholders who are individuals and residents of the Historical Territories of Biscay (Bizkaia) or Araba/Álava, the amount obtained for the transfer of the free-of-charge allocation rights is regarded as a financial profit since 1 January 2012.

- For purposes of the IS and the IRNR on non-residents with a permanent establishment in Spain, and to the extent that a complete commercial cycle is closed, the tax will be paid pursuant to applicable accounting regulations and, if applicable, pursuant to the special regimes for shareholders subject to the above-mentioned taxes.

In the event that the holders of free-of-charge allocation rights in relation to whom the Company has assumed the Purchase Commitment decide to use such Purchase Commitment, the tax treatment applicable to the amount received for the transfer to the Company of their free-of-charge allocation rights will be equal to the treatment applicable to dividends directly distributed in cash and, consequently, such amount will be subject to the corresponding withholding and taxes.

It should be borne in mind that this analysis (which has been performed on the basis of specific assumptions) does not cover all the possible tax consequences of the

proposal described in this report. In particular, it does not describe the consequences to which shareholders that are not residents in Spain for tax purposes may be subject in their countries of residence. 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 report and to the rules for interpretation thereof, as well as to any changes that may occur in the particular circumstances of each shareholder or holder of free-of-charge allocation rights.

The holders of American Depositary Receipts (ADRs) and CREST Depositary Interests (CDIs) representing shares of the Company are advised to consult with their tax advisors before making a decision in connection with the Capital Increase.

3.7 Delegation of Powers and Implementation of the Capital Increase

It is proposed to delegate to the Board of Directors, with the express power of substitution, the power to set the date or dates on which the Capital Increase resolution to be adopted at the General Shareholders' Meeting is to be implemented (bearing in mind that, in any event, there may not be more than two Instalments), as well as to establish the terms and conditions applicable to the Capital Increase as to all matters not provided for by the shareholders at the General Shareholders' Meeting (including, in particular, the Discount), all on the terms and within the period of one year contemplated in section 297.1.a) of the Companies Act. Notwithstanding the foregoing, if the Board of Directors (with express powers of substitution) does not deem it advisable to implement, in whole or in part, the Capital Increase whereby the Option is provided, it may, within the aforementioned period, refrain from implementing the Capital Increase, with the duty to inform the shareholders thereof at the next General Shareholders' Meeting held. Specifically, the Board of Directors will analyse and take into account the market conditions, the circumstances of the Company itself, or those deriving from an event that has social or financial significance, and if these or other factors make it inadvisable, in its opinion, to implement the Capital Increase, it may decide not to implement it. In addition, the Capital Increase will be deprived of any and all effect in the event that the Board of Directors does not exercise the powers delegated thereto within the period of one year established by the shareholders at the General Shareholders' Meeting for implementation of the resolution.

It is expected that the first Instalment will take place in July 2012.

On the dates that the Board of Directors, or the body acting by delegation therefrom, decides to implement the Option in whole or in part, implementing an Instalment and establishing for such purpose all of the final terms and conditions thereof as to all matters not provided for by the shareholders at the General Shareholders' Meeting, the Company will make public such terms and conditions. In particular, prior to the commencement of each free-of-charge allocation period, the Company will make available to the public a document containing information on the number and nature of the shares and the reasons for implementation of the Instalment, all as provided by sections 26.1.e) and 41.1.d) of Royal Decree 1310/2005, of 4 November, which further develops a part of the provisions of Act 24/1988, of 28 July, on the Securities Market.

Once each period for trading the free-of-charge allocation rights in respect of each Instalment has ended:

(a) The new shares will be allocated to those who, according to the records maintained by *Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal* (IBERCLEAR) and by its member entities, are the holders of free-of-charge allocation rights in the required proportion.

(b) The period for trading the free-of-charge allocation rights will be declared to have ended and the appropriation of the account(s) with a charge to which the Instalment will be implemented will be formalised on the books in the amount of the Capital Increase corresponding to such Instalment, with which appropriation such portion will be paid up.

Finally, the Board of Directors (with express powers of substitution) will adopt the resolutions required to amend the *By-Laws*, so that they reflect the new amount of the share capital resulting from each Instalment, and to make application, in each Instalment, for listing the new shares on the Bilbao, Madrid, Barcelona, and Valencia Stock Exchanges.

3.8 Admission of the New Shares to Listing

The Company will make application for listing the new shares to be issued as a consequence of each Instalment on the Bilbao, Madrid, Barcelona, and Valencia Stock Exchanges, through the Automated Quotation System (*Sistema de Interconexión Bursátil*) (Electronic Market), and will carry out such acts and formalities as are required for admission to listing of the new shares issued under each Instalment.

4. Proposed Resolution to be Submitted to the Shareholders at the General Shareholders' Meeting

The proposed resolution submitted to the shareholders for approval at the General Shareholders' Meeting reads as follows:

Approval of an increase in share capital by means of a scrip issue at a maximum reference market value of two thousand eighteen million euros for the free-of-charge allocation of new shares to the shareholders of the Company. Offer to the shareholders of 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 shares issued 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 express powers of substitution, including, among others, the power to implement the capital increase by means of a scrip issue on one or, at most, two occasions (with the reference market value not exceeding one thousand twelve million euros on the first implementation or one thousand six million euros on the second implementation, if any) and the power to amend article 5 of the By-Laws in each implementation.

1. Capital Increase with a Charge to Reserves

*It is hereby resolved to increase the share capital by the amount resulting from multiplying (a) the par value of each share of IBERDROLA, S.A. (“**Iberdrola**” or the “**Company**”), equal to seventy-five euro cents, by (b) the total determinable number of new shares of Iberdrola to be issued, in accordance with the formula set forth in section 2 below, on the date or dates of implementation of the increase in share capital (the total number of new Iberdrola shares issued by way of implementation of this resolution will be referred to as the “**Total New Shares**”, and the number of Total New Shares issued on a specific implementation date, the “**New Shares**” and each, individually, a “**New Share**”), which amount may not in any event exceed the sum of the reference market value of the New Shares equal to a maximum of two thousand eighteen million euros (the “**Capital Increase**”).*

The Capital Increase will be carried out by means of the issuance and flotation, if applicable, on each of the two possible implementation dates, of the New Shares, which will be ordinary shares having a par value of seventy-five euro cents each, of the same class and series as those currently outstanding, represented by book entries.

The Capital Increase will be entirely carried out with a charge to the reserves contemplated in section 303.1 of the Companies Act. On the occasion of each Instalment of the Capital Increase, the Board of Directors (with express powers of substitution) will determine the reserve(s) to be used and the amount of such reserve(s) in accordance with the balance sheet used as a basis for the transaction.

The Total New Shares will be issued at par, i.e. at their par value of seventy-five euro cents, without a share premium, and will be allocated to the shareholders of the Company without charge.

*Within the year following the date of approval of this resolution, the Capital Increase may be implemented by the Board of Directors (with express powers of substitution) on one date, or, at most, on two different dates, at its sole discretion and, therefore, without having to resort again to the shareholders at a General Shareholders’ Meeting, and by taking into consideration the legal and financial conditions prevailing at the time of implementing the Capital Increase, with a view to offering the Company’s shareholders a flexible and efficient compensation formula. The dates on which the Capital Increase is expected to be implemented will be, in the case of the first instalment, around the month of July 2012, and if there is a second instalment, around the months of December 2012 – January 2013 (each total or partial implementation of the Capital Increase will be referred to as an “**Instalment**” and, collectively, the “**Instalments**”). The number of New Shares to be issued in each Instalment will be such as results from the formula set forth in section 2 below, provided, however, that neither the Exercised Option Amount (as such term is defined in section 2 below) in each Instalment –taken individually– nor the sum of the Exercised Option Amounts may in any event exceed the maximum amount of two thousand eighteen million euros.*

It is expected, in any event, that the Exercised Option Amount at the time of the first Instalment will be a maximum of one thousand twelve million euros.

Pursuant to the provisions of section 311 of the Companies Act (Ley de Sociedades de Capital), the possibility of an incomplete allocation of the Capital Increase is contemplated in the event that Iberdrola, a company within its group, or a third party waives all or part of the free-of-charge allocation rights to which they are entitled under each Instalment, for which reason, in the event of such waiver, the share capital will be increased by the corresponding amount.

2. New Shares in Each Instalment

The number of New Shares to be issued in each Instalment will be the number resulting from the application of the following formula, rounded downwards to the next lower integer:

$$NNS = TNShrs. / Num. rights$$

where:

NNS = Number of New Shares to be issued on the date of the applicable Instalment;

TNShrs. = Number of outstanding Iberdrola shares on the date of the applicable Instalment; and

Num. rights = Number of free-of-charge allocation rights required for the allocation of one New Share under the applicable Instalment, which number will result from the application of the following formula, rounded to the next higher integer:

$$Num. rights = TNShrs. / Provisional number of shares.$$

where:

$$Provisional number of shares = Exercised Option Amount / ListPri$$

For these purposes, “Exercised Option Amount” will mean the maximum reference market value of the portion of the Capital Increase that the Board of Directors (with express powers of substitution) implements on a particular Instalment date. The Exercised Option Amount under the first Instalment (which is expected to take place in July 2012) will not be greater than one thousand twelve million euros. In the event that there is a second (and last) Instalment (which would take place on dates close to the months of December 2012 or January 2013), the Exercised Option Amount will depend on the New Shares that have ultimately been allocated to the Company’s shareholders under the first Instalment, and it may in no event exceed one thousand six million euros. Thus, the sum of each of the Exercised Option Amounts may in no event exceed the sum of two thousand eighteen million euros.

For its part, “**ListPri**” will be the result of applying a discount between 0% and 10% (the “**Discount**”) to the arithmetic mean of the average weighted listing prices of the Company’s shares on the Bilbao, Madrid, Barcelona, and Valencia Stock Exchanges in the five trading sessions prior to the resolution of the Board of Directors (or of the body acting by delegation therefrom) which determines the number of free-of-charge allocation rights needed for the allocation of one new share, as well as the “Purchase Price” (as such term is defined below), rounded to the closest one-thousandth part of one euro.

For purposes of the calculation of the ListPri (and, therefore, of the Number of free-of-charge allocation rights needed for the allocation of one New Share under the respective Instalment), as well as of the Purchase Price (as defined below), the Board of Directors of Iberdrola will be specifically authorised (with express powers of substitution) to establish the specific Discount rate, taking into account market conditions and the corporate interest.

3. Free-of-charge Allocation Rights

Under each Instalment, each outstanding share of the Company will grant its holder one free-of-charge allocation right. The number of free-of-charge allocation rights required to receive a New Share will be automatically determined according to the ratio existing between the number of New Shares and the number of outstanding shares (TNShrs.), calculated by using the formula contained in section 2 above. Specifically, the shareholders will be entitled to receive one New Share for as many free-of-charge allocation rights, determined as provided in section 2 above (Num. rights), as are held by them.

In the event that, under a specific Instalment, the number of free-of-charge allocation rights required for the allocation of one share (Num. rights) multiplied by the number of New Shares (NNS) results in a number that is lower than the number of outstanding shares (TNShrs.), Iberdrola (or such entity within its Group, if any, as holds Iberdrola shares) will waive a number of free-of-charge allocation rights equal to the difference between both figures for the sole purpose that the number of New Shares be a whole number and not a fraction.

Free-of-charge allocation rights will be allocated under each Instalment to the Iberdrola shareholders that are registered as such in the book-entry records of Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal (IBERCLEAR) at 23:59, Madrid time, on the day of publication of the notice of implementation of each Instalment of the Capital Increase in the Official Bulletin of the Commercial Registry. The free-of-charge allocation rights will be transferable upon the same terms as the shares from which they derive. The free-of-charge allocation rights may be traded on the market during such term as is established by the Board of Directors (with express powers of substitution), which term will not be less than fifteen calendar days, beginning on the day following the day of publication of the announcement of the implementation of each Instalment of the Capital Increase in the Official Bulletin of the Commercial Registry. During such term,

a sufficient number of free-of-charge allocation rights may be acquired on the market in the proportion required to receive New Shares.

4. Irrevocable Commitment to Acquire the Free-of-charge Allocation Rights

*In each Instalment, the Company will assume, on the terms and conditions set forth below, the irrevocable commitment to purchase the free-of-charge allocation rights at the price set forth below (the “**Purchase Commitment**”). The Purchase Commitment will be in effect and may be accepted during such term, within the period for trading the rights, as is established by the Board of Directors (with express powers of substitution) in respect of each Instalment. For such purpose, it is hereby resolved to authorise the Company to acquire the aforementioned free-of-charge allocation rights up to the maximum limit of the total number of rights issued, in all cases with due observance of any applicable legal restrictions.*

The subject matter of the Purchase Commitment assumed by the Company will be such as is determined by the Board of Directors of Iberdrola, in exercise of the powers delegated thereto by the shareholders at the General Shareholders’ Meeting (with express powers of substitution) and taking into account market conditions and the corporate interest, based on the following two alternatives:

- (i) the free-of-charge allocation rights received without charge by the shareholders appearing to have status as such in the book-entry records of Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal (IBERCLEAR) at 23:59, Madrid time, on the day of publication of the announcement of each Instalment of the Capital Increase in the Official Bulletin of the Commercial Registry, excluding such rights as have been transferred on the market; or*
- (ii) all of the free-of-charge allocation rights, regardless of whether the holders thereof have received them from the Company without charge because of their status as shareholders at the time of allocation thereof or have acquired them on the market.*

*The “**Purchase Price**” will be the fixed price at which the Company will acquire each free-of-charge allocation right under the Purchase Commitment in each Instalment, and will be calculated in accordance with the following formula, rounded to the closest one-thousandth part of one euro and, in the case of one-half of one-thousandth of one euro, to the next higher one-thousandth part of one euro:*

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

In addition, the Company will guarantee to the shareholders that decide to transfer their rights under the Purchase Commitment that the Purchase Price that they will obtain will at no time be lower than that that would result if no discount were applied.

Therefore, in the event that the Discount applied is other than zero, the term “**Purchase Price**” will mean the greater of the following amounts: (a) the Purchase Price calculated in accordance with the formula set forth above, and (b) the price resulting from the application of the mathematical formulas described in this section and in section 2 above, assuming a Discount of 0% solely for the purpose of calculating the Purchase Price.

The acquisition by the Company of the free-of-charge allocation rights as a consequence of the Purchase Commitment under each Instalment will be effected with a charge to the reserves contemplated in section 303.1 of the Companies Act.

5. Balance Sheet for the Transaction and Reserve with a Charge to which the Capital Increase is Carried Out

The balance sheet used as a basis for the transaction is the one for the fiscal year ended on 31 December 2011, duly audited and submitted for approval of the shareholders at this General Shareholders’ Meeting under item one on the agenda.

The Capital Increase will be entirely carried out with a charge to the reserves contemplated in section 303.1 of the Companies Act. On the occasion of each Instalment of the Capital Increase, the Board of Directors (with express powers of substitution) will determine the reserve(s) to be used and the amount of such reserve(s) in accordance with the balance sheet used as a basis for the transaction.

6. Representation of the Total New Shares

The Total New Shares will be represented by book entries, the book-entry registration of which is entrusted to Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal (IBERCLEAR) and its member entities.

7. Rights Attaching to the New Shares

The New Shares will grant the holders thereof the same financial, voting, and like rights as the ordinary shares of Iberdrola currently outstanding, as from each date on which a portion of or the entire Capital Increase is declared to be subscribed and paid up. In particular, the holders of the New Shares will be entitled to receive the interim dividend and supplemental dividend amounts, if any, that are paid as from each date on which the Capital Increase is declared to be subscribed and paid up.

8. Shares on Deposit

In each Instalment, once the period for trading the free-of-charge allocation rights has ended, the New Shares that could not be allocated for reasons not attributable to Iberdrola will be kept on deposit for those who provide evidence that they are the lawful holders of the corresponding free-of-charge allocation rights. Once

three years have passed from the end of the aforementioned period for trading the free-of-charge allocation rights, the New Shares that are still pending allocation may be sold in accordance with the provisions of section 117 of the Companies Act, at the expense and peril of the interested parties. The cash amount from such sale will be deposited with Banco de España or with Caja General de Depósitos at the disposal of the interested parties.

9. Application for Admission to Listing

It is hereby resolved to make application, in each Instalment, for listing the New Shares to be issued pursuant to this capital increase resolution on the Bilbao, Madrid, Barcelona, and Valencia Stock Exchanges, through the Automated Quotation System (Sistema de Interconexión Bursátil) (Electronic Market), and to carry out such acts and formalities as are required and submit the documents needed to the appropriate bodies for admission to listing of the New Shares issued in each Instalment as a consequence of the approved Capital Increase, with an express statement for the record of Iberdrola's submission to the rules that may now or hereafter exist with respect to Stock Exchange matters, and especially regarding trading, continued listing, and delisting on or from official markets.

It is expressly stated for the record that, in the event of a subsequent request for delisting of the Iberdrola shares, such delisting will be carried out with such formalities as apply thereto and, in such event, the interests of the shareholders opposing or not voting on the resolution to delist will be safeguarded, in compliance with the requirements set out in the Companies Act and related provisions, all in accordance with Act 24/1988, of 28 July, on the Securities Market and the provisions issued by way of implementation thereof in effect at any time.

10. Implementation of the Capital Increase

Within a period of one year from the date of this resolution, the Board of Directors (with express powers of substitution) may set the date or dates on which the Capital Increase resolution is to be carried out (each of such dates, an Instalment under the Capital Increase, bearing in mind that the Capital Increase may only be implemented on two occasions at most) and set the terms and conditions thereof as to all matters not provided for in this resolution (including, in particular, the Discount). Notwithstanding the foregoing, if the Board of Directors (with express powers of substitution) does not deem it advisable to implement, in whole or in part, the Capital Increase whereby the Option is provided, it may, within the aforementioned period, refrain from implementing the Capital Increase, with the duty to inform the shareholders thereof at the next General Shareholders' Meeting held. Specifically, the Board of Directors will analyse and take into account the market conditions, the circumstances of the Company itself, or those deriving from an event that has social or financial significance, and if these or other factors make it inadvisable, in its opinion, to implement the Capital Increase, it may decide not to implement it. In addition, the Capital Increase will be deprived of any and all effect in the event that the Board of Directors does not exercise the powers delegated thereto within the period of one year

established by the shareholders at the General Shareholders' Meeting for implementation of the resolution.

Once each period for trading the free-of-charge allocation rights in respect of each Instalment has ended:

(a) The New Shares will be allocated to those who, according to the records maintained by the Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal (IBERCLEAR) and its member entities, are the holders of free-of-charge allocation rights in the proportion resulting from section 3 above.

(b) The period for trading the free-of-charge allocation rights will be declared to have ended and the appropriation of the account(s) with a charge to which the Instalment will be implemented will be formalised on the books in the amount of the Capital Increase that has been approved for implementation on such Instalment date, with which appropriation such portion will be paid up.

Likewise, once each period for trading the free-of-charge allocation rights has ended, the Board of Directors (with express powers of substitution) will adopt the resolutions required to amend the By-Laws, so that they reflect the new amount of the share capital and the number of New Shares resulting from each Instalment, and to make application, in each Instalment, for listing the New Shares on the Spanish Stock Exchanges.

11. Delegation of Powers to Implement the Capital Increase

Pursuant to the provisions of section 297.1.a) of the Companies Act, it is hereby resolved to delegate to the Board of Directors, with express powers of substitution, the power to set the date or dates on which the Capital Increase resolution is to be carried out, if at all (such dates being the Instalment dates, bearing in mind that, in any event, the maximum number of Instalments shall be two) and to set the terms and conditions of the Capital Increase as to all matters not provided for in this resolution. In particular, and by way of example only, the following powers are delegated to the Board of Directors, with express powers of substitution:

(a) Set the Instalment dates on which the resolution adopted to increase the share capital must be implemented (on one or two occasions), which shall in any case be within a period of one year from approval thereof.

(b) Determine the Discount within the margins established in this resolution for purposes of the calculation of the number of rights needed for the allocation of one New Share in each Instalment.

(c) Set the exact amount of the Capital Increase, the number of Total New Shares, each of the Exercised Option Amounts, the number of Total New Shares in each Instalment, and the free-of-charge allocation rights necessary for the allocation of New

Shares under each Instalment, applying the rules established by the shareholders at this General Shareholders' Meeting for such purpose.

(d) Determine, in each Instalment, the reserves, among those contemplated in this resolution, with a charge to which each Instalment of the Capital Increase and the acquisition by the Company of the free-of-charge allocation rights as a consequence of the Purchase Commitment will be implemented.

(e) Designate, on each Instalment date, the company or companies that will assume the duties of agent and/or financial advisor in connection with each Instalment, and sign all required contracts and documents for such purpose.

(f) Set, for each Instalment, the duration of each period for trading the free-of-charge allocation rights.

(g) In each Instalment, set the period during which the Purchase Commitment will be in effect and determine the subject matter of the Purchase Commitment within the limits established in this resolution.

(h) In each Instalment, fulfil the Purchase Commitment, paying the corresponding amounts to those who have accepted such commitment

(i) In each Instalment, declare the portion of the Capital Increase resolved to be carried out to be closed and implemented, setting, for such purpose, the number of New Shares actually allocated under each Instalment and, therefore, the amount by which the Company's share capital must be increased in accordance with the rules established by the shareholders at this General Shareholders' Meeting, as well as declare, if applicable, the existence of an incomplete allocation.

(j) Amend, in each Instalment, article 5 of the By-Laws of Iberdrola regarding share capital, in order for it to conform to the result of the implementations of the Capital Increase.

(k) Waive, in each Instalment, the New Shares corresponding to the free-of-charge allocation rights held by the Company at the end of each period for trading such rights as a result of the Purchase Commitment.

(l) Waive, in each Instalment (on one or more occasions), any free-of-charge allocation rights to subscribe for New Shares, for the sole purpose of facilitating the number of New Shares being a whole number and not a fraction.

(m) Take, in each Instalment, all steps necessary for the New Shares covered by the capital increase to be included in the book-entry records of Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal (IBERCLEAR) and admitted to listing on the Bilbao, Madrid, Barcelona, and Valencia Stock Exchanges.

(n) Take any actions that are necessary or appropriate to implement and formalise the Capital Increase before any public or private entities or agencies, whether

domestic or foreign, including acts for purposes of representation or supplementation or to cure defects or omissions that might prevent or hinder the full effectiveness of the foregoing resolutions.

Pursuant to the provisions of section 249.2 of the Companies Act, the Board of Directors is expressly authorised to in turn delegate the powers referred to in this resolution.”

* * *

Bilbao, 8 May 2012

EXHIBIT-1

Sample calculations of the maximum number of new shares to be issued, of the maximum par value of share capital increased in the first Instalment, of the number of free-of-charge allocation rights required for the allocation of one new share, and of the Purchase Price based on the Discount applied:

Set forth below, for the sole purpose of making the application thereof easier to understand, are two examples of the calculation, in the event of the first Instalment, of the maximum number of new shares to be issued, the maximum par value of the share capital increased, the number of free-of-charge allocation rights required for the allocation of one new share, and the Purchase Price, based on two scenarios in which the application of a different Discount is contemplated.⁴

The results of these calculations are not representative of the actual results that may be obtained, which, in the case of the first Instalment, will depend on the different variables used in the formulas (basically, the Listing Price of Iberdrola shares at that time, the Amount of the Exercised Option that may be approved for distribution at that time, and the Discount that the Board of Directors (with express powers of substitution) determines, in exercise of the power delegated by the shareholders at the General Shareholders' Meeting).

Solely for the purposes of this example:

- The Total Amount of the Option is 2,018,000,000 euros.
- The Exercised Option Amount is 1,012,000,000 euros.
- The TNShrs. is 5,972,865,000.

Additionally, two different scenarios are contemplated, in accordance with the Discount applied:

Scenario A:

- A Discount of 0% is assumed (which would be equivalent to the system applied by the Company in prior implementations of the "Iberdrola Flexible Dividend" system).
- A ListPri of 3.584 euros is assumed (solely for the purposes of this example, the listing price of the Iberdrola shares at the closing of the trading session of 7 May 2012 has been used as a reference). As the Discount is 0%, no additional adjustment is needed in order to calculate the ListPri.

⁴ Additionally, in the case of the second Instalment, the results of the calculations would also vary according to the number of shares then outstanding, which number will be determined, among other factors, by the shares issued in the first Instalment.

Scenario B:

- A Discount of 10% is assumed.
- The ListPri, resulting from the application of the Discount to the listing price of Iberdrola shares at the closing of the trading session of 7 May 2012, as provided in Scenario A, is 3.226 euros.

Therefore:

	Scenario A (Discount of 0%)	Scenario B (Discount of 10%)
Provisional number of shares = Exercised Option Amount / ListPri	1,012,000,000 / 3.584 = 282,366,071.4285710 282,366.071 shares (rounded downwards)	1,012,000,000 / 3.226 = 313,701,177.9293240 313,701,177 shares (rounded downwards)
Num. rights = TNShrs. / Provisional number of shares	5,972,865,000 / 282,366,071 = 21.1529132 = 22 rights (rounded upwards)	5,972,865,000 / 313,701,177 = 19.0399828 = 20 rights (rounded upwards)
NNS = TNShrs. / Num. rights	5,972,865,000 / 22 = 271,493,863.6363640 = 271,493,863 shares (rounded downwards)	5,972,865,000 / 20 = 298,643,250 shares
Purchase Price = ListPri / (Num. rights + 1)	3.584 / (22 + 1) = 0.156 euros	3.226 / (20 + 1) = 0.154 euros As in this case the Purchase Price is lower than that contemplated in Scenario A, i.e. when the Discount is 0%, the Purchase Price in Scenario A is applied] Therefore, the Purchase Price in Scenario B would be 0.156 euros]

Thus, in Scenario A: (i) the maximum number of new shares to be issued in this Instalment would be 271,493,863, (ii) the maximum par value of the share capital increased in this Instalment would come to 203,620,397.25 euros (271,493,863 x 0.75), and (iii) 22 free-of-charge allocation rights (or existing shares) would be required for the allocation of one new share.⁵

In Scenario B: (i) the maximum number of new shares to be issued in this Instalment would be 298,643,250, (ii) the maximum par value of the share capital increased in this Instalment would come to 223,982,437.50 euros (298,643,250 x 0.75), and (iii) 20 free-of-charge allocation rights (or existing shares) would be required for the allocation of one new share.

⁵ [In this example, in Scenario A, the Company (or an entity of its group that holds shares of the Company) would be required to waive 14 free-of-charge allocation rights corresponding to 14 shares of its own stock in order for the number of shares to be issued to be an integer.]

REPORT SUBMITTED BY THE BOARD OF DIRECTORS OF IBERDROLA, S.A. ON 8 MAY 2012 IN CONNECTION WITH THE PROPOSED DELEGATION TO THE BOARD OF DIRECTORS OF THE POWER TO ISSUE SIMPLE DEBENTURES OR BONDS, NOTES, AND OTHER FIXED-INCOME SECURITIES OF A LIKE NATURE, AS WELL AS PREFERRED STOCK, WHICH PROPOSAL IS INCLUDED IN ITEM EIGHT ON THE AGENDA FOR THE GENERAL SHAREHOLDERS' MEETING CALLED TO BE HELD ON 22 AND 23 JUNE 2012, ON FIRST AND SECOND CALL, RESPECTIVELY

1. Purpose of the Report

This report has been prepared by the Board of Directors of IBERDROLA, S.A. (the “**Company**”) in order to provide a rationale for the proposed delegation to the Board of Directors, with the express power of substitution, of the power to issue simple debentures or bonds, notes, and other fixed-income securities of a like nature, as well as preferred stock, and for the authorisation so that the Company may guarantee all kinds of obligations to which its subsidiaries may become subject as a result of issuances of securities thereby.

2. Rationale for the Proposal

The Board of Directors regards it as highly desirable to have the delegated powers allowed by current legislation in order to be at all times in a position to raise the funds required for appropriate management of the corporate interests on the primary securities markets.

The purpose of this delegation is to provide the management decision-making body with the manoeuvrability and responsiveness required by today’s competitive environment, in which the success of a strategic initiative or a financial transaction frequently depends on the possibility of dealing with it quickly, without incurring the delays and costs that inevitably ensue from calling and holding a General Shareholders’ Meeting. The Board of Directors will thus be empowered, if necessary, to raise a significant volume of funds within a short period of time. This flexibility and nimbleness are particularly appropriate in the current credit contraction scenario, in which changing market circumstances make it advisable for the Board of Directors to have the means required to resort at any time to the various available sources of finance in order to secure the most advantageous financial conditions.

To this end, as permitted by the provisions of section 319 of the Regulations of the Commercial Registry (*Reglamento del Registro Mercantil*) and pursuant to articles 13.1, 15.2, and 17.1.k) of the *By-Laws* —which authorise the shareholders at a General Shareholders’ Meeting to delegate to the Board of Directors the power to issue the negotiable securities contemplated in the proposal—, the proposed resolution set forth under item eight on the agenda is submitted for consideration by the shareholders at the General Shareholders’ Meeting.

The proposal provides for authorisation to the Board of Directors to issue simple debentures or bonds, notes, and other fixed-income securities of a like nature, as well as preferred stock.

The proposed maximum limit on the amount of the issuance or issuances of the simple debentures or bonds and other fixed-income securities of a like nature other than notes, as well as of the preferred stock, that are approved under this delegation, comes to the sum of twenty billion euros. Such limit shall not apply to the issuance of notes, for which a separate limit, independent of the foregoing, is proposed, which limit refers not to the amount of the issuance but to the outstanding balance of the outstanding securities to be issued pursuant to this delegation and which may not at any time exceed the sum of six billion euros. The Board of Directors believes it appropriate that the limit of the authorisation requested of the shareholders at the General Shareholders' Meeting be broad enough to permit the required fundraising in the capital markets.

In addition, in certain cases it may be advisable to carry out the issuances of these securities through a subsidiary, supported by a guarantee of the controlling company, which circumstance is also contemplated in the *By-Laws*. Therefore, as permitted by article 15.4 of the *By-Laws*, it is considered desirable that the shareholders at the General Shareholders' Meeting authorise the Board of Directors to guarantee, on behalf of the Company and within the limits set forth above, such new issuances of securities as may be effected by subsidiaries of the Company during the effective period of this resolution, in order that the Board of Directors may be granted the utmost degree of flexibility in structuring the issuances of securities in such manner as may be most appropriate in accordance with the specific circumstances of each particular case.

It is also contemplated that the securities to be issued pursuant to this delegation may be admitted to listing on any appropriate Spanish or foreign, official or unofficial, organised or other secondary market.

Finally, a proposal is made to deprive of effect, to the extent of the unused amount, the authorisation to issue simple debentures or bonds and other fixed-income securities of a like nature, as well as preferred stock and notes, granted to the Board of Directors by the shareholders at the General Shareholders' Meeting held on 27 May 2011.

3. Proposed Resolution Submitted to the Shareholders at the General Shareholders' Meeting

The proposed resolution submitted to the shareholders for approval at the General Shareholders' Meeting reads as follows:

Authorisation to the Board of Directors, with the express power of substitution, for a term of five years, to issue: (1) 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 limit of twenty billion euros, and (2) notes up to a maximum

limit at any time, independently of the previously-mentioned limit, of six billion euros. Authorisation for the Company to guarantee, within the limits set forth above, new issuances of securities by its subsidiaries. Revocation of the authorisation granted for such purpose by the shareholders at the General Shareholders' Meeting of 27 May 2011 to the extent of the unused amount.

To delegate to the Board of Directors, as permitted by section 319 of the Regulations of the Commercial Registry and the general provisions governing the issuance of debentures, as well as pursuant to the By-Laws, the power to issue negotiable securities under the following terms:

1. Securities to be Issued.- The negotiable securities contemplated in this delegation may be simple debentures or bonds, notes, and other fixed-income securities of a like nature, as well as preferred stock.

2. Period of the Delegation.- The Board of Directors may use this delegation on one or more occasions within a maximum period of five years following the date of adoption of this resolution.

3. Maximum Amount under this Delegation.-

a) The aggregate maximum amount of the issuance or issuances of simple debentures or bonds and other fixed-income securities of a like nature (other than notes), as well as of preferred stock, approved under this delegation shall be twenty billion euros or the equivalent thereof in another currency.

b) The outstanding balance of the notes that are issued under this delegation shall at no time exceed the sum of six billion euros or the equivalent thereof in another currency. This limit is independent of the limit established in sub-section a) above.

4. Scope of the Delegation.- The delegation of powers to issue the securities contemplated in this resolution shall extend, as broadly as is required by law, to the establishment of the different terms and conditions applicable to each issuance (par value, issue price, reimbursement price, domestic or foreign currency of the issuance, form of representation, interest rate, amortisation, subordination clauses, guarantees supporting the issuance, place of issuance, applicable law, if appropriate, establishment of the internal regulations of the bondholders' syndicate and appointment of the bondholders' syndicate representative (comisario) in the case of the issuance of simple debentures or bonds, if required, etc.) and to the conduct of any and all formalities that may be necessary, including those provided for in the applicable securities market regulations, for the implementation of the specific issuances that may be resolved to be effected under this delegation.

5. Admission to Listing.- The Company shall, where appropriate, make application for listing on Spanish or foreign, official or unofficial, organised or other secondary markets of the securities issued by the Company pursuant to this delegation, and the Board of Directors is authorised, as broadly as is required by law, to carry out all formalities and acts required for this purpose with the appropriate authorities of the various securities markets.

It is expressly stated for the record that if application is subsequently made for delisting of the securities issued by the Company under this delegation, it shall be made by complying with the same formalities as the application for listing, to the extent applicable, and, in such case, the interests of the shareholders or bondholders opposing or not voting on the resolution shall be safeguarded in compliance with the requirements established by applicable law. It is also expressly stated that the Company undertakes to abide by all current or future Stock Market laws or regulations and, particularly, by those governing trading, continued listing, and delisting of securities.

6. Guarantee in Support of Issuances of Securities Effected by the Company's Subsidiaries.- As permitted by the By-Laws, the Board of Directors is also authorised to guarantee, on behalf of the Company and within the limits set forth above, new issuances of securities carried out by the subsidiaries of the Company during the effective period of this resolution.

7. Power of Substitution.- The Board of Directors is hereby expressly authorised to delegate the powers contemplated in this resolution, as permitted by section 249.2 of the Companies Act.

This resolution deprives of effect, to the extent of the unused amount, the authorisation to issue simple debentures or bonds and other fixed-income securities of a like nature, as well as preferred stock and notes, granted for such purpose to the Board of Directors by the shareholders at the General Shareholders' Meeting held on 27 May 2011.”

* * *

Bilbao, 8 May 2012

REPORT SUBMITTED BY THE BOARD OF DIRECTORS OF IBERDROLA, S.A. ON 8 MAY 2012 FOR PURPOSES OF THE PROVISIONS OF SECTION 286 OF THE COMPANIES ACT, REGARDING THE RATIONALE FOR THE PROPOSED AMENDMENT OF THE BY-LAWS INCLUDED IN ITEM ELEVEN ON THE AGENDA FOR THE GENERAL SHAREHOLDERS' MEETING CALLED TO BE HELD ON 22 AND 23 JUNE 2012, ON FIRST AND SECOND CALL, RESPECTIVELY

1. Purpose of the Report

This report has been prepared by the Board of Directors of IBERDROLA, S.A. (the “**Company**”) in accordance with the provisions of section 286 of the Companies Act (*Ley de Sociedades de Capital*) in order to provide a rationale for the proposed amendment of the *By-Laws* submitted to the shareholders for approval at the General Shareholders’ Meeting of the Company.

Section 286 of the Companies Act requires the preparation of a written report by the directors providing a rationale for the proposed amendment of the *By-Laws*. To facilitate the shareholders’ understanding of the changes that give rise to this proposal, a description of the purpose of and rationale for such amendment is provided, and the proposed resolution submitted to the shareholders for approval at the General Shareholders’ Meeting is included below.

In addition, in order to facilitate a comparison between the new text of the articles proposed to be amended and the current text thereof, attached to this report as an annex is a verbatim transcription of both texts organised in a two-column table, for information purposes. The text contained in the right-hand column shows the changes proposed to be made to the text currently in force, which is contained in the left-hand column.

2. Rationale for the Proposal

2.1. Introduction

The proposed amendments to the *By-Laws* pursue two aims: to adjust the text of the Company’s *By-Laws* to the amendments made to the Companies Act by Act 25/2011, of 1 August, on the partial amendment of the Companies Act and the adoption of Directive 2007/36/EC, of the European Parliament and of the Council, of 11 July, on the exercise of certain rights of shareholders in listed companies (“**Act 25/2011**”), and to make technical improvements in the text.

The articles proposed to be amended are 19.1, 19.4, 20.1, 20.2, 20.4, 23.3, 24.1, 24.2, and 25.2 of the *By-Laws*. A detailed description of the purpose of and rationale for the proposed amendments, grouped according to the reason giving rise thereto, is provided in the following sections.

2.2. Amendments Required to Align the Text of the *By-Laws* with the New Text of the Companies Act

It is proposed to amend articles 19.1, 19.4, 20.1, 20.2, 20.4, and 23.3 of the *By-Laws* in order to align the text thereof with the amendments made to the Companies Act by Act 25/2011.

Specifically, the purpose of the proposed amendments is to include the new rules regarding: the call to the General Shareholders' Meeting, as set forth in section 516 of the Companies Act (amendment of article 19.1); the right to supplement the agenda and to submit proposals for resolutions, as provided by section 519 of the Companies Act (amendment of article 19.4); and the extension of the shareholders' right to receive information to the content of the auditor's report, as laid down by section 520.1 of the Companies Act (amendment of articles 20.1 and 20.2). Some technical improvements are proposed to be included in the text of article 20.4.

It is also proposed to amend article 23.3 in order to include a reference to the statutory rules applicable to the relations between financial intermediaries and their customers, pursuant to section 524 of the Companies Act.

2.3. Other Amendments Designed to Make Technical Improvements

Finally, it is proposed to amend articles 24.1 and 24.2 of the *By-Laws*, in order to replace the name "Vizcaya" with "Bizkaia" (Biscay) in the original Spanish version of the text, pursuant to the provisions of Act 19/2011, of 5 July, whereby the provincial territories formerly called "Álava", "Guipúzcoa", and "Vizcaya" are now officially called "Araba/Álava", "Gipuzkoa", and "Bizkaia", as well as to amend article 25.2, in order to replace the cross-reference to article 49.3 with a cross-reference to article 49.2.

3. Proposed Resolution Submitted to the Shareholders at the General Shareholders' Meeting

The proposed resolution submitted to the shareholders for approval at the General Shareholders' Meeting reads as follows:

Amendment of the *By-Laws*.

a) Amendment of articles 19.1, 19.4, 20.1, 20.2, 20.4, and 23.3 of the *By-Laws* for adjustment thereof to the amendment of the Companies Act by Act 25/2011.

*In order to adjust the text of the Company's *By-Laws* to the amendments made to the Companies Act (Ley de Sociedades de Capital) by Act 25/2011, of 1 August, on the partial amendment of the Companies Act and the adoption of Directive 2007/36/EC, of the European Parliament and of the Council, of 11 July, on the exercise of certain rights of shareholders in listed companies, it is proposed to amend articles 19.1, 19.4, 20.1, 20.2, 20.4, and 23.3 of the *By-Laws*, which shall hereafter read as follows:*

Article 19. Call of the General Shareholders' Meeting

“1.- The General Shareholders' Meeting must be formally called by the Board of Directors through an announcement published as much in advance as required by law.

The announcement of the call to meeting shall be disseminated through the following media, at a minimum:

- a) The Official Bulletin of the Commercial Registry or one of the more widely circulated newspapers in Spain.*
- b) The website of the Spanish National Securities Market Commission (Comisión Nacional del Mercado de Valores).*
- c) The Company's corporate website.*

The notice published on the Company's website shall be accessible on an uninterrupted basis until at least the holding of the General Shareholders' Meeting.”

“4. Shareholders representing at least five (5%) per cent of the share capital may request the publication of a supplement to the call of the Ordinary General Shareholders' Meeting including one or more items in the agenda of the call to meeting, so long as the new items are accompanied by a rationale or, if applicable, by a duly substantiated proposal for a resolution, and submit well-founded proposed resolutions regarding matters already included or that should be included in the agenda of the call to meeting of the General Shareholders' Meeting being called.”

Article 20. Shareholders' Right to Receive Information

“1. From the date of publication of the call of the General Shareholders' Meeting through and including the seventh day prior to the date provided for the first call to meeting, the shareholders may request in writing the information or clarifications that they deem are required, or ask written questions that they deem pertinent, regarding the matters contained in the agenda of the call to meeting. In addition, upon the same prior notice and in the same manner, the shareholders may request information or clarifications or ask written questions regarding information accessible to the public which has been provided by the Company to the Spanish National Securities Market Commission (Comisión Nacional del Mercado de Valores) since the holding of the last General Shareholders' Meeting and regarding the auditor's report.”

“2. During the holding of the General Shareholders' Meeting, the shareholders may verbally request the information or clarifications that they deem appropriate

regarding the matters contained in the agenda, the information accessible to the public that has been provided by the Company to the National Securities Market Commission since the holding of the last General Shareholders' Meeting, and regarding the auditor's report."

- "4. The call of the General Shareholders' Meeting shall set forth the means whereby any shareholder may obtain from the Company, without charge and on an immediate basis, the documents that must be submitted for approval by the shareholders at such General Shareholders' Meeting, as well as, if applicable, the management report and the auditors' report."*

Article 23. Right to Be Represented at the Meeting

- "3. Proxy and voting instructions of shareholders acting through brokers, representatives, or depositaries shall be governed by the provisions of the Company's Corporate Governance System, without prejudice to the regulations applicable to the relations between financial intermediaries and their customers for purposes of the exercise of the rights to grant a proxy and to vote pursuant to law."*

b) Amendment of articles 24.1, 24.2, and 25.2 of the By-Laws in order to include technical improvements.

In order to replace the name "Vizcaya" with "Bizkaia" (Biscay) in articles 24.1 and 24.2 of the original Spanish version of the text and to replace the cross-reference to article 49.3 with a cross-reference to article 49.2 in article 25.2, it is proposed to amend such articles, which shall hereafter read as follows:

Article 24. Place and Time of the Meeting

- "1. The General Shareholders' Meeting shall be held at the place indicated in the call to meeting in any municipality within the Historical Territory of Biscay (Bizkaia)."*
- "2. The General Shareholders' Meeting may be attended by going to the place where the meeting is to be held or, if applicable, to other places provided by the Company and indicated in the call to meeting, and which are connected therewith by any valid systems that allow recognition and identification of the parties attending, permanent communication among the attendees regardless of their location, and participation and voting, all in real time. The principal place of the meeting must be located in the municipality of the Historical Territory of Biscay (Bizkaia) indicated in the call to meeting, but supplemental locations need not be so located. For all purposes relating to the General Shareholders' Meeting, attendees at any of the sites shall be deemed attendees at the same individual meeting. The meeting shall be deemed to have been held at the principal location thereof."*

Article 25. Chairman, Secretary, and Presiding Committee of the General Shareholders' Meeting

“2. *The secretary of the Board of Directors or, in his absence, the vice-secretary of the Board of Directors, shall act as the secretary for the General Shareholders' Meeting. If there are several vice-secretaries, the order set forth in Article 49.2 below shall apply. In the absence of all of the foregoing, the person appointed by the Presiding Committee shall act as secretary for the General Shareholders' Meeting.*”

* * *

Bilbao, 8 May 2012

ANNEX – TWO-COLUMN TABLE SHOWING A COMPARISON FOR PURPOSES OF THE PROPOSED AMENDMENT OF THE BY-LAWS (CURRENT TEXT AND AMENDED TEXT SHOWING THE PROPOSED CHANGES)

Current Text of the <i>By-Laws</i>	Text of the Proposed Amendment
Article 19. Call of the General Shareholders' Meeting	Article 19. Call of the General Shareholders' Meeting
<p>1. The General Shareholders' Meeting must be formally called by the Board of Directors through an announcement published in the Official Bulletin of the Commercial Registry and on the corporate website as much in advance as required by law. The notice published on the Company's website shall be accessible on an uninterrupted basis until at least the holding of the General Shareholders' Meeting.</p>	<p>1. The General Shareholders' Meeting must be formally called by the Board of Directors through an announcement published in the Official Bulletin of the Commercial Registry and on the corporate website as much in advance as required by law.</p> <p><u>The announcement of the call to meeting shall be disseminated through the following media, at a minimum:</u></p> <p>a) <u>The Official Bulletin of the Commercial Registry or one of the more widely circulated newspapers in Spain.</u></p> <p>b) <u>The website of the Spanish National Securities Market Commission (<i>Comisión Nacional del Mercado de Valores</i>).</u></p> <p>c) <u>The Company's corporate website.</u></p> <p>-The notice published on the Company's website shall be accessible on an uninterrupted basis until at least the holding of the General Shareholders' Meeting.</p>
<p>4. Shareholders representing at least five (5%) per cent of the share capital may request the publication of a supplement to the call of the General Shareholders' Meeting including one or more items in the agenda of the call to meeting and submit well-founded proposed resolutions regarding matters already included</p>	<p>4. Shareholders representing at least five (5%) per cent of the share capital may request the publication of a supplement to the call of the <u>Ordinary</u> General Shareholders' Meeting including one or more items in the agenda of the call to meeting, <u>so long as the new items are accompanied by a rationale or, if</u></p>

<p>or that should be included in the agenda of the call to meeting of the General Shareholders' Meeting being called.</p>	<p><u>applicable, by a duly substantiated proposal for a resolution,</u> and submit well-founded proposed resolutions regarding matters already included or that should be included in the agenda of the call to meeting of the General Shareholders' Meeting being called.</p>
<p>Article 20. Shareholders' Right to Receive Information</p>	<p>Article 20. Shareholders' Right to Receive Information</p>
<p>1. From the date of publication of the call of the General Shareholders' Meeting through and including the seventh day prior to the date provided for the first call to meeting, the shareholders may request in writing the information or clarifications that they deem are required, or ask written questions that they deem pertinent, regarding the matters contained in the agenda of the call to meeting. In addition, upon the same prior notice and in the same manner, the shareholders may request information or clarifications or ask written questions regarding information accessible to the public which has been provided by the Company to the Spanish National Securities Market Commission (<i>Comisión Nacional del Mercado de Valores</i>) since the holding of the last General Shareholders' Meeting.</p>	<p>1. From the date of publication of the call of the General Shareholders' Meeting through and including the seventh day prior to the date provided for the first call to meeting, the shareholders may request in writing the information or clarifications that they deem are required, or ask written questions that they deem pertinent, regarding the matters contained in the agenda of the call to meeting. In addition, upon the same prior notice and in the same manner, the shareholders may request information or clarifications or ask written questions regarding information accessible to the public which has been provided by the Company to the Spanish National Securities Market Commission (<i>Comisión Nacional del Mercado de Valores</i>) since the holding of the last General Shareholders' Meeting <u>and regarding the auditor's report.</u></p>
<p>2. During the holding of the General Shareholders' Meeting, the shareholders may verbally request the information or clarifications that they deem appropriate regarding the matters contained in the agenda or the information accessible to the public that has been provided by the Company to the National Securities Market Commission since the holding of the last General Shareholders' Meeting.</p>	<p>2. During the holding of the General Shareholders' Meeting, the shareholders may verbally request the information or clarifications that they deem appropriate regarding the matters contained in the agenda, or the information accessible to the public that has been provided by the Company to the National Securities Market Commission since the holding of the last General Shareholders' Meeting, <u>and regarding the auditor's report.</u></p>
<p>4. The call of the ordinary General Shareholders' Meeting shall set forth the means whereby any shareholder may obtain from the Company, without charge and on an immediate basis, the documents that must be submitted for approval by the shareholders at</p>	<p>4. The call of the ordinary General Shareholders' Meeting shall set forth the means whereby any shareholder may obtain from the Company, without charge and on an immediate basis, the documents that must be submitted for approval by the shareholders at</p>

such ordinary General Shareholders' Meeting, as well as the management report and the auditors' report.	such ordinary —General Shareholders' Meeting, as well as, <u>if applicable</u> , the management report and the auditors' report.
Article 23. Right to Be Represented at the Meeting	Article 23. Right to Be Represented at the Meeting
3. Proxy and voting instructions of shareholders acting through brokers, representatives, or depositaries shall be governed by the provisions of the Company's Corporate Governance System.	3. Proxy and voting instructions of shareholders acting through brokers, representatives, or depositaries shall be governed by the provisions of the Company's Corporate Governance System, <u>without prejudice to the regulations applicable to the relations between financial intermediaries and their customers for purposes of the exercise of the rights to grant a proxy and to vote pursuant to law.</u>
Article 24. Place and Time of the Meeting	Article 24. Place and Time of the Meeting
1. The General Shareholders' Meeting shall be held at the place indicated in the call to meeting in any municipality within the Historical Territory of Biscay.	1. The General Shareholders' Meeting shall be held at the place indicated in the call to meeting in any municipality within the Historical Territory of Biscay (<u>Bizkaia</u>).
2. The General Shareholders' Meeting may be attended by going to the place where the meeting is to be held or, if applicable, to other places provided by the Company and indicated in the call to meeting, and which are connected therewith by any valid systems that allow recognition and identification of the parties attending, permanent communication among the attendees regardless of their location, and participation and voting, all in real time. The principal place of the meeting must be located in the municipality of the Historical Territory of Biscay indicated in the call to meeting, but supplemental locations need not be so located. For all purposes relating to the General Shareholders' Meeting, attendees at any of the sites shall be deemed attendees at the same individual meeting. The meeting shall be deemed to have been held at the principal location thereof.	2. The General Shareholders' Meeting may be attended by going to the place where the meeting is to be held or, if applicable, to other places provided by the Company and indicated in the call to meeting, and which are connected therewith by any valid systems that allow recognition and identification of the parties attending, permanent communication among the attendees regardless of their location, and participation and voting, all in real time. The principal place of the meeting must be located in the municipality of the Historical Territory of Biscay (<u>Bizkaia</u>) indicated in the call to meeting, but supplemental locations need not be so located. For all purposes relating to the General Shareholders' Meeting, attendees at any of the sites shall be deemed attendees at the same individual meeting. The meeting shall be deemed to have been held at the principal location thereof.
Article 25. Chairman, Secretary and Presiding Committee of the General	Article 25. Chairman, Secretary and Presiding Committee of the General

Shareholders' Meeting	Shareholders' Meeting
<p>2. The secretary of the Board of Directors or, in his absence, the vice-secretary of the Board of Directors, shall act as the secretary for the General Shareholders' Meeting. If there are several vice-secretaries, the order set forth in article 49.3 below shall apply. In the absence of all of the foregoing, the person appointed by the Presiding Committee shall act as Secretary for the General Shareholders' Meeting.</p>	<p>2. The secretary of the Board of Directors or, in his absence, the vice-secretary of the Board of Directors, shall act as the secretary for the General Shareholders' Meeting. If there are several vice-secretaries, the order set forth in article 49.3<u>49.2</u> below shall apply. In the absence of all of the foregoing, the person appointed by the Presiding Committee shall act as Secretary for the General Shareholders' Meeting.</p>

REPORT SUBMITTED BY THE BOARD OF DIRECTORS OF IBERDROLA, S.A. ON 8 MAY 2012 REGARDING THE RATIONALE FOR THE PROPOSED AMENDMENT OF THE REGULATIONS FOR THE GENERAL SHAREHOLDERS' MEETING INCLUDED IN ITEM TWELVE ON THE AGENDA FOR THE GENERAL SHAREHOLDERS' MEETING CALLED TO BE HELD ON 22 AND 23 JUNE 2012, ON FIRST AND SECOND CALL, RESPECTIVELY

1. Purpose of the Report

This report has been prepared by the Board of Directors of IBERDROLA, S.A. (the “**Company**”) in order to provide a rationale for the proposed amendment of the *Regulations for the General Shareholders' Meeting* (the “**Regulations**”) submitted to the shareholders for approval at the General Shareholders' Meeting.

To facilitate the shareholders' understanding of the changes that give rise to the proposed amendment, a description of the purpose of and rationale for such amendment is provided, and the proposed resolution submitted to the shareholders for approval at the General Shareholders' Meeting is included below.

In addition, in order to facilitate a comparison between the new text of the articles proposed to be amended and the current text thereof, attached to this report as an Annex is a verbatim transcription of both texts organised in a two-column table, for information purposes. The text contained in the right-hand column shows the changes proposed to be made to the text currently in force, which is contained in the left-hand column.

2. Rationale for the Proposal

2.1. Introduction

The purpose of the proposed amendments to the *Regulations* is to adjust the text thereof to the amendments made to the Companies Act (*Ley de Sociedades de Capital*) by Act 25/2011, of 1 August, on the partial amendment of the Companies Act and the adoption of Directive 2007/36/EC, of the European Parliament and of the Council, of 11 July, on the exercise of certain rights of shareholders in listed companies (“**Act 25/2011**”), and to make specific technical improvements in the text of the *Regulations*.

Such amendments are in line with the proposed amendment of the *By-Laws* prepared by the Board of Directors and which will be submitted to the shareholders for approval at the same General Shareholders' Meeting, under item eleven on the agenda.

The articles proposed to be amended are 8.1, 8.3, 8.4, 9.2, 12.9 (new), 12.10 (formerly, 12.9), 13.3, 13.5 (new), 14.1, 14.2, 28.1, 32.1, and 35.2. A detailed description of the purpose of and rationale for each of the proposed amendments is provided in the following section.

2.2. Purpose of and Rationale for Each of the Proposed Amendments

The amendment of sections 1, 3, and 4 of article 8 is aimed at including the new rules governing the call to the General Shareholders' Meeting and the rights to supplement the agenda and to submit proposals for resolutions, pursuant to the new text of sections 516, 517, and 519 of the Companies Act, as amended by Act 25/2011.

The purpose of the amendment of articles 9.2 and 28.1 is to extend the shareholders' right to receive information to the content of the auditor's report, both prior to and during the course of the General Shareholders' Meeting, in accordance with the new text of section 520.1 of the Companies Act.

The purpose of the proposed changes to article 12 (inclusion of a new section 9 and amendment of the former section 9, which becomes section 10) and article 13 (amendment of section 3 and inclusion of a new section 5) is to bring into the *Regulations* the new rules established by sections 522 through 524 of the Companies Act, following the approval of Act 25/2011, regarding conflicts of interest affecting proxy-holders, and to include a reference to the rules applicable to the relations between financial intermediaries and their customers.

In line with the proposal made by the Board of Directors for amendment of article 24 of the *By-Laws*, it is proposed to replace the name "Vizcaya" with "Bizkaia" (Biscay) in the original Spanish version of the text, pursuant to the provisions of Act 19/2011, of 5 July, whereby the provincial territories formerly called "Álava", "Guipúzcoa", and "Vizcaya" are now officially called "Araba/Álava", "Gipuzkoa", and "Bizkaia".

Finally, the purpose of the proposed amendment of articles 32.1 and 35.2 of the *Regulations* is simply to align the text thereof with the provisions of articles 24.4 and 29.1, respectively, of the *By-Laws*.

3. Proposed Resolution Submitted to the Shareholders at the General Shareholders' Meeting

The proposed resolution submitted to the shareholders for approval at the General Shareholders' Meeting reads as follows:

Amendment of articles 8.1, 8.3, 8.4, 9.2, 12.10 (formerly, 12.9), 13.3, 14.1, 14.2, 28.1, 32.1, and 35.2 of the Regulations for the General Shareholders' Meeting and inclusion of two new articles: 12.9 and 13.5.

In order to adjust the text of the Company's Regulations for the General Shareholders' Meeting to the amendments made to the Companies Act (Ley de Sociedades de Capital) by Act 25/2011, of 1 August, on the partial amendment of the Companies Act and the adoption of Directive 2007/36/EC, of the European Parliament and of the Council, of 11 July, on the exercise of certain rights of shareholders in listed

companies, and to make technical improvements, it is proposed to amend articles 8.1, 8.3, 8.4, 9.2, 12.10 (formerly, 12.9), 13.3, 14.1, 14.2, 28.1, 32.1, and 35.2 of the Regulations for the General Shareholders' Meeting and to include two new articles, 12.9 and 13.5, which shall hereafter read as follows:

Article 8. Requirements of the Call

"1. Pursuant to the provisions of the By-Laws, the General Shareholders' Meeting must be formally convened by the Board of Directors through an announcement published as much in advance as required by law.

The announcement of the call to meeting shall be disseminated through the following media, at a minimum:

- a) The Official Bulletin of the Commercial Registry (Boletín Oficial del Registro Mercantil) or one of the more widely circulated newspapers in Spain.*
- b) The website of the National Securities Market Commission (Comisión Nacional del Mercado de Valores).*
- c) The Company's corporate website."*

"3. The notice of the call must contain all of the mentions required by law in each case and shall state:

- a) The day, place, and time of the meeting upon first call and all matters to be dealt with.*
- b) A clear and specific description of the procedures and periods that the shareholders must observe in order to request the publication of a supplement to the call to an Ordinary General Shareholders' Meeting, submit well-founded proposals for resolutions, or exercise their rights to receive information, to vote from a distance, and to grant a proxy, upon the terms provided by law.*
- c) The date on which the holders of the Company's shares must have them registered in their name in the relevant book-entry registry to be able to attend and vote at the General Shareholders' Meeting being called.*
- d) Where and how the complete text of the documents to be submitted at the General Shareholders' Meeting can be obtained, particularly including the reports of the directors, auditors, and independent experts to be submitted and the complete text of the proposed resolutions that are expected to be adopted.*
- e) The address of the Company's corporate website.*

The announcement may also set forth the date on which the General Shareholders' Meeting shall proceed upon second call, if applicable."

- "4. Shareholders representing at least five (5%) per cent of the share capital may:*
- a) Request the publication of a supplement to the call to the Ordinary General Shareholders' Meeting including one or more items in the agenda of the call to meeting, so long as the new items are accompanied by a rationale or, if applicable, by a well-founded proposal for a resolution.*
 - b) Present well-founded proposed resolutions regarding matters already included or that should be included in the agenda of the call to the General Shareholders' Meeting. The Company shall ensure the dissemination to the other shareholders of such proposed resolutions and any documentation attached thereto in accordance with the provisions of law.*

The written notice of the exercise of such rights shall specify the name or corporate name of the requesting shareholder or shareholders, and there shall be attached thereto such documentation as evidences the status thereof as shareholder, in order to check such information against that provided by the Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (Iberclear), as well as the contents of the item or items proposed. Under the circumstances set forth in letter a), the Board of Directors may require that the shareholder also attach the proposed resolution or resolutions and, if legally required, in the instances set forth in letters a) and b), the report or reports providing a rationale for the proposals."

Article 9. Right to Receive Information Prior to the Holding of the General Shareholders' Meeting

- "2. From the first date of publication of the call to the General Shareholders' Meeting through and including the seventh day prior to the date provided for the first call to meeting, the shareholders may request in writing the information or clarifications that they deem are required, or ask written questions that they deem pertinent, regarding the matters contained in the agenda of the call to meeting. In addition, upon the same prior notice and in the same manner, the shareholders may request information or clarifications or ask written questions regarding information accessible to the public which has been provided by the Company to the National Securities Market Commission since the holding of the last General Shareholders' Meeting and regarding the auditor's report.*

All such requests for information may be made by delivery of the request to the Company's registered office, or by delivery to the Company via mail or other means of electronic or long-distance data communication sent to the address specified in the notice of the meeting or, in the absence of such specification, to the Office of the Shareholder (Oficina del Accionista). Requests shall be allowed

in which the document by virtue of which the information is requested includes a recognised electronic signature used by the requesting party or other mechanisms which, pursuant to a resolution previously adopted for such purpose, the Board of Directors deems sufficient to ensure the authenticity and identity of the shareholder exercising such right to receive information.

Whatever the means used to issue the requests for information, the request of the shareholder must include the shareholder's first and last names, with evidence of the shares owned, in order for this information to be checked against the list of shareholders and the number of shares in the shareholders' name provided by the Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (Iberclear), for the General Shareholders' Meeting in question. The shareholder shall be responsible for maintaining proof of delivery of the request to the Company as and when due."

Article 12. Right to Proxy Representation

"9. Before being appointed, the proxy-holder shall provide detailed information to the shareholder regarding whether a conflict of interest exists. If the conflict is subsequent to the appointment and the shareholder granting the proxy has not been advised of the possible existence of such conflict, the proxy-holder shall immediately inform the shareholder thereof. In both cases, if the proxy-holder has not received new specific voting instructions regarding each of the matters on which the proxy-holder has to vote on behalf of the shareholder, the proxy-holder shall abstain from voting, without prejudice to the provisions of the following paragraph."

"10. Unless otherwise expressly indicated by the shareholder granting the proxy, in the event that the proxy-holder is subject to a conflict of interest and does not have specific voting instructions, it shall be deemed for such circumstance that the shareholder granting the proxy has appointed as proxy-holders, jointly and severally and successively, in the order set forth below in the event that any of them is in turn subject to a conflict of interest: the chairman of the General Shareholders' Meeting, the secretary for the General Shareholders' Meeting, and the vice-secretary of the Board of Directors, if any. In this latter event, if there are several vice-secretaries, the order to be used shall be the order established at the time of their appointment (first vice-secretary, second vice-secretary, etc.)."

Article 13. Attendance, Proxy-Granting, and Distance Voting Cards

"3. If a broker, representative, or depositary sends to the Company an attendance, proxy-granting, or distance voting card or verification instrument of a shareholder duly identified therein with the signature, stamp, and/or mechanical impression of the entity, and unless the shareholder expressly indicates otherwise, it shall be deemed that the shareholder has instructed such entity to exercise the proxy or voting right, as applicable, in the direction indicated in such card or

instrument verifying the proxy or vote. If there are questions regarding such instructions, it shall be deemed that the shareholder grants the shareholder's proxy to the chairman of the Board of Directors with the scope set forth in these Regulations and that the shareholder gives specific instructions to vote in favour of the proposals made by the Board of Directors in connection with the items of the agenda of the call to meeting."

- "5. All of the foregoing shall be without prejudice to the regulations applicable to the relations between financial intermediaries and their customers for purposes of the exercise of the rights to grant a proxy and to vote pursuant to law."*

Article 14. Place of the Meeting

"1. The General Shareholders' Meeting shall be held at the place indicated in the call to meeting in any municipality belonging to the Historical Territory of Biscay (Bizkaia). If no place is indicated in the call, it shall be deemed that the meeting will take place at the registered office."

"2. The General Shareholders' Meeting may be attended by going to the place where the meeting is to be held or, if applicable, to other places provided by the Company and indicated in the call to meeting, and which are connected therewith by any valid systems that allow for recognition and identification of the parties attending, permanent communication among the attendees regardless of their location, and participation and voting, all in real time. The principal place of the meeting must be located within such municipality of the Historical Territory of Biscay (Bizkaia) as is indicated in the call to meeting, but supplemental locations need not be so located. For all purposes relating to the General Shareholders' Meeting, attendees at any of the sites shall be deemed attendees at the same individual meeting. The meeting shall be deemed to be held at the principal location thereof."

Article 28. Right to Receive Information during the General Shareholders' Meeting

"1. During the presentation period, shareholders or their duly accredited proxy-representatives may verbally request information or clarifications that they deem are necessary regarding the matters contained in the agenda of the call to meeting, information accessible to the public that has been provided by the Company to the National Securities Market Commission since the holding of the last General Shareholders' Meeting, and regarding the auditor's report. They must have previously identified themselves for this purpose in accordance with the provisions of article 25 above."

Article 32. Continuation

"1. The shareholders acting at the General Shareholders' Meeting may, provided that there is good reason for doing so, agree to a continuation of the Meeting over one

or more consecutive days, at the proposal of the chairman of the General Shareholders' Meeting, of the majority of the directors attending the Meeting, or at the request of a number of shareholders representing at least one-fourth (1/4) of the share capital present. Regardless of the number of sessions, the General Shareholders' Meeting shall be deemed to be a single meeting, and a single set of minutes shall be prepared for all of the sessions."

Article 35. Adoption of Resolutions and Announcement of Voting Results

"2. The approval of resolutions shall require the favourable vote of more than one-half of the voting shares represented in person or by proxy at the General Shareholders' Meeting. The foregoing does not affect situations in which a greater majority is required by law or the By-Laws."

* * *

Bilbao, 8 May 2012

**ANNEX – TWO-COLUMN TABLE SHOWING A COMPARISON
FOR PURPOSES OF THE PROPOSED AMENDMENT OF THE
REGULATIONS FOR THE GENERAL SHAREHOLDERS’ MEETING
(CURRENT TEXT AND AMENDED TEXT SHOWING THE
PROPOSED CHANGES)**

Current Text of the <i>Regulations for the General Shareholders’ Meeting</i>	Text of the Proposed Amendment
Article 8. Requirements of the Call	Article 8. Requirements of the Call
<p>1. Pursuant to the provisions of the <i>By-Laws</i>, the General Shareholders’ Meeting must be formally convened by the Board of Directors through an announcement published in the Official Bulletin (<i>Boletín Oficial</i>) of the Commercial Registry and on the Company’s corporate website with the advance period required by law. The Company shall also give notice of the call to the National Securities Market Commission (<i>Comisión Nacional del Mercado de Valores</i>).</p>	<p>1. Pursuant to the provisions of the <i>By-Laws</i>, the General Shareholders’ Meeting must be formally convened by the Board of Directors through an announcement published in the Official Bulletin (<i>Boletín Oficial</i>) of the Commercial Registry and on the Company’s corporate website with the advance period required by law. The Company shall also give notice of the call to the National Securities Market Commission (<i>Comisión Nacional del Mercado de Valores</i>).</p> <p><u>The announcement of the call to meeting shall be disseminated through the following media, at a minimum:</u></p> <p><u>a) The Official Bulletin of the Commercial Registry (<i>Boletín Oficial del Registro Mercantil</i>) or one of the more widely circulated newspapers in Spain.</u></p> <p><u>b) The website of the National Securities Market Commission (<i>Comisión Nacional del Mercado de Valores</i>).</u></p> <p><u>c) The Company’s corporate website.</u></p>
<p>3. The notice of the call must contain all of the mentions required by law in each case and shall state:</p> <p>a) The day, place, and time of the meeting upon first call and all matters to be dealt</p>	<p>3. The notice of the call must contain all of the mentions required by law in each case and shall state:</p> <p>a) The day, place, and time of the meeting upon first call and all matters to be dealt</p>

<p>with.</p> <p>b) A clear and specific description of the procedures that the shareholders must follow in order to request the publication of a supplement to the call to a General Shareholders' Meeting, submit proposed resolutions, or exercise their rights to information and to vote, upon the terms provided by law.</p> <p>c) The date on which the holders of the Company's shares must have them registered them in their name in the relevant book-entry registry to be able to attend and vote at the General Shareholders' Meeting being called.</p> <p>d) Where and how the complete text of the documents to be submitted at the General Shareholders' Meeting can be obtained, particularly including the reports of the directors, auditors, and independent experts to be submitted and the complete text of the proposed resolutions that are expected to be adopted.</p> <p>e) The address of the Company's corporate website.</p> <p>The announcement may also set forth the date on which the General Shareholders' Meeting shall proceed upon second call, if applicable.</p>	<p>with.</p> <p>b) A clear and specific description of the procedures <u>and periods</u> that the shareholders must follow<u>observe</u> in order to request the publication of a supplement to the call to an <u>Ordinary</u> General Shareholders' Meeting, submit <u>well-founded proposals</u> for proposed resolutions, or exercise their rights to <u>receive</u> information, and to vote <u>from a distance, and to grant a proxy</u>, upon the terms provided by law.</p> <p>c) The date on which the holders of the Company's shares must have them registered them in their name in the relevant book-entry registry to be able to attend and vote at the General Shareholders' Meeting being called.</p> <p>d) Where and how the complete text of the documents to be submitted at the General Shareholders' Meeting can be obtained, particularly including the reports of the directors, auditors, and independent experts to be submitted and the complete text of the proposed resolutions that are expected to be adopted.</p> <p>e) The address of the Company's corporate website.</p> <p>The announcement may also set forth the date on which the General Shareholders' Meeting shall proceed upon second call, if applicable.</p>
<p>4. Shareholders representing at least five (5%) per cent of the share capital may:</p> <p>a) Request the publication of a supplement to the call to the General Shareholders' Meeting including one or more items in the agenda of the call to meeting.</p> <p>b) Present well-founded proposed resolutions regarding matters already included or that should be included in the agenda of the call to the General Shareholders' Meeting. The Company</p>	<p>4. Shareholders representing at least five (5%) per cent of the share capital may:</p> <p>a) Request the publication of a supplement to the call to the <u>Ordinary</u> General Shareholders' Meeting including one or more items in the agenda of the call to meeting, <u>so long as the new items are accompanied by a rationale or, if applicable, by a well-founded proposal for a resolution</u>.</p> <p>b) Present well-founded proposed</p>

<p>shall ensure the dissemination to the other shareholders of such proposed resolutions and any documentation attached thereto in accordance with the provisions of law.</p> <p>The written notice of the exercise of such rights shall specify the name or corporate name of the requesting shareholder or shareholders, and there shall be attached thereto such documentation as evidences the status thereof as shareholder, in order to check such information against that provided by the <i>Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (Iberclear)</i>, as well as the contents of the item or items proposed. Under the circumstances set forth in letter a), the Board of Directors may require that the shareholder also attach the proposed resolution or resolutions and, if legally required, in the instances set forth in letters a) and b), the report or reports providing a rationale for the proposals.</p>	<p>resolutions regarding matters already included or that should be included in the agenda of the call to the General Shareholders' Meeting. The Company shall ensure the dissemination to the other shareholders of such proposed resolutions and any documentation attached thereto in accordance with the provisions of law.</p> <p>The written notice of the exercise of such rights shall specify the name or corporate name of the requesting shareholder or shareholders, and there shall be attached thereto such documentation as evidences the status thereof as shareholder, in order to check such information against that provided by the <i>Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (Iberclear)</i>, as well as the contents of the item or items proposed. Under the circumstances set forth in letter a), the Board of Directors may require that the shareholder also attach the proposed resolution or resolutions and, if legally required, in the instances set forth in letters a) and b), the report or reports providing a rationale for the proposals.</p>
<p>Article 9. Right to Receive Information Prior to the Holding of the General Shareholders' Meeting</p>	<p>Article 9. Right to Receive Information Prior to the Holding of the General Shareholders' Meeting</p>
<p>2. From the first date of publication of the call to the General Shareholders' Meeting through and including the seventh day prior to the date provided for the first call to meeting, the shareholders may request in writing the information or clarifications that they deem are required, or ask written questions that they deem pertinent, regarding the matters contained in the agenda of the call to meeting. In addition, upon the same prior notice and in the same manner, the shareholders may request information or clarifications or ask written questions regarding information accessible to the public which has been provided by the Company to the National Securities Market Commission since the holding of the last General Shareholders'</p>	<p>2. From the first date of publication of the call to the General Shareholders' Meeting through and including the seventh day prior to the date provided for the first call to meeting, the shareholders may request in writing the information or clarifications that they deem are required, or ask written questions that they deem pertinent, regarding the matters contained in the agenda of the call to meeting. In addition, upon the same prior notice and in the same manner, the shareholders may request information or clarifications or ask written questions regarding information accessible to the public which has been provided by the Company to the National Securities Market Commission since the holding of the last General Shareholders'</p>

<p>Meeting.</p> <p>All such requests for information may be made by delivery of the request to the Company's registered office, or by delivery to the Company via mail or other means of electronic or long-distance data communication sent to the address specified in the notice of the meeting or, in the absence of such specification, to the Office of the Shareholder (<i>Oficina del Accionista</i>). Requests shall be allowed in which the document by virtue of which the information is requested includes a recognised electronic signature used by the requesting party or other mechanisms which, pursuant to a resolution previously adopted for such purpose, the Board of Directors deems sufficient to ensure the authenticity and identity of the shareholder exercising such right to receive information.</p> <p>Whatever the means used to issue the requests for information, the request of the shareholder must include the shareholder's first and last names, with evidence of the shares owned, in order for this information to be checked against the list of shareholders and the number of shares in the shareholders' name provided by the <i>Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U.</i> (Iberclear), for the General Shareholders' Meeting in question. The shareholder shall be responsible for maintaining proof of delivery of the request to the Company as and when due.</p>	<p>Meeting <u>and regarding the auditor's report.</u></p> <p>All such requests for information may be made by delivery of the request to the Company's registered office, or by delivery to the Company via mail or other means of electronic or long-distance data communication sent to the address specified in the notice of the meeting or, in the absence of such specification, to the Office of the Shareholder (<i>Oficina del Accionista</i>). Requests shall be allowed in which the document by virtue of which the information is requested includes a recognised electronic signature used by the requesting party or other mechanisms which, pursuant to a resolution previously adopted for such purpose, the Board of Directors deems sufficient to ensure the authenticity and identity of the shareholder exercising such right to receive information.</p> <p>Whatever the means used to issue the requests for information, the request of the shareholder must include the shareholder's first and last names, with evidence of the shares owned, in order for this information to be checked against the list of shareholders and the number of shares in the shareholders' name provided by the <i>Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U.</i> (Iberclear), for the General Shareholders' Meeting in question. The shareholder shall be responsible for maintaining proof of delivery of the request to the Company as and when due.</p>
<p>Article 12. Right to Proxy Representation</p>	<p>Article 12. Right to Proxy Representation</p>
	<p>9. <u>Before being appointed, the proxy-holder shall provide detailed information to the shareholder regarding whether a conflict of interest exists. If the conflict is subsequent to the appointment and the shareholder granting the proxy has not been advised of the possible existence of such conflict, the proxy-holder shall immediately inform the shareholder thereof. In both cases, if the proxy-holder has not received new specific voting instructions</u></p>

	<u>regarding each of the matters on which the proxy-holder has to vote on behalf of the shareholder, the proxy-holder shall abstain from voting, without prejudice to the provisions of the following paragraph.</u>
9. Unless otherwise expressly indicated by the shareholder granting the proxy, in the event that the proxy-holder is subject to a conflict of interest, it shall be deemed for such circumstance that the shareholder granting the proxy has appointed as proxy-holders, jointly and severally and successively, in the order set forth below in the event that any of them is in turn subject to a conflict of interest: the chairman of the General Shareholders' Meeting, the secretary for the General Shareholders' Meeting, and the vice-secretary of the Board of Directors, if any. In this latter event, if there are several vice-secretaries, the order to be used shall be the order established at the time of their appointment (first vice-secretary, second vice-secretary, etc.).	<u>10.</u> Unless otherwise expressly indicated by the shareholder granting the proxy, in the event that the proxy-holder is subject to a conflict of interest <u>and does not have specific voting instructions</u> , it shall be deemed for such circumstance that the shareholder granting the proxy has appointed as proxy-holders, jointly and severally and successively, in the order set forth below in the event that any of them is in turn subject to a conflict of interest: the chairman of the General Shareholders' Meeting, the secretary for the General Shareholders' Meeting, and the vice-secretary of the Board of Directors, if any. In this latter event, if there are several vice-secretaries, the order to be used shall be the order established at the time of their appointment (first vice-secretary, second vice-secretary, etc.).
Article 13. Attendance, Proxy-Granting, and Distance Voting Cards	Article 13. Attendance, Proxy-Granting, and Distance Voting Cards
3. If a broker, representative, or depositary sends to the Company an attendance, proxy-granting, or distance voting card or verification instrument of a shareholder duly identified therein with the signature, stamp, and/or mechanical impression of the entity, and unless the shareholder expressly indicates otherwise, it shall be deemed that the shareholder has instructed such entity to exercise the proxy or voting right, as applicable, in the direction indicated in such card or instrument verifying the proxy or vote. If there are questions regarding such instructions, it shall be deemed that the shareholder has granted the shareholders' proxy to the chairman of the Board of Directors with the scope set forth in these <i>Regulations</i> .	3. If a broker, representative, or depositary sends to the Company an attendance, proxy-granting, or distance voting card or verification instrument of a shareholder duly identified therein with the signature, stamp, and/or mechanical impression of the entity, and unless the shareholder expressly indicates otherwise, it shall be deemed that the shareholder has instructed such entity to exercise the proxy or voting right, as applicable, in the direction indicated in such card or instrument verifying the proxy or vote. If there are questions regarding such instructions, it shall be deemed that the shareholder has <u>granted grants</u> the shareholders' proxy to the chairman of the Board of Directors with the scope set forth in these <i>Regulations</i> <u>and that the shareholder gives specific instructions to vote in favour of the proposals made by the Board of Directors</u>

	<u>in connection with the items of the agenda of the call to meeting.</u>
	<u>5. All of the foregoing shall be without prejudice to the regulations applicable to the relations between financial intermediaries and their customers for purposes of the exercise of the rights to grant a proxy and to vote pursuant to law.</u>
Article 14. Place of the Meeting	Article 14. Place of the Meeting
1. The General Shareholders' Meeting shall be held at the place indicated in the call to meeting in any municipality belonging to the Historical Territory of Biscay. If no place is indicated in the call, it shall be deemed that the meeting will take place at the registered office.	1. The General Shareholders' Meeting shall be held at the place indicated in the call to meeting in any municipality belonging to the Historical Territory of Biscay (<u>Bizkaia</u>). If no place is indicated in the call, it shall be deemed that the meeting will take place at the registered office.
2. The General Shareholders' Meeting may be attended by going to the place where the meeting is to be held or, if applicable, to other places provided by the Company and indicated in the call to meeting, and which are connected therewith by any valid systems that allow for recognition and identification of the parties attending, permanent communication among the attendees regardless of their location, and participation and voting, all in real time. The principal place of the meeting must be located within such municipality of the Historical Territory of Biscay as is indicated in the call to meeting, but supplemental locations need not be so located. For all purposes relating to the General Shareholders' Meeting, attendees at any of the sites shall be deemed attendees at the same individual meeting. The meeting shall be deemed to be held at the principal location thereof.	2. The General Shareholders' Meeting may be attended by going to the place where the meeting is to be held or, if applicable, to other places provided by the Company and indicated in the call to meeting, and which are connected therewith by any valid systems that allow for recognition and identification of the parties attending, permanent communication among the attendees regardless of their location, and participation and voting, all in real time. The principal place of the meeting must be located within such municipality of the Historical Territory of Biscay (<u>Bizkaia</u>) as is indicated in the call to meeting, but supplemental locations need not be so located. For all purposes relating to the General Shareholders' Meeting, attendees at any of the sites shall be deemed attendees at the same individual meeting. The meeting shall be deemed to be held at the principal location thereof.
Article 28. Right to Receive Information during the General Shareholders' Meeting	Article 28. Right to Receive Information during the General Shareholders' Meeting
1. During the presentation period, shareholders or their duly accredited proxy representatives may verbally request information or clarifications that they deem	1. During the presentation period, shareholders or their duly accredited proxy representatives may verbally request information or clarifications that they deem

<p>are necessary regarding the matters contained in the agenda of the call to meeting or information accessible to the public that has been provided by the Company to the National Securities Market Commission since the holding of the last General Shareholders' Meeting. They must have previously identified themselves for this purpose in accordance with the provisions of article 25 above.</p>	<p>are necessary regarding the matters contained in the agenda of the call to meeting, or information accessible to the public that has been provided by the Company to the National Securities Market Commission since the holding of the last General Shareholders' Meeting, <u>and regarding the auditor's report.</u> They must have previously identified themselves for this purpose in accordance with the provisions of article 25 above.</p>
<p>Article 32. Continuation</p>	<p>Article 32. Continuation</p>
<p>1. At the proposal of the chairman of the General Shareholders' Meeting, the Presiding Committee or at the request of shareholders representing at least one-fourth (1/4) of the share capital present at the General Shareholders' Meeting, the shareholders at the General Shareholders' Meeting may agree to a continuation of their sessions over one or more consecutive days, provided that there are just grounds for doing so. Regardless of the number of sessions, the General Shareholders' Meeting shall be deemed to be a single meeting, and a single set of minutes shall be prepared for all of the sessions.</p>	<p>1. <u>The shareholders acting at the General Shareholders' Meeting may, provided that there is good reason for doing so, agree to a continuation of the Meeting over one or more consecutive days, at</u> At the proposal of the chairman of the General Shareholders' Meeting, <u>of the majority of the directors attending the Meeting, the Presiding Committee</u> or at the request of a number of shareholders representing at least one-fourth (1/4) of the share capital present at the General Shareholders' Meeting, the shareholders at the General Shareholders' Meeting may agree to a continuation of their sessions over one or more consecutive days, provided that there are just grounds for doing so. Regardless of the number of sessions, the General Shareholders' Meeting shall be deemed to be a single meeting, and a single set of minutes shall be prepared for all of the sessions.</p>
<p>Article 35. Adoption of Resolutions and Announcement of Voting Results</p>	<p>Article 35. Adoption of Resolutions and Announcement of Voting Results</p>
<p>2. The approval of resolutions shall require the favourable vote of one-half plus one of the voting shares cast in person or by proxy at the General Shareholders' Meeting. The foregoing does not affect situations in which a greater majority is required by law or the <i>By-Laws</i>.</p>	<p>2. The approval of resolutions shall require the favourable vote of <u>more than</u> plus one one-half <u>east-represented</u> in person or by proxy at the General Shareholders' Meeting. The foregoing does not affect situations in which a greater majority is required by law or the <i>By-Laws</i>.</p>



2011 ANNUAL DIRECTOR COMPENSATION REPORT

8 MAY 2012

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2011 ANNUAL DIRECTOR COMPENSATION REPORT

1. INTRODUCTION

Article 31 of the *Regulations of the Board of Directors* of Iberdrola, S.A. (“Iberdrola” or the “Company”), in compliance with the provisions of Section 61 *ter* of Law 24/1988, of 28 July, on the securities market, provides that the Board of Directors will prepare a report each year on director compensation covering fixed compensation, variable compensation items (with a statement of the parameters thereof and the assumptions or targets used as a reference), benefits systems and the principal conditions to be observed in the contracts with executive directors, including the compensation policy for the current fiscal year and the compensation policy in effect during the prior fiscal year, as well as that expected for coming years. This report is made available to the shareholders on occasion of the call to the ordinary General Shareholders’ Meeting and shall be subject to a consultative vote of the shareholders as a separate item on the agenda.

Article 26.6.o) of the *Regulations of the Board of Directors* gives to the Nominating and Compensation Committee the power to, among other things, issue a report for general dissemination on the documents to approved by the Board of Directors with respect to compensation information, especially including the annual compensation policy report.

In compliance with such provisions, after a favourable report from the Nominating and Compensation Committee, the Board of Directors of Iberdrola issues this Annual Director Compensation Policy Report. This Report has been unanimously approved by all of the members of the Board of Directors at its meeting of 8 May 2012.

2. BACKGROUND

Pursuant to the provisions of Articles 34.5.D)c) of the *By-Laws* and 7.7.D)c) of its *Regulations*, Iberdrola’s Board of Directors formulates the Company’s *Director Compensation Policy*, the current version of which is available on the corporate website (www.iberdrola.com).

This *Director Compensation Policy* implements, among other things, the structure for the compensation of the Directors for their activities as such and the structure of the executive directors’ compensation for the performance of their executive duties.

The Nominating and Compensation Committee and the Board of Directors have been provided information and advice from the internal services of the Company in all of their decision-making processes.

They have also been able to contrast the relevant data with information corresponding to the markets and comparable entities, taking into account the size, features and activities of the Company.

2.1 Competent Decision-Making Bodies

As provided in the *By-Laws* and in the internal regulations of Iberdrola, the Board of Directors, at the proposal of the Nominating and Compensation Committee, is the body with power to set the compensation of directors, except for such compensation as consists of the delivery of shares of Iberdrola or of options thereon, or which is indexed to the price of the shares of Iberdrola, which must be approved by the shareholders at the General Shareholders' Meeting.

2.2 Overall Limit

Pursuant to Article 52.1 of the *By-Laws*, the overall limit to the amounts allocated by Iberdrola to the directors each year as compensation, including, in the case of the executive directors', compensation payable for performing executive duties, as well as the funding of a reserve to meet the liabilities assumed by the Company in connection with pensions, payment of life insurance premiums and payment of indemnification to former and current directors, is 2% of the consolidated Group's profit for the fiscal year, after allocations to cover the legal and other mandatory reserves and after declaring a dividend to the shareholders of not less than 4% of the share capital.

Specifically, in fiscal year 2011, the percentage of the consolidated profit to be used for the by-law mandated allocation has been set at 1%.

The price of the shares or options thereon, or the compensation established by reference to the listing price, which in any event must be approved by the shareholders at the General Shareholders' Meeting, shall not be computed for the purposes of such limit.

3. DIRECTOR COMPENSATION

3.1 Purpose and Basic Principles

As regards external directors, the *Director Compensation Policy* seeks to compensate the directors appropriately in recognition of their dedication and the responsibility they assume, in line with the compensation paid on the market at companies of a similar size or carrying out similar activities, but without such compensation jeopardizing their independence.

As far as executive directors are concerned, the guiding principle is to offer compensation systems that make it possible to attract, retain and motivate the most outstanding professionals in order to enable the Company and the group to attain their strategic objectives within the increasingly competitive and internationalized context in which they operate. Accordingly, in connection with executive directors, the *Director Compensation Policy* seeks to:

- a) Ensure that the compensation, in terms of structure and total amount, is in line with best practices and competitive vis-à-vis that of comparable entities at the domestic and international level, taking into account the situation of the regions in which the group operates.
- b) Establish the compensation, in accordance with objective standards, based on the individual performance of the executive directors and on the achievement of the corporate objectives of the Company and the group.
- c) Include a significant annual variable component tied to the achievement of specific, pre-established, quantifiable objectives in line with the corporate interest and contemplated in the Company's strategic plans, without prejudice to the possibility of considering other objectives, especially in the area of corporate social responsibility.
- d) Foster and encourage the attainment of the key objectives set out in the strategic plans through the inclusion of long-term incentives, strengthening continuity in the competitive development of the group and of its management team, and generating a motivating effect that acts as a driving force to ensure the loyalty and retention of the best professionals.
- e) Set appropriate maximum limits to any short-term or long-term variable compensation, and establish suitable mechanisms to ensure the proportional return of any variable

compensation received when a reformulation occurs which has a negative effect on the Company's consolidated annual financial statements.

Without prejudice to all of the foregoing, the *Director Compensation Policy* shall be suitably adjusted to the prevailing economic situation.

3.2 Structure

The compensation payable to the directors is structured, within the framework of the law and the *By-Laws*, in accordance with the following standards and compensation items:

a) Fixed Compensation

Directors receive a fixed annual amount in line with market standards and commensurate with the positions held on the Board and the committees to which they belong, always within the overall limits set forth in the *By-Laws*.

In the case of executive directors, the compensation fixed for the performance of their executive duties must be in line with that paid in the market by similarly-sized companies and must be consistent with the Company's leadership position. It must not normally represent more than 50% of the total maximum theoretical compensation payable.

b) Variable Compensation

A portion of the compensation of the executive directors is variable, in order to strengthen their commitment to the Company and incentivize improvement in the performance of their duties.

(i) Short-term variable compensation:

The variable compensation will be tied to the achievement of specific, predetermined, quantifiable economic objectives in line with the corporate interest and contemplated in the Company's strategic plans. Weight will also be given to goals in the area of corporate social responsibility, as well as the personal performance of the executive directors. The Nominating and Compensation Committee evaluates the achievement of targets and performance. It may rely on an independent expert for such purpose. A proposal of the Committee is submitted for the approval of the Board of Directors.

(ii) Medium- and long-term variable compensation:

The Company also contemplates the implementation of incentive systems tied to the achievement of medium- or long-term objectives, in order to foster permanency and the motivation of the executive directors and the creation of long-term value, based on specific, predetermined, quantifiable objectives in line with the interests of the Company and the group. Weight will also be given to goals in the area of corporate social responsibility, as well as the personal performance of the executive directors. The Nominating and Compensation Committee evaluates the achievement of targets and performance. It may rely on an independent expert for such purpose. A proposal of the Committee is submitted for the approval of the Board of Directors.

These systems may include delivery of Company shares or of options thereon or compensation rights linked to the value thereof, whenever so resolved by the shareholders at the General Shareholders' Meeting at the proposal of the Board of Directors and upon the prior report of the Nominating and Compensation Committee.

The timeframe to be used for guidance purposes in medium- and long-term compensation plans shall be three (3) years and, in the case of systems linked to shares of the Company, will be submitted for the approval of the shareholders at the General Shareholders' Meeting in accordance with law and the *Director Compensation Policy*. Appropriate minimum holding periods shall be established in respect of a portion of the shares received.

(iii) Neutrality:

It is ensured that the accrual of variable compensation of any kind is not based merely on the general performance of the markets, of the industry in which the Company operates or on other similar circumstances.

c) Attendance Fee

Directors shall be entitled to receive specific amounts as an attendance fee, whether for attendance at Board of Directors meetings or at the meetings of the committees on which they sit.

d) Risk and benefits coverage

The Company pays the premiums of the insurance policies taken out by it with certain insurance companies to cover death and disability benefits of the directors in case of accident, and the Company itself covers the death and disability benefits of directors in the event of death from natural causes. The Company also pays the premiums for liability insurance covering the exercise of the position of director.

In 1998, the Company outsourced the benefits system for a group of managers, including the executive directors, through an insurance policy supplementing the public social security system. No contribution has been made in recent years, although it is possible that the calculation method of the benefits system will require new contributions in the future.

e) Severance

In the event that a non-executive director ceases to hold office prior to the end of the period for which the director was appointed other than as a result of a breach attributable solely thereto or due to the director's own decision, the Company shall pay compensation to such director, receipt of which shall be incompatible with the holding of any office on the decision-making bodies of companies of the energy industry as well as with participation in any way in the management thereof or in the provision of advisory services thereto.

The amount of the compensation will be equal to the value of a guaranteed annual payment of 90% of the annual compensation that the Director receives at the time of withdrawal, subject to a revision of 2% annually during the period between the date of withdrawal and the date of completion of the term for which the Director was appointed as a member of the Board of Directors. In no event may the foregoing period extend beyond the date of the director's death.

The chairman & chief executive officer (*presidente y consejero delegado*) has the right to receive severance in the event of the termination of his relationship with the Company or if there is a change of control thereof, provided that the termination of the relationship is not a result of a breach attributable thereto. The amount of the severance is equal to five times his annual salary.

The Company has been including this type of clause in contracts with its managers since the year 2000. Specifically, the guarantee clause in the contract of the chairman &

chief executive officer dates from the year 2001, when he was appointed vice-chairman & chief executive officer, and which was endorsed again in 2006 based on his appointment as chairman. The goal is to achieve an effective and sufficient level of loyalty from top-tier executives, avoiding the loss of experience and knowledge that could put at risk the achievement of strategic goals.

A limit of two times annual salary will apply to new contracts with executive directors and senior managers. This is also the case for the new executive director appointed on 24 April 2012.

f) **Other**

Directors receive such other compensation in cash or in kind as may be established by the Board of Directors within the framework of this *Director Compensation Policy*.

3.3 Application of the Director Compensation Policy during the prior fiscal year (2011)

For fiscal year 2011, at the proposal of the Nominating and Compensation Committee, the Board of Directors unanimously resolved to freeze fixed compensation.

The application of the policy for compensating directors for their performance as such during fiscal years 2010 and 2011 in accordance with the structure described above is summarized below.

a) **Fixed Amount**

Fixed compensation of the directors for belonging to the Board of Directors and to the committees thereof based on the position held in each case was as follows:

(thousands of euros)

	2011	2010
Chairman of the Board	567	567
Vice chairmen of the Board and committee chairs	440	440
Committee members	253	253

Board members	165	165
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Set forth below on an individualized basis is the fixed compensation of the members of the Board of Directors:

Thousands of euros

	2011 Fixed Compensation	2010 Fixed Compensation
Chairman of the Board		
Mr José Ignacio Sánchez Galán	567	567
Vice-chairmen of the Board		
Mr Juan Luis Arregui Ciarsolo (1)	-	102
Mr Víctor de Urrutia Vallejo	440	440
Committee chairmen		
Mr Ricardo Álvarez Isasi	440	440
Mr José Ignacio Berroeta Echevarría	440	440
Mr Julio de Miguel Aynat (2)	352	253
Committee members		
Mr Sebastián Battaner Arias (3)	341	440
Mr Xabier de Irala Estévez	253	253
Mr Íñigo Víctor de Oriol Ibarra	253	253
Ms Inés Macho Stadler	253	253
Mr Braulio Medel Cámara	253	253
Mr José Luis Olivás Martínez	253	253
Ms Samantha Barber	253	253
Ms María Helena Antolín Raybaud	253	253
Mr Santiago Martínez Lage	253	253
Directors withdrawing during fiscal year 2010		
Mr José Orbegozo Arroyo	-	24
Mr Lucas María de Oriol López-Montenegro	-	24
TOTAL COMPENSATION	4,604	4,754

(*) Amounts accrued during fiscal year 2011 and unpaid until approval of the annual financial statements for fiscal year 2011 at the 2012 General Shareholders' Meeting.

(1) Not renewed as a member of the Board of Directors on 26 March 2010.

(2) Appointed chairman of the Audit and Risk Supervision Committee by the Board of Directors at its meeting on 21 June 2011.

- (3) *After finishing his four-year mandate as chairman of the Audit and Risk Supervision Committee, continues to be a member of such committee pursuant to a resolution adopted by the Board of Directors at its meeting on 21 June 2011.*

Currently, all members of the Board of Directors of Iberdrola assume responsibilities on one or more of the four committees of the Board.

b) **Attendance Fee**

The attendance fees paid to the directors with a charge to the by-law mandated allocation were 1,112,000 and 850,000 euros in fiscal years 2011 and 2010, respectively.

The attendance fees of the directors for belonging to the Board of Directors and to the committees thereof during fiscal years 2011 and 2010, based on the position held in each case, were as follows:

Thousands of euros		
ATTENDANCE FEE BASED ON POSITION	2011	2010
Chairmen of the Board and committee chairs	4	4
Committee members and Board members	2	2

Set forth below on an individualized basis are the attendance fees received by the members of the Board of Directors during fiscal years 2011 and 2010, respectively:

Thousands of euros		
	Attendance Fee 2011	Attendance Fee 2010
Chairman of the Board		
Mr José Ignacio Sánchez Galán	168	144
Vice-chairmen of the Board		
Mr Juan Luis Arregui Ciarsolo	-	26
Mr Víctor de Urrutia Vallejo	72	74
Committee chairmen		

Mr Ricardo Álvarez Isasi	78	54
Mr José Ignacio Berroeta Echevarría	136	110
Mr Julio de Miguel Aynat	78	50
Committee members		
Mr Sebastián Battaner Arias	86	76
Mr Xabier de Irala Estévez	32	64
Mr Íñigo Víctor de Oriol Ibarra	60	30
Ms Inés Macho Stadler	110	46
Mr Braulio Medel Cámara	44	22
Mr José Luis Olivás Martínez	76	70
Ms Samantha Barber	56	28
Ms María Helena Antolín Raybaud	54	20
Mr Santiago Martínez Lage	62	28
Directors withdrawing during fiscal year 2010		
Mr José Orbegozo Arroyo	-	4
Mr Lucas María de Oriol López-Montenegro	-	4
TOTAL ATTENDANCE FEE	1,112	850

c) **Benefits and Guarantees Created by the Company in Favour of the Directors**

This chapter includes the following concepts:

- The premiums paid for coverage of the death, disability and other benefits for directors in service during fiscal years 2011 and 2010 were 1,943,000 euros and 3,152,000 euros, respectively.
- The amount of the premium for Civil Liability Insurance covering the performance by directors of their duties was 136,000 euros and 201,000 euros during fiscal years 2011, and 2010, respectively.
- The premiums paid, with a charge to the by-law mandated allocation, for regularisation of the insurance policies for pensions of the inactive members of the Board of Directors were 442,000 euros and 228,000 euros in fiscal years 2011 and 2010, respectively.

d) **Other Items**

The expenses of the Board of Directors for external services and other items were 761,000 euros and 923,000 euros during fiscal years 2011 and 2010, respectively.

Furthermore, during fiscal year 2011, earlier commitments approved by the shareholders at the General Shareholders' Meeting, in the amount of 2,000,000 euros, were paid with a charge to the by-law mandated allocation for prior fiscal years, and which do not affect the by-law mandated allocation for this fiscal year. There is no allocation for this item in fiscal year 2010.

The unapplied amount of the by-law mandated allocation for fiscal year 2011 was 14,215,000 euros, and once the annual financial statements for such fiscal year are approved at the General Shareholders' Meeting, coverage of the commitments made by the Company to guarantee them in the event they materialise will be outsourced.

As of 31 December 2011 and 2010, there was no loan or advance made by the Iberdrola Group to the members of the Board of Directors of Iberdrola.

3.4 Director Compensation during the Current Fiscal Year (2012)

For fiscal year 2012, at the proposal of the Nominating and Compensation Committee, the Board of Directors unanimously resolved to freeze the compensation of the directors in terms of annual fixed compensation by position and attendance fees for each meeting, as it has been doing since 2008.

3.5 Director Compensation Policy for Future Years

It can be expected that Iberdrola's director compensation policy for future years will continue in the near future along the lines that have been applied during recent fiscal years, although no resolution in this regard has been adopted as of the date of preparation of this report.

4. COMPENSATION OF THE EXECUTIVE DIRECTORS FOR THE PERFORMANCE OF THEIR EXECUTIVE DUTIES

4.1 Application of the Compensation Policy during the Prior Fiscal Year (2011)

a) Fixed Compensation

The Company paid 2,250,000 euros in fixed compensation to the chairman & chief executive officer.

	2011	2010
Fixed compensation (thousands of euros)	2,250	2,250

b) **Annual Variable Compensation**

The Company paid 2,250,000 euros in annual variable compensation to the chairman & chief executive officer.

	2011 [*]	2010
Variable compensation (thousands of euros)	2,250	2,250

The reference parameters for determining the annual variable compensation were: (i) profits, and (ii) financial strength. Weight was also given to goals in the area of corporate social responsibility, as well as the personal performance of the chairman & chief executive officer.

The Board of Directors believed that the targets for fiscal year 2010 were met, especially taking into account the domestic and international economic environment. IBERDROLA had excellent results as compared to leading international companies in its industry with respect to both net profits (2,871,000 euros, representing a 1.7% increase over the prior fiscal year, while the net profits of the leading European electric companies decreased 26% on average) as well as the maintenance of its financial strength, with a leverage ratio below 44% (without taking into account the tariff deficit).

- c) In addition, at the proposal of the Nominating and Compensation Committee, PricewaterhouseCoopers Asesores de Negocios, S.L. was asked to provide a specific assessment of the performance of the chairman in the fields of corporate governance and sustainability. Such assessment was analysed three areas: (i) leadership of the Board, (ii) improvement of the Corporate Governance System and implementation of

(*) Variable compensation paid in 2011 for fiscal year 2010.

the governance model, and (iii) commitment to corporate social responsibility and sustainable development. The assessment found 100% compliance with the compliance indicators analysed, which has led the Company to develop the best practices in these fields: (i) 78% of the directors are independent, (ii) 21% are women, (iii) since 2009, one of such women acts as lead independent director, with the duties set forth in the *By-laws*, (iv) the governance model imposes a decentralized structure that prevents the concentration of power, (v) contact with and commitment to the international financial community is continuous and has included, on a pioneering basis, corporate governance as one of its foundations, (vi) a Corporate Social Responsibility Committee was created in 2010., (viii) the commitment to sustainability has been recognised by various agencies and bodies. Thus, in 2010, Iberdrola was the first utility with nuclear assets in the world to be included on the FTSE 4Good index. Iberdrola is also the only utility in the world to be included in the twelve editions of the Dow Jones Sustainability Index (DJSI).

All of the above was subsequently ratified with the award given by World Finance magazine for the best corporate governance in Spain.

In view of the above, the Board of Directors resolved to give the chairman & chief executive officer a bonus during fiscal year 2011 in the amount of 1,000,000 euros, of which 729,000 euros were charged to the by-law mandated allocation for prior fiscal years and 271,000 euros to the by-law mandated allocation for fiscal year 2011.

- d) The chairman & chief executive officer also received 61,000 euros of compensation in kind and otherwise.
- e) Furthermore, the members of the Board of Directors holding positions on the boards of directors of subsidiaries of the Iberdrola Group have received attendance fees of 61,000 euros and 51,000 euros during fiscal years 2011 and 2010, respectively.

f) 2008-2010 Strategic Bonus

As provided in the Director Compensation Report approved by the shareholders at the General Shareholders' Meeting held on 27 May 2011, the Board of Directors, upon a proposal of the Nominating and Compensation Committee, resolved to pay the 2008-2010 strategic bonus with an evaluation of having achieved 74% compliance with targets. By virtue thereof, the chairman will receive a total of 1,110,000 shares of Iberdrola, to be distributed over the years 2011, 2012 and 2013, on the terms established by the Board of Directors.

4.2 Compensation during the Current Fiscal Year (2012)

The Board has resolved to maintain the fixed compensation of the chairman for fiscal year 2012 at 2,250,000 euros. It has also resolved to maintain the limit on annual variable compensation, which cannot exceed 3,250,000 euros. The targets to which the payment of variable compensation refers are: (i) maintenance of net profits for fiscal year 2011, (ii) maintenance of financial strength, keeping the current leverage ratio to that at the close of fiscal year 2011, (iii) maintenance of the total amount equal to the dividend paid to all shareholders during the prior fiscal year, and (iv) personal performance assessed by an independent expert based on indicators that take into consideration leadership, corporate governance and sustainability parameters. The first three objectives will each weigh 20% and the fourth objective will weigh 40%.

Furthermore, the fixed compensation approved for the chief operating officer (*consejero director general*) for fiscal year 2012 is 1,000 thousand euros and the annual variable compensation may not exceed 1,000 thousand euros. The goals to which the variable compensation is linked are: (i) maintenance of 2011 net profits, (ii) maintenance of financial strength, keeping the current leverage ratio to that at the close of fiscal year 2011, (iii) maintenance of the total amount equal to the dividend paid to all shareholders during the prior fiscal year, and (iv) regulatory improvements in all business areas. The first three objectives will each weigh 20% and the fourth objective will weigh 40%.

The Nominating and Compensation Committee proposes the assessment as to achievement of targets and performance, which must, if appropriate, be approved by the Board of Directors.

4.3 Compensation Policy for the Executive Directors for Future Years

Whilst no resolutions have been adopted in this regard, it is expected that Iberdrola's director compensation policy for future years will maintain the tendency towards continuity that has been applied in recent years.

5. BASIC TERMS OF THE CONTRACT OF EXECUTIVE DIRECTORS

a) Indefinite Duration

The contract is of indefinite duration, and severance payments are contemplated therein in the event of termination of the contractual relationship with the Company, provided that such termination is not a result of a breach of his duties.

b) Applicable Legal Provisions

Applicable legal provisions are those provided by statute in each case.

c) Compliance with the Company's Corporate Governance System

The executive directors have the duty to strictly observe the rules and provisions contained in the Company's Corporate Governance System, to the extent applicable thereto.

d) Non-Competition

The contract provides in all cases for the duty not to compete with respect to companies and activities which are similar in nature to those of the Company and the group of companies whose controlling entity, within the meaning established by law, is the Company, during the term of their relationship with the Company and for such period thereafter as is set forth for such purpose.

e) Confidentiality and Return of Documents

There is a rigorous duty of confidentiality both during the term of the contract and after the relationship has terminated. In addition, upon termination of their relationship with the Company, they must return to the Company any documents and items in their possession relating to his their activity.

6. 2011-2013 STRATEGIC BONUS

The shareholders acting at the General Shareholders' Meeting held on first call on 27 May 2011 approved as item seven on the agenda a strategic bonus directed towards executive directors, senior managers and other management personnel of the Company and its dependent companies linked to the achievement strategic objectives during the 2011-2013 period, to be paid by means of the delivery of shares of the Company. The terms of the strategic bonus, the maximum number of beneficiaries (35) and the maximum number of shares to be delivered (18,500,000), with the number of shares to be delivered to each of the executive directors not being able to exceed 1,900,000 shares, appears in the resolution approved at the General Shareholders' Meeting. The strategic targets to which the payment of the strategic bonus is linked appear in such proposal and are:

- Performance of consolidated net profits comparable to those of the five leading European competitors.
- Change in share price as compared to the average of the Eurostoxx Utilities index and the shares of the five leading European competitors.
- Maintenance of the rating.

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