



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

Bilbao, December 1, 2010

To the National Securities Market Commission

Re: Supplement to the information memorandum regarding the second implementation of the paid-up capital increase approved by the shareholders acting at the General Shareholders' Meeting of Iberdrola, S.A. of March 26, 2010

Dear sirs:

We refer to our notice of significant event (*hecho relevante*) delivered to this National Commission on November 23, 2010 (registry number 133,608).

Pursuant to the provisions of Section 82 of Act 24/1988, of July 28, on the Securities Market (*Ley 24/1988, de 28 de julio, del Mercado de Valores*) and related provisions, we inform you that the Executive Committee of Iberdrola, S.A. has today determined the matters summarized below regarding the second implementation of the paid-up capital increase approved by the shareholders at the General Shareholders' Meeting of Iberdrola, S.A. held on March 26, 2010, under item six on its Agenda (the "**Second Implementation**"):

- (i) The maximum number of new shares to be issued on the Second Implementation is one hundred forty-nine million four hundred ninety-six thousand two hundred twenty-two (149,496,222).
- (ii) Thirty-six (36) free-of-charge allocation rights are needed to receive one (1) new share.
- (iii) The maximum nominal amount of the Second Implementation is one hundred twelve million one hundred twenty-two thousand one hundred sixty-six euros and fifty cents (112,122,166.50 euros).

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- (iv) The acquisition price for each free-of-charge allocation right under the purchase commitment assumed by Iberdrola, S.A. is one hundred forty-six thousandths of a euro (0.146 euros).

Furthermore, we are pleased to provide to you -for purposes of Articles 26.1.e) and 41.1.d) of Royal Decree 1310/2005, of November 4 (*Real Decreto 1310/2005, de 4 de noviembre*)- the supplement to the information memorandum (*documento informativo*) covered by the notice of significant event referred to above, regarding the Second Implementation, which is attached as an Annex hereto.

It is stated for the record that the summary included above forms a part of the supplement to the above referred information memorandum, and should therefore be read in conjunction with such supplement.

Sincerely,

The General Secretary and Secretary of the Board of Directors

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IMPORTANT INFORMATION

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

This communication contains forward looking information and statements about IBERDROLA, S.A., including financial projections and estimates and their underlying assumptions, statements regarding plans, objectives and expectations with respect to future operations, capital expenditures, synergies, products and services, and statements regarding future performance. Forward looking statements are statements that are not historical facts and are generally identified by the words "expects," "anticipates," "believes," "intends," "estimates" and similar expressions.

Although IBERDROLA, S.A. believes that the expectations reflected in such forward looking statements are reasonable, investors and holders of IBERDROLA, S.A. shares are cautioned that forward looking information and statements are subject to various risks and uncertainties, many of which are difficult to predict and generally beyond the control of IBERDROLA, S.A., that could cause actual results and developments to differ materially from those expressed in, or implied or projected by, the forward looking information and statements. These risks and uncertainties include those discussed or identified in the public documents sent by IBERDROLA, S.A. to the COMISIÓN NACIONAL DEL MERCADO DE VALORES.

Forward looking statements are not guarantees of future performance. They have not been reviewed by the auditors of IBERDROLA, S.A. You are cautioned not to place undue reliance on the forward looking statements, which speak only as of the date they were made. All subsequent oral or written forward looking statements attributable to IBERDROLA, S.A. or any of its members, directors, officers, employees or any persons acting on its behalf are expressly qualified in their entirety by the cautionary statement above. All forward looking statements included herein are based on information available to IBERDROLA, S.A. on the date hereof. Except as required by applicable law, IBERDROLA, S.A. does not undertake any obligation to publicly update or revise any forward looking statements, whether as a result of new information, future events or otherwise.

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Annex

Supplement to the information memorandum relating to the second implementation of the paid-in capital increase approved by the shareholders of Iberdrola, S.A. at the General Shareholders' Meeting of March 26, 2010

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SUPPLEMENT TO THE INFORMATION MEMORANDUM RELATING TO THE SECOND IMPLEMENTATION OF THE CAPITAL INCREASE WITH A CHARGE TO RESERVES OF IBERDROLA, S.A. APPROVED BY THE SHAREHOLDERS AT THE GENERAL SHAREHOLDERS' MEETING OF MARCH 26, 2010

1. PURPOSE

1.1. Background

Pursuant to the terms of the resolution adopted by the shareholders at the General Shareholders' Meeting of Iberdrola, S.A. (hereinafter, "**Iberdrola**" or the "**Company**") held on March 26, 2010 under item six of the Agenda thereof regarding an increase in wholly-paid-in share capital with a charge to the "RDL Update 7/1996" ("*Actualización RDL 7/1996*") reserves in a maximum amount by reference to market value of one thousand eight hundred sixty-six (1,866) million euros by means of the issuance of ordinary shares for the free-of-charge allocation thereof to the shareholders of the Company (the "**Capital Increase**"), the Board of Directors of the Company, at its meeting of October 19, 2010, approved the second implementation of the Capital Increase, and at its meeting of November 23, 2010, approved the terms and conditions of the Second Implementation. Such implementation will be carried out on the occasion of what would traditionally have been the interim payment of the dividend for the fiscal year 2010, with a maximum amount by reference to market value of eight hundred eighteen (818) million euros (the "**Second Implementation**").

Within this context, the Company issued an information memorandum (*documento informativo*) in which, pursuant to the provisions of Sections 26.1.e) and 41.1.d) of Royal Decree 1310/2005, of November 4, "*information regarding the number and types of shares and the rationale and details of the offer*" were provided and made available to the public by means of a notice of significant event dated November 23, 2010 (registry number 133,608) (the "**Information Memorandum**").

1.2. Purpose

This document supplements the Information Memorandum and is intended to make available to the public information regarding the Second Implementation of the Capital Increase that was not available on the date of publication of the Information Memorandum and, particularly, the number of rights necessary to receive one (1) new share of Iberdrola, the maximum number of new shares to be issued on the Second Implementation, the maximum nominal amount of the Second Implementation, and the fixed price for the purchase of free-of-charge allocation rights with respect to the commitment to purchase rights assumed by Iberdrola.



This document, together with the Information Memorandum, constitutes the document referred to in Sections 26.1.e) and 41.1.d) of Royal Decree 1310/2005, of November 4, and makes unnecessary the preparation and publication of a prospectus (*folleto informativo*) with respect to this Second Implementation. Both documents are available on Iberdrola's corporate website (www.iberdrola.com) and on the website of the National Securities Market Commission (www.cnmv.es).

Capitalized terms not expressly defined in this document shall have the meaning provided in the Information Memorandum.

2. INFORMATION AVAILABLE REGARDING THE SECOND IMPLEMENTATION

2.1. Number of free-of-charge allocation rights needed for the allocation of one (1) new share, maximum number of shares to be issued, and maximum nominal amount of the Second Implementation

The Board of Directors of Iberdrola, at its meeting on October 19, 2010, resolved to carry out the Second Implementation of the Capital Increase pursuant to the provisions of the resolution of the shareholders at the General Shareholders' Meeting held on March 26, 2010. Likewise, at its meeting of November 23, 2010, it approved the terms and conditions of the Second Implementation. As of the date of this document, the Company's Executive Committee, through the implementation of the arithmetical operations provided for in the formulas approved by both the shareholders at the General Shareholders' Meeting and the Board of Directors, has determined the following items:

- (i) The maximum number of shares to be issued in the Second Implementation is one hundred forty-nine million four hundred ninety-six thousand two hundred twenty-two (149,496,222).

However, as established in the Information Memorandum, the number of shares actually issued will depend on the number of shareholders who choose not to transfer their free-of-charge allocation rights. Iberdrola will waive the new shares corresponding to the free-of-charge allocation rights that it has acquired by application of its irrevocable purchase commitment,¹ for which reason only new shares corresponding to the free-of-charge allocation rights not acquired by Iberdrola in the performance of this commitment will be issued. In any event, the above-referenced definitive number of shares to be issued within the context of the Second

¹ In addition, in the event that the number of outstanding Iberdrola shares -after deducting the shares corresponding to the free-of-charge allocation rights acquired by Iberdrola pursuant to the purchase commitment (which Iberdrola will waive pursuant to the provisions of the resolution of the shareholders at the General Shareholders' Meeting of March 26, 2010)- is a fraction, Iberdrola will also waive that number of its free-of-charge allocation rights that are required for the number of new shares ultimately issued on the Second Implementation to be a whole number and not a fraction.



Implementation will be made available to the public on a timely basis by means of a notice of significant event regarding the closing of this implementation, the publication of which is expected to occur on December 20, 2010.

- (ii) Thirty-six (36) free-of-charge allocation rights are needed to receive one (1) share.

The free-of-charge allocation rights will be allocated to the shareholders of Iberdrola appearing 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 11:59 p.m. on December 2, 2010 in the proportion of one (1) free-of-charge allocation right for each existing share of Iberdrola that they own. Therefore, these shareholders will have the right to receive one (1) new share for every thirty-six (36) old shares that they hold on such date.

- (iii) Thus, the maximum nominal amount of the Second Implementation of the Capital Increase is one hundred twelve million one hundred twenty-two thousand one hundred sixty-six euros and fifty cents (112,122,166.50 euros).

However, as indicated above, the amount of the actual increase in the Company's share capital will be the result of multiplying the final number of shares issued by the nominal value thereof (0.75 euros).

In order to ensure that the number of free-of-charge allocation rights needed to receive one (1) new share and the number of new shares issued within the context of this Second Implementation are whole numbers, Iberdrola has waived eight (8) free-of-charge allocation rights corresponding to eight (8) shares that it holds.

In applying the formulas approved by both the shareholders at the General Shareholders' Meeting and the Board of Directors to determine of the foregoing items, the Company's Executive Committee has taken into account that:

- (i) "TNShrs" or number of outstanding shares of Iberdrola on the date of this document is 5,381,864,000; and
- (ii) "ListPri," understood as the arithmetic mean of the average weighted listing prices of the Company's shares on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges at the five (5) trading sessions held on November 24, 25, 26, 27, and 30, as appears in the certification issued by the Governing Company (*Sociedad Rectora*) of the Bilbao Stock Exchange, is five euros and four hundred thirteen thousandths of a euro (5.413 euros).

2.2. **Price of the purchase commitment**

The purchase price for each free-of-charge allocation right under Iberdrola's purchase commitment, calculated in accordance with the provisions of the resolution of the

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shareholders at the General Shareholders' Meeting of March 26, 2010, is one hundred forty-six thousandths of a euro (0.146 euros). Therefore, shareholders desiring to receive their compensation in cash may sell their free-of-charge allocation rights to Iberdrola at a gross fixed price of one hundred forty-six thousandths of a euro (0.146 euros).

In Bilbao, on December 1, 2010.

IBERDROLA, S.A.

By

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

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