



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

Bilbao, October 26, 2011

**To the National Securities Market Commission**

**Re: Preliminary terms of the second implementation of the paid-up capital increase relating to the compensation system “Iberdrola Flexible Dividend” (“Iberdrola Dividendo Flexible”)**

Dear Sirs,

Pursuant to article 82 of Law 24/1988, of July 28, on the Securities Market (*Ley 24/1988, de 28 de julio, del Mercado de Valores*) and related provisions, we hereby inform you that the following terms in relation to the second implementation of the paid-up capital increase under the system “Iberdrola Flexible Dividend” (*Iberdrola Dividendo Flexible*) (the “**Second Implementation**”) have been communicated at the meetings of the Board of Directors of Iberdrola, S.A. (“**Iberdrola**” or the “**Company**”) and of its Executive Committee which were held today. The Second Implementation will be submitted to the approval of Iberdrola’s Board of Directors at its next meeting, which will be held in November:

- (i) Estimated timetable:
  - January 3, 2012: first day of the trading period of the free allocation rights;
  - January 20, 2012: payment of the price of the free allocation rights acquired by Iberdrola under the purchase commitment; and
  - January 25, 2012: start of trading on the continuous stock market of the shares of Iberdrola which would be issued under the Second Implementation.
- (ii) Maximum market value of reference: 901 million euros<sup>1</sup>.
- (iii) Estimated price of the purchase commitment that Iberdrola would assume concerning the free allocation rights which would be assigned to the shareholders on the Second

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<sup>1</sup> This figure is within the maximum limit established by the General Shareholders’ Meeting of Iberdrola and by the Executive Committee at their meetings of May 27, 2011 and June 7, 2011, respectively. The resolution passed by the Executive Committee at its meeting of June 7, 2011 was subsequently ratified by the Board of Directors at its meeting of June 21, 2011.

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Implementation: in light of the current share capital of Iberdrola and the market conditions as of the date hereof, it is estimated that, in the event that the Second Implementation is carried out, the fixed price of the purchase commitment that Iberdrola would assume concerning the free allocation rights which would be assigned to the shareholders in the Second Implementation would amount to a minimum of 0.143 gross Euros per right.

As in the first implementation of the abovementioned capital increase, should the Second Implementation be carried out, the final amount of such fixed price would be duly communicated in accordance with the date set forth in the final timetable approved for the Second Implementation.

Please note that the dates and economic terms mentioned above are preliminary and based on mere estimations of the tentative timetable and of the economic terms on which Iberdrola, under the current circumstances, could carry out the Second Implementation. As a consequence, both the decision of carrying out the Second Implementation of the Capital Increase and the establishment of its terms and conditions are subject to the approval of Iberdrola's Board of Directors. As soon as such approval takes place, it will be communicated to the market according to the provisions in the current legislation.

Yours truly,

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 exception from registration.

## FORWARD-LOOKING STATEMENTS

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

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

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

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