



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

Bilbao, June 16, 2009

To the National Securities Market Commission

Matter: Capital increase by means of an accelerated bookbuilding procedure

Dear Sirs,

Pursuant to Section 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 notify you that -in the exercise of the delegation of powers granted by the General Shareholders' Meeting of IBERDROLA, S.A. (hereinafter, "**Iberdrola**" or the "**Company**") held on March 30, 2006- the Board of Directors of Iberdrola has resolved, at the meeting held today, to increase the capital stock of Iberdrola by an effective amount of one thousand two hundred and fifty million (1,250,000,000.00) euros, increasable, in the terms outlined below.

I. Purpose of the capital stock increase.

The purpose of the capital stock increase is to raise funds in order strengthen the balance sheet of the Company and, in this way, reinforce and optimize its equity structure. Likewise, the capital stock increase will allow the Company to improve its cash flow ratios (primarily, FFO (funds from operations) / net debt and RCF (retained cash flow) / net debt) and maintain its current credit ratings.

Therefore, the capital stock increase would (i) avoid a significant increase in the financial costs associated with the Company's debt; (ii) maintain the Company's access to debt capital markets; (iii) allow to maintain the investment levels committed with the markets; and (iv) allow a more flexible execution of the program for divestment of non-strategic assets of the Iberdrola Group announced to the markets. This will contribute to optimize the costs associated with the financial resources to which the Company may have access.

The Company expects that the addition of the abovementioned factors will allow the Company to comply with its commitment towards value creation in the long-term and, in this regard, it is the Company's intention to maintain its dividend policy.

The specific amount by which the capital stock will be increased will be determined by the Chairman and Chief Executive Officer pursuant to the faculties delegated in his favour by the Board of Directors of Iberdrola. Iberdrola will duly inform the market regarding the final amount of the capital increase and of its progress by means of the corresponding notices of significant event.

II. Placement procedure.

The capital increase is being effected out through a private placement directed exclusively to qualified and institutional investors by means of the procedure known as accelerated bookbuilding, as follows:

- (a) J.P. MORGAN SECURITIES LTD. and MERRILL LYNCH INTERNATIONAL –as Joint Global Coordinators and Bookrunners–, together with MORGAN STANLEY & CO. INTERNATIONAL PLC –as Joint Bookrunner– (collectively, the “**Investment Banks**”) have started the bookbuilding period during which they will receive subscription orders from qualified and institutional investors. It is expected that such bookbuilding period will be closed in a maximum period of three days, although it may be extended if the Company and the Investment Banks deem it fit.
- (b) Once the bookbuilding period has ended, the offer price of the offer will be determined and the selection of proposals for subscription will be carried out, after which the selected proposals will be confirmed and shares will be finally allotted to the applicable qualified and institutional investors.
- (c) Once the new shares have been allotted, subscribed for and paid-in, the public deed setting forth the capital increase will be executed and recorded with the Mercantile Registry of Vizcaya, and the SOCIEDAD DE GESTIÓN DE LOS SISTEMAS DE REGISTRO, COMPENSACIÓN Y LIQUIDACIÓN DE VALORES, S.A.U. (IBERCLEAR) will assign the corresponding register references.

III. Procedure for the establishment of the issue price.

Shares will be issued at their par value of seventy-five cents (0.75) of euro each, plus the share premium to be determined in accordance with the terms set forth below.

The issue price will be established with the assistance of the Investment Banks, which will conduct an intense marketing activity for the shares directed solely to qualified and institutional investors, who are in a position to evaluate the offer very quickly and to determine the amount and price they are willing to pay for the new shares.

The issue price of the new shares will be established on the basis of the bookbuilding process conducted by the Investment Banks. Once the placement period finishes, the final terms and conditions of the capital increase and, in particular, the share premium of the new shares, the number of shares to be issued and the time for implementation of the increase will all be defined.

IV. Payment.

In accordance with the structure described above, the new shares of Iberdrola will be paid-up by means of cash contributions.

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V. Persons to whom the capital increase is intended – Exclusion of pre-emptive rights.

The shares are exclusively intended for qualified and institutional investors, as such terms are defined in Section 39 of Royal Decree 1310/2005, of November 4, which partially elaborates upon the provisions of Law 24/1988, of July 28, on the Securities Market in connection with the admission to trading of securities offered for sale or subscription and the prospectus required for such purposes (*Real Decreto 1310/2005, de 4 de noviembre, por el que se desarrolla parcialmente la Ley 24/1988, de 28 de julio, del Mercado de Valores, en materia de admisión a negociación de valores en venta o suscripción y del folleto exigible a tales efectos*) and in Rule 144A of the U.S. Securities Act of 1933, and, in particular, to investors referred to in paragraph one of Section 39 of the aforementioned Royal Decree, such that the qualified institutional investors to whom the capital increase is intended are regulated corporations or entities authorized to operate in the financial markets, including credit entities, investment services companies, other regulated or authorized financial entities, insurance companies, collective investment schemes and their management companies, pension funds and their management companies, intermediaries authorized to operate in the commodities derivatives markets, and entities which are not authorized or regulated and which only activity is the investment on securities. Therefore, this issuance will not involve a public offering in any securities market.

In furtherance of the corporate interest, it has been decided to eliminate pre-emptive rights, as such elimination is required in order to employ the above-described mechanism that offers the following advantages, among others: (a) a more speedy and flexible implementation; (b) lesser exposure to market volatility; and (iii) cost savings. For such purposes, the Board of Directors of Iberdrola has approved the corresponding report, which will be made available and disclosed to the shareholders at the next General Shareholders' Meeting to be held by the Company.

In addition, pursuant to applicable law, the issue price of the shares to be issued must represent the fair value (*valor razonable*) thereof. In order to determine the fair value (*valor razonable*) of the shares to be issued, the appointment of an auditor other than the Company's auditor has been requested, pursuant to Sections 159.2 and 159.1.c) of the Companies Law (*Ley de Sociedades Anónimas*).

The Mercantile Registry of Vizcaya has appointed DELOITTE, S.L. as auditor other than the Company's auditor. After accepting the engagement, DELOITTE, S.L. issued, under its responsibility, a special report in which it confirmed, among others, the circumstances described above, which report will also be made available to the shareholders and disclosed to them at the next General Shareholders' Meeting.

VI. Rights attaching to the new shares.

The newly-issued shares will be common shares, like those currently outstanding. Such shares will be represented by book entries entered in the book-entry records maintained by the SOCIEDAD DE GESTIÓN DE LOS SISTEMAS DE REGISTRO, COMPENSACIÓN Y LIQUIDACIÓN DE VALORES, S.A.U. (IBERCLEAR).

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The newly-issued shares of Iberdrola will carry the same political and financial rights as those attaching to the shares currently outstanding. In particular, the purchasers of the new shares will be entitled to collect interim dividends and supplementary dividend payments as from the date that the increase is declared to be subscribed for and paid to the Iberdrola shareholders having such status on such date or thereafter (other than the supplementary dividend payment corresponding to the fiscal year 2008 amounting to 0.184 euros per share, and which will be paid on July 1, 2009).

VII. Organized secondary markets on which the securities are listed. Request for admission to official trading.

Iberdrola will request the admission of the new shares of the Company issued as a result of the capital increase to official listing on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges, for trading thereof through the Automated Quotation System (*Sistema de Interconexión Bursátil*) (Continuous Market).

Please be advised of all of the foregoing for such purposes as may be appropriate.

Yours truly,

IBERDROLA, S.A.
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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