

Annual Report
2008



IBERDROLA
RENOVABLES





Whitelee wind farm (United Kingdom).

TABLE OF CONTENTS

THE ENERGY OF A WORLD LEADER

4
Letter from
the Chairman

6
The top wind
energy company
in the world

IBERDROLA RENOVABLES' ACTIVITIES

8
The environment:
industry regulation

9
The driver:
its businesses

10
The securities
market:
its shares

11
Growth:
2008-2012
Strategic Plan

SUSTAINABLE DEVELOPMENT

12
Essence:
the environment

13
Incentive:
people

14
The future: R&D

GOOD CORPORATE GOVERNANCE

15
Corporate
Governance



I am pleased to address all of you in order to submit the IBERDROLA RENOVABLES' Annual Report for Fiscal Year 2008, a year in which our Company has achieved quite positive results and reaffirmed its worldwide leadership in wind energy, despite the complicated international economic environment.

All of this has been possible thanks to a flexible business model that allows us to adjust the growth of the business to changes in the environment, a solid balance sheet to meet the continued expansion of the Company, and very geographically diversified assets giving us significant income stability.

One of the key points for IBERDROLA RENOVABLES in 2008 was the Company's ability to maintain, and even to increase, its technical performance capacity. Expectations were exceeded with the construction of an additional 2,204 MW, increasing installed capacity by 31% to over 9,300 MW. This increase in capacity, together with a higher load factor, allowed production during the year to reach 17,000 GWh.

Thanks to increased production and to prices that were higher than the prior Fiscal Year, the Company's Net Profits increased by a factor of 3.3 in 2008, reaching more than 390 million euros, while Gross Operating Income (EBITDA) grew by a factor of 2.1, to 1,185 million euros. In this regard, it should be noted that as a result of the Company's internationalization, almost one-half of EBITDA already comes from business outside of Spain.

Furthermore, operating Cash Flow reached more than 873 million euros, increasing by a factor of 2.5 over 2007, which has facilitated the financing of future wind farms, while maintaining financial strength with leverage of only 22.4%.

In all, IBERDROLA RENOVABLES during this past Fiscal Year was able to exceed the growth plans established during its initial public offering in terms of both installed capacity and financial strength. This favorable situation allows us to propose for shareholder approval at the General Shareholders' Meeting the distribution of the Company's first dividend in the amount of 2.5 euro cents per share, a payout of 27%.

The Company, which already has a presence in 23 countries, has assets in operation in eleven of the most developed markets, including Spain, the United States, the United Kingdom, Greece and France. At the same time, the growth and geographical diversification of the pipeline portfolio has continued to grow, exceeding 55,000 MW worldwide.

IBERDROLA RENOVABLES is thus in the best position to take advantage of opportunities for growth in this sector, which is due not only to its investment flexibility, but also to regulatory improvements taking place in the countries in which it is present, particularly in the United States.

These competitive advantages are combined with IBERDROLA RENOVABLES' excellent workforce, which is made up of close to 2,000 people throughout the world, of which approximately 60% are holders of associate- and baccalaureate-level degrees. Also of note is the progressive inclusion of women in the workforce, with a 37% increase over 2007.

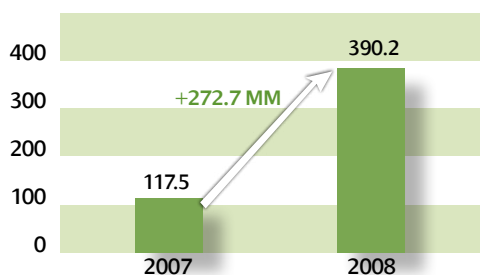
In sum, and with a view to the future, the Company will continue to carry out its strong business plan, acting as an engine for growth and economic activity through its investments and job-creation, in order to play an essential role in strengthening the industrial fabric while always favoring sustainable development in the societies in which it operates.

Ignacio Galán
Chairman of IBERDROLA RENOVABLES

IBERDROLA RENOVABLES, WORLD LEADER IN WIND ENERGY, MORE THAN TRIPLES NET PROFIT

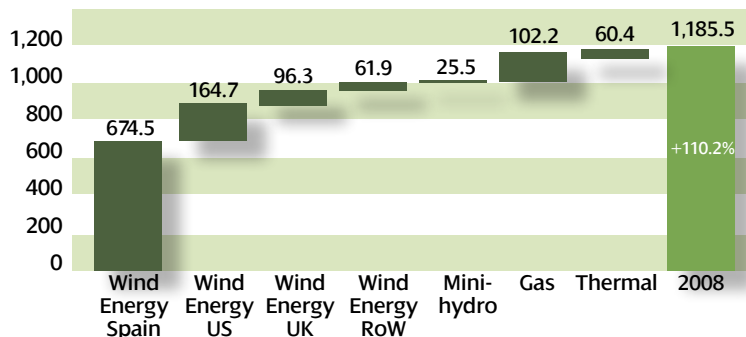
NET PROFIT GROWS BY A FACTOR OF 3.3

(Millions of euros)



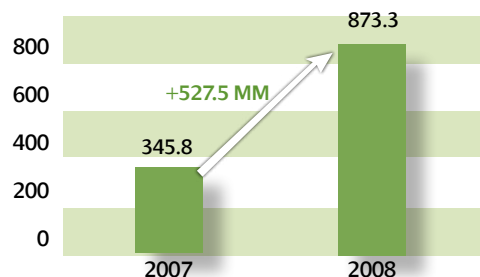
EBITDA GROWS BY A FACTOR OF 2.1, WITH HALF COMING FROM THE INTERNATIONAL BUSINESS

(Millions of euros)



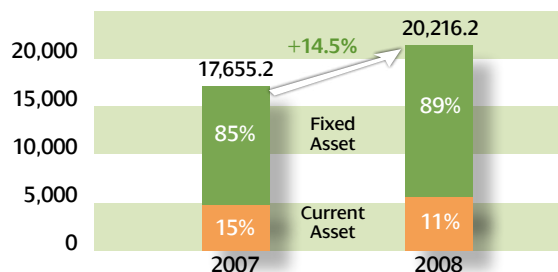
OPERATING CASH FLOW INCREASES A FACTOR OF 2.5

(Millions of euros)



THE LARGEST VOLUME OF RENEWABLE ASSETS IN THE WORLD: 20,216 MILLION EUROS

(Millions of euros)



THE RESULTS FOR FISCAL YEAR 2008 CONFIRM THE STRENGTH AND SOUNDNESS OF THE COMPANY'S BUSINESS MODELS

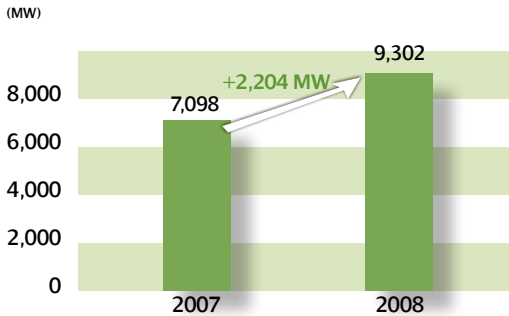
2008 results bear witness to the good performance of IBERDROLA RENOVABLES in a scenario of worldwide slowdown in terms of GDP, in the economies where the Company operates. Thus, the Company has more than tripled net profit, reaching more than 390 million euros, and more than doubled its EBITDA (1,185.5 million euros), EBIT (709.6 million euros) and Gross Margin (1,621.2 million euros). It has also increased its cash-flow by a factor of 2.5, to more than 873 million euros, thanks to the volume

of renewable assets in operation –20,216.2 million– the largest in the world. Leverage at year-end 2008 stood at 22.4%, providing further evidence of the Company's financial strength.

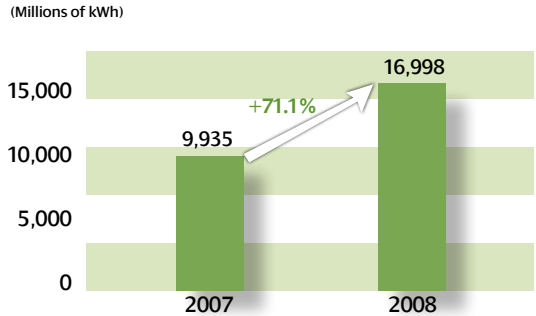
IBERDROLA RENOVABLES ended the year with results that confirm its strength and underscore the efficient running of the Company and its business model, which will enable it to drive growth in the future and create value for the shareholders, employees and society at large.

INSTALLED CAPACITY, PRODUCTION AND THE PIPELINE PORTFOLIO GROW IN ALL MARKETS

INSTALLED CAPACITY GROWS 31%



PRODUCTION IS UP BY 71.1%



THE LARGEST PIPELINE PORTFOLIO IN THE INDUSTRY, THAT IS BOTH DIVERSIFIED AND HIGH QUALITY, TOTALS MORE THAN 55,000 MW



* Includes 10,000 MW of the first estimate of the project contribution of Gamesa under the strategic agreement executed between Iberdrola Renovables and Gamesa Energía.

IBERDROLA RENOVABLES HAS AMPLY EXCEEDED THE TARGETS SET FOR FISCAL YEAR 2008

IBERDROLA RENOVABLES has managed to cement its position as the world leader in wind energy and amply exceeded the targets set for 2008. 2,204 MW were built during the year, 10% more than planned new installed capacity, bringing installed capacity to 9,302 MW, 31% more than in 2007. 48% of total installed capacity is located outside of Spain, the largest portion of new installed capacity was built in the United States, with 1,337 MW, followed by Spain, the United Kingdom

and the rest of the world, with close to 300 MW each. Such increased capacity has taken production to 17,000 million kWh, up 71% from the prior year. Significantly, 47% of total production comes from countries outside Spain, a four-fold increase from the prior year. The pipeline portfolio, the biggest in the industry, grew 31% from 2007, to more than 55,000 MW. Such portfolio is characterized by its large size, diversification and high quality, making its business model more flexible.

STRONG MOMENTUM AND FAVORABLE ENVIRONMENT

The significant regulatory progress in the United States and the European Union provides a strong boost for wind energy, making IBERDROLA RENOVABLES the principal driver of economic recovery in those markets.

The main regulatory progress seen in 2008 was the following:

UNITED STATES: STIMULUS BILL

In February 2009, US President Barack Obama, signed the Stimulus Bill, a package of measures calculated to revitalize the economy, which includes an extension of PTCs (Production Tax Credits) through 2012 for wind energy facilities, the conversion of such credits into ITC (Investment Tax Credits), at the option of investors, and the creation of federal funds managed by the US Energy Department to promote the development of renewable energy and transmission lines.

These regulations, particularly as regards the possibility of monetization of tax credits, will determine the speed at which the wind energy market will develop in the United States. In addition, progress will be made in 2009 in the passage of the Energy

Bill through Congress; the bill will foreseeably include a federal RPS (Renewable Portfolio Standard) system, based on certificates of origin, which will provide the final boost for the development of wind energy in the United States.

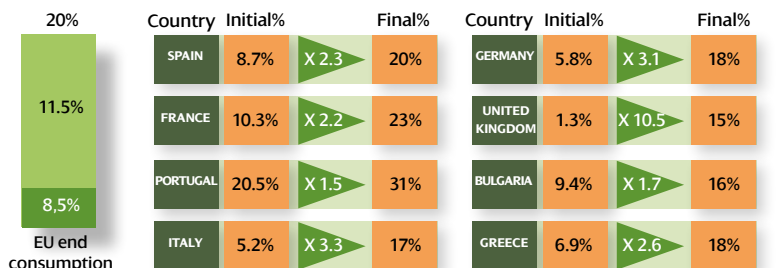
President Obama's electoral program also included highly ambitious wind energy goals, which involve doubling renewable energy output in the United States over the next three years, increasing installed capacity by 24,000 MW, in order for 10% of electricity consumed in 2012 to come from renewable sources, and 25% by 2025.

THE EUROPEAN UNION APPROVES DIRECTIVE 20/20/20

In 2008, a major step forward was taken towards a safe, sustainable and competitive European energy policy: in December, the European Parliament approved the final text of the Climate Change and Energy Package, a package of measures that includes the European Directive for the Promotion of Renewable Energy. This package sets three major goals to be achieved by 2020, as well as the mandatory nature thereof, thereby providing the necessary support for the development of the industry: reaching the point where 20% of final energy consumption comes from renewable sources and reducing greenhouse gas emissions by 20% from 1990 levels.

The Directive establishes a new legal framework, keeping domestic renewable energy support systems in place and setting ambitious and binding targets for all countries for participation in renewable energy. The overall target for the European Union for 2020 is for 20% of energy to come from renewable sources. The target for Spain is also 20%. The increases set for the markets that are most relevant to the Company's operations are significant (see chart).

BINDING TARGETS* FOR END CONSUMPTION OF RENEWABLE ENERGY IN THE EUROPEAN UNION FOR 2020



Percentage of end consumption covered by energy from renewable sources | Planned development to achieve target

* Source: European Directive for the promotion of energy from renewable sources

WORLD LEADER IN WIND ENERGY

IBERDROLA RENOVABLES surpasses implementation plans and cements its position as the largest wind energy company in the world.

After investing 3,803.5 million euros in 2008, 92.4% more than in 2007, IBERDROLA RENOVABLES is the Company with the largest growth in the industry.

With a presence in twenty-three countries and assets in operation in the eleven most developed markets in the world (Spain, the United States, the United Kingdom, Greece, France, Poland, Portugal, Mexico, Germany, Brazil and Hungary), there are three main points that explain its growth and solidify its position as the leading wind energy company in the world and the main renewable energy benchmark: increase in installed capacity, increased output and the growth of its pipeline portfolio in all markets.

WIND ENERGY: THE FORCE OF THE WIND

● **Spain.** The Company is the unquestioned leader in Spain, where it has a presence in 13 Autonomous Communities. As of the end of fiscal year 2008, installed capacity stood at 4,526 MW, up 7% from the prior year, with total additions to capacity of 297 MW. Furthermore, the Company raised its production by 20% from 2007, to 8,505 million kWh, and the project portfolio totals 12,859 MW, double that of last year.

● **United States.** The Company is the second largest wind energy producer in the United States and has a presence in fourteen states, with a total installed capacity of 2,876 MW, of which 1,337 MW were installed in 2008, representing an increase of 86.9%. Total production is 5,409 million kWh, 405% above the 2007 level, and the pipeline portfolio totals 22,600 MW, 41.1% of the total amount.

● **United Kingdom.** The Company is the foremost wind energy producer in the United Kingdom, with 665 MW in operation. Particularly worth noting are the additional 48 MW that came

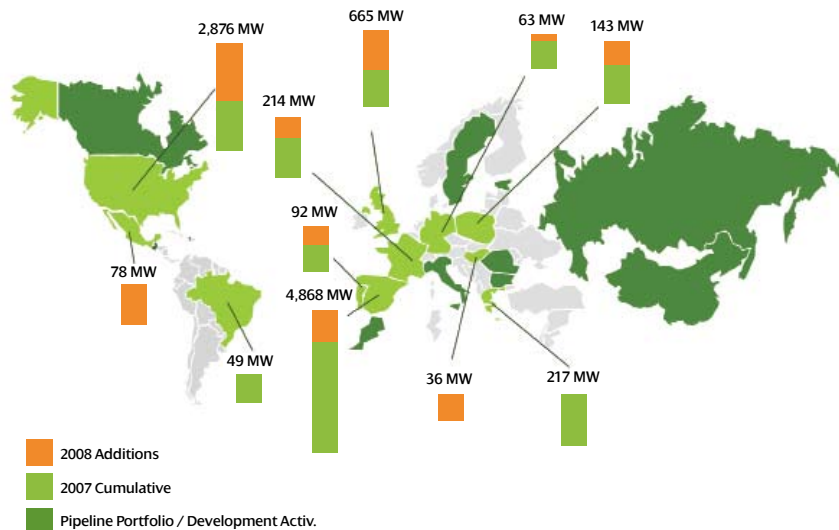
on-stream in the Whitelee wind farm, which will have 322 MW and will be the largest in Europe. Production totals 1,227 kWh, 402.9% more than in 2007, with a pipeline portfolio in excess of 5,000 MW.

● **Rest of the World.** With a presence in the most attractive markets in the world, in 2008 the Company boosted installed capacity by 47.1% to 892 MW, distributed mostly in Europe, as follows: Greece, 217 MW; France 214 MW; Poland 143 MW; Portugal 92 MW; Mexico 78 MW; Germany, 63 MW; Brazil, 49 MW and Hungary, 36 MW. Production rose 30.7% to 1,321 million kWh, and the pipeline portfolio stands at 13,505 MW, 83.8% above the 2007 level.

Big Horn wind farm in Oregon (US).



PRESENT IN 23 COUNTRIES AND WITH ASSETS IN OPERATION IN THE 11 MOST IMPORTANT MARKETS OF THE WORLD



THE LARGEST EUROPEAN COMPANY IN THE INDUSTRY BY MARKET CAPITALIZATION

IBERDROLA RENOVABLES will propose to the shareholders at the General Shareholders' Meeting a dividend of 2.5 euro cents per share.

The crisis that originated in the real estate market in 2007 gave way, in 2008, to an unprecedented financial crisis. This has spread to other industries and markets, creating a global economic recession. The year was marked by the extreme volatility of the credit, currency and raw materials markets and of stock markets all over the world, which racked up substantial losses. Within this context, the Ibex.35 ended 2008 with drops of almost 40%, in line with those of European stock exchanges.

IBERDROLA RENOVABLES ON THE STOCK MARKET

2008 saw generalized drops in the benchmark indexes of the renewables industry, although IBERDROLA RENOVABLES performed better than most. The ERIX and the Renewable S&P lost more than 60%, while the Merrill Lynch dipped to 47.3% (see chart).

THE LEADING EUROPEAN COMPANY AND ONE OF THE TOP TEN SPANISH COMPANIES BY MARKET CAPITALIZATION

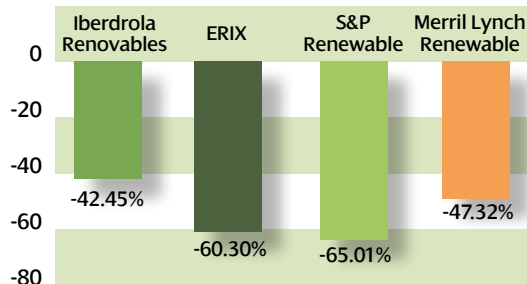
IBERDROLA RENOVABLES' capitalization stood at 12,883 million at the end of 2008 (see chart), making it the top European Company in the renewables industry and one of the ten largest Spanish companies of the Ibex 35 by market capitalization.

DIVIDEND PAYMENT

The Company will propose to its shareholders at the General Shareholders' Meeting the payment of a single dividend of 2.5 euro cents per share, the first in its history as a listed company, equivalent to a pay-out of 27%. In doing so, the Company goes beyond the commitment it took on with investors when it went public in 2007: at the time, it announced that it would earmark between 20% and 25% of 2008 earnings for dividends.

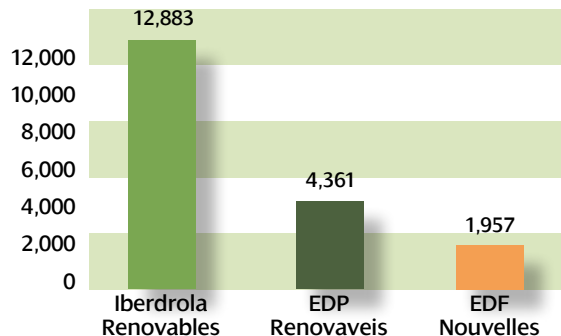
IBERDROLA RENOVABLES COMPARED TO THE MAIN RENEWABLES INDEXES

(2008)



IBERDROLA RENOVABLES VS. THE LEADING RENEWABLE ENERGY COMPANIES IN EUROPE

(By market capitalization in 2008. Millions of euros)



A FLEXIBLE SUSTAINABLE GROWTH PLAN

The Strategic Plan's flexibility will enable the Company to finance and modulate its investments according to the requirements of each particular time and each set of circumstances.

In 2008, IBERDROLA RENOVABLES has implemented the 2008-2012 Strategic Plan, the primary objective of which is to cement the Company's position as the world wind energy leader and the international benchmark in renewable energy. The flexibility of the Plan ensures sustainable growth and will enable the Company to finance and modulate investments according to the requirements of each particular time and each set of circumstances, and to manage its assets portfolio so as to maximize the value thereof.

INVESTMENTS

Faced with a complex economic scenario and uncertainty in the markets, the Company plans to invest at least 2 billion euros in 2009, of which 90% will be used to add wind-energy capacity and 10% for other technologies. Wind energy investments will be increased

in 20% and distributed between Europe and the United States in a 70%-30% proportion. In this latter country, wind energy has become a linchpin for economic recovery.

DRIVER OF ECONOMIC REVITALIZATION

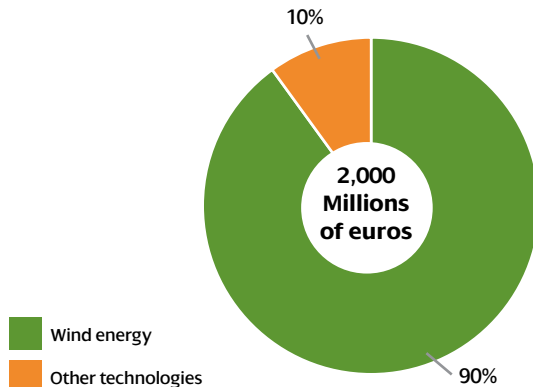
Given existing support for renewable energy worldwide and the favorable circumstances for wind energy to be a key element in the generation of clean energy, IBERDROLA RENOVABLES is in an unparalleled position to capitalize on the significant growth opportunities in the industry.

Thus, and thanks to the support of the IBERDROLA Group, the size achieved by the Company, its technical capabilities, the geographical diversification of its assets, the soundness of its balance sheet and its business model, the Company is poised to become a driver of economic revitalization.

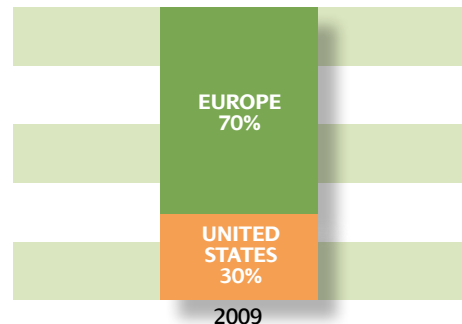
Maranchón wind farm in Guadalajara (Spain).



2009 INVESTMENTS



BREAKDOWN OF INVESTMENTS IN WIND ENERGY



THE BET ON THE ENVIRONMENT

IBERDROLA RENOVBLES has more than doubled its investment in clean generation and avoided the release of 7.5 million tons of CO₂ into the atmosphere in 2008.

The Company has implemented a comprehensive bird and bat protection plan in the United States.



IBERDROLA RENOVBLES has more than doubled its investment in clean generation, to 3,593 million euros in 2008, from the 1,706 million invested in 2007 (see chart).

The Company is in an unequalled position to spearhead the change towards a more sustainable model. Practically all its generation facilities (close to 94%) produce energy from renewable sources, confirming the commitment of IBERDROLA RENOVBLES to a low-carbon energy management model. In Spain, 100% of production and 100% of installed capacity are emission-free.

In 2008, electric power production using renewable energy technologies increased to 16,998 million kWh. Of that total amount, almost 16,462 million kWh is wind energy, some 536 million kWh is mini-hydroelectric energy and 0.4 million kWh are produced using other renewable energy technologies (primarily, solar technology). Overall, the Company has avoided the emission of 7.45 million tons of CO₂, 91% more than the year before (see chart).

BIODIVERSITY, A PRIORITY

Of the main actions carried out during 2008, the following deserve mention:

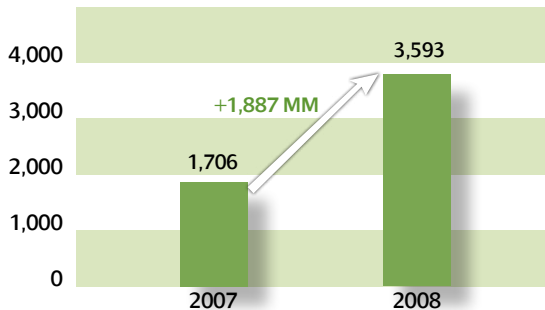
Spain. The Company conducts environmental impact studies and prepares prior environmental avifauna reports, as well as projects for environmental restoration following completion of a wind farm.

United Kingdom. Biodiversity improvement takes the form of habitat management plans, covering a total of 6,200 hectares. Particularly worth mentioning is the plan involving golden eagles in Beinn an Tuirc and the Whitelee Merlin protection plan.

United States. The Company has implemented a comprehensive bird and bat protection plan in cooperation with the US Fish and Wildlife Service, the first such plan in the entire US wind energy industry. It has also carried out a study to determine the impact of wind energy facilities on bats (Casselman, Pennsylvania) and has set up the first Merlin detector in Penascal, Texas.

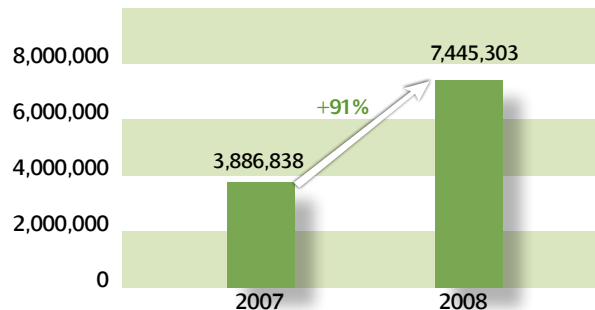
INVESTMENT IN CLEAN TECHNOLOGIES

(Millions of euros)



CO₂ EMISSIONS AVOIDED

(Tons)



PEOPLE COME FIRST

Job creation, training, work and family life reconciliation, integration and the prevention of occupational risks are paramount for IBERDROLA RENOVABLES.

The commitment to the creation of employment is one of the key concerns of IBERDROLA RENOVABLES, and was reflected in 2008 in a substantial increase in personnel which, at year-end, stood at 1,951 employees, 36% above the 2007 level (see chart), 489 of whom are women (37% more than in 2007). Such growth was characterized by the creation of stable jobs, since 93% of the contracts with employees hired in 2008 are open-ended. Approximately 60% are holders of associate –and baccalaureate– level degrees

In addition to the growth of the workforce, the measures put into practice by the Company for the reconciliation of family and working life have promoted the integration of the workforce and increased the sense of belonging to a young, modern and dynamic Company with which its employees, whose average age is 36, can identify.

TRAINING AND PREVENTION

Major efforts were made in 2008 for the Company's workforce to receive the necessary training: in Spain,

the total number of hours of training rose from 26,424 in 2007 to 46,353 in 2008, representing a significant 75.4% increase. Furthermore, the number of hours invested in training in the prevention of occupational risks was 14,203, i.e., 18 times the number of hours invested in 2007.

GOOD PRACTICES

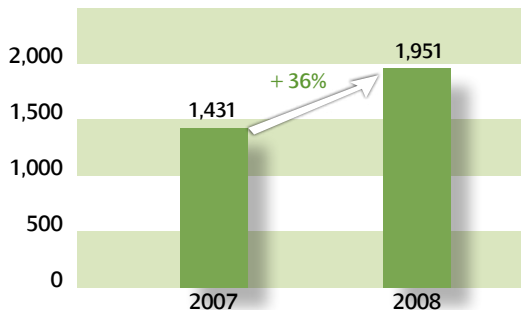
In 2008, IBERDROLA RENOVABLES renewed its existing certificates and obtained new certificates that evidence its role as the driver of policies and processes to provide support to its employees. Worth mentioning is the second edition of the EFR Standard (Family Responsible Company [*Empresa Familiarmente Responsable*]) granted by *Fundación + Familia* to the entities that have contributed the most to the reconciliation of personal and working life. Furthermore, the Company was the first company of the Group to renew its OHSAS 1800:2007 certification, the strictest compliance standard in occupational risk prevention.

Work team at the Maranchón wind farm, Guadalajara (Spain).



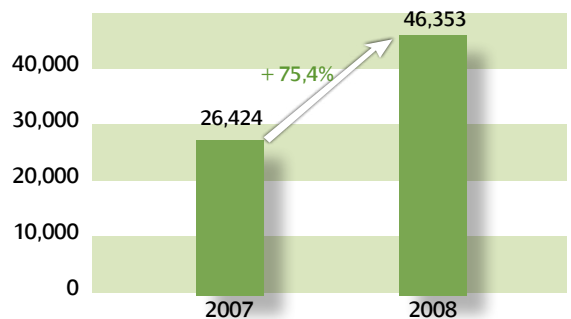
WORKFORCE

(Number of persons)



TRAINING*

(Number of hours)



* Hours of training in Spain

EMERGING TECHNOLOGIES, THE PROTAGONISTS OF THE FUTURE

IBERDROLA RENOVABLES' determined bet on innovation allows the company to continually improve the efficiency of its assets.

Wave energy project at Santoña (Cantabria).



During 2008, IBERDROLA RENOVABLES continued to carry out the actions included in its 2008-2012 Strategic R&D Plan, which contemplates initiatives and projects in new technologies for the generation of energy from renewable sources.

Throughout the year, the Company invested more than 12 million euros, almost 50% more than in 2007 (see chart).

PRINCIPAL INITIATIVES

Particularly worth mentioning in the area of new energy generation technologies are the initiatives in connection with wave energy. Thus, in 2008, the Company opened the first wave-energy plant in Spain, located on the Cantabric coast at Santoña, where the movement of waves allows for the generation of electric power.

Work continues in Scotland, near the Orkney Islands, on the deployment of a 3 MW plant based on Pelamis technology, which plant will

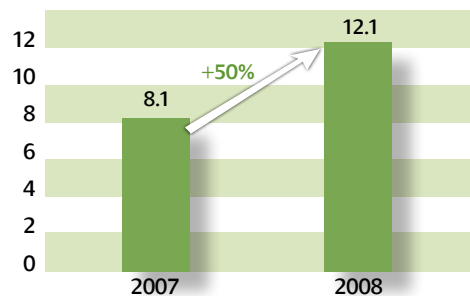
be the largest wave energy plant in commercial operation in the world. This and other IBERDROLA RENOVABLES initiatives are being developed at the EMEC (European Marine Energy Center), in northern Scotland.

Particularly notable among the research and development initiatives carried out during 2008 are the METEFLOW project for the prediction of wind energy production and data processing to improve forecasts; the expansion and enhancement of management capacity and communications systems at the Renewables Operation Center (CORE) in Toledo and the improvements in the DOMINA project, whose goal is to optimize asset maintenance and management.

In addition, in cooperation with IBERDROLA, the Company has organized PERSEO, a company funded with 6 million euros a year, to invest in initiatives having a high technological value in renewable energy and the environment.

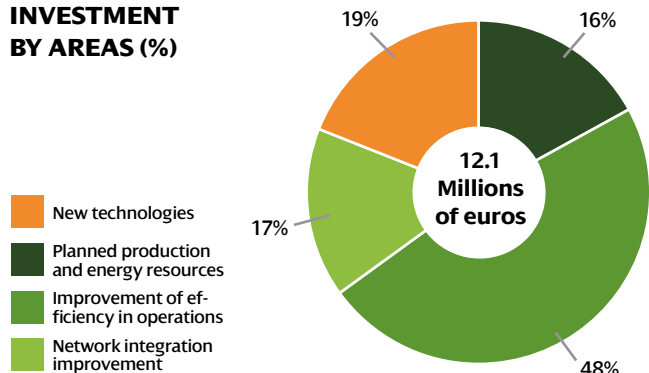
INVESTMENT IN R&D *

(Millions of euros)



* Investment in R&D in Spain

INVESTMENT BY AREAS (%)



(New technologies include thermosolar, wave and current energy, offshore wind energy and biomass energy).

GOOD GOVERNANCE MODEL

The shareholders acting at the General Shareholders' Meeting are the sovereign governance body of the company.

Pursuant to article 26 of the By-Laws, management of the Company is vested in a Board of Directors, its Executive Committee and, as resolved by the Board of Directors, a Chief Executive Officer. The Board of Directors consists of 15 directors and has three advisory committees:

- The Audit and Compliance Committee (consisting of an independent director, who acts as chairman, and two proprietary directors).
- The Nominating and Compensation Committee (made up of two independent directors, one of whom acts as chairman, and a proprietary director).
- The Related-Party Transactions Committee (consisting of two independent directors, one of whom holds the office of chairman, and an executive director).

The activities of the Board of Directors focus on the governance of the group and on mapping out the general strategy, policies and guidelines, as well as on oversight and consideration of particularly

important matters. The Management Team, either directly or through the appropriate committees, is charged with the organization of the group and the implementation, coordination and dissemination of the general strategies and guidelines. Each of the businesses is responsible for its effective management and stewardship through its own governance bodies.

Iberdrola Renovables headquarters (Valencia)



Name	Position	Nature of the position
Mr. José Ignacio Sánchez Galán	Chairman	Proprietary
Mr. Xabier Viteri Solaun	Chief Executive Officer	Executive
Ms. María Helena Antolín Raybaud	Director	Independent
Mr. Alberto Cortina Koplowitz	Director	Proprietary
Mr. Luis Chicharro Ortega	Director	Independent
Mr. Carlos Egea Krauel	Director	Proprietary
Mr. Julio Feroso García	Director	Proprietary
Mr. Santiago Martínez Garrido	Director	Proprietary
Ms. María Dolores Herrera Pereda	Director	Proprietary
Mr. Santiago Martínez Lage	Director	Independent
Mr. Manuel Moreu Munaiz	Director	Independent
Mr. José Luis San-Pedro Guerenabarrena	Director	Proprietary
Mr. Javier Sánchez-Ramade Moreno	Director	Proprietary
Mr. José Sainz Armada	Director	Proprietary
Mr. Álvaro Videgain Muro	Director	Independent
Ms. Ana Isabel Buitrago Montoro	General Secretary and Secretary of the Board (not a Director)	
Ms. Regina Reyes Gallur	Vice-Secretary (not a Director) and Legal Counsel	

Good governance principles and recommendations

As a result of the admission to trading of its shares on Spanish Securities Exchanges in December 2007, in November and December 2007, and throughout 2008, IBERDROLA RENOVABLES redesigned its Corporate Governance structure to bring it into line with most internationally recognized good governance principles and recommendations and, in particular, with those set out in the Unified Good Governance Code, approved by the Securities Market Commission [Comisión Nacional del Mercado de Valores] (CUBG). IBERDROLA RENOVABLES is committed to an effort to continually update and improve its internal good governance regulations and practices. Also worth noting is the approval in 2008 of its own set of risk control and management policies, as well as the related limits and indicators. In line with recommendation 50 of the CUBG, the Company has implemented a channel for communication with the Audit and Compliance Committee, with a view to establishing a mechanism that will allow employees to report financial and accounting irregularities on a confidential basis.



IBERDROLA
RENOVABLES