

**Audit Report**

**IBERDROLA RENOVABLES, S.A.  
Financial Statements and Management Report  
for the year ended December 31, 2008**

(Translation of a report and financial statements originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails)

## AUDIT REPORT ON THE FINANCIAL STATEMENTS

Translation of a report and financial statements originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails (See Note 26)

To the Shareholders of IBERDROLA RENOVABLES, S.A.:

1. We have audited the financial statements of IBERDROLA RENOVABLES, S.A., which comprise the balance sheet at December 31, 2008 and the income statement, the statement of changes in equity, the cash flow statement and the notes thereto for the year then ended, the preparation of which is the responsibility of the Company's directors. Our responsibility is to express an opinion on the aforementioned financial statements taken as a whole, based upon work performed in accordance with auditing standards generally accepted in Spain, which require the examination, through the performance of selective tests, of the evidence supporting the financial statements, and the evaluation of their presentation, of the accounting principles applied, and of the estimates made.

2. The accompanying 2008 financial statements are the first prepared by the directors under the Spanish GAAP enacted by Royal Decree 1514/2007. In this regard, in accordance with section one of Transitional Provision Four of said Royal Decree, January 1, 2007 has been taken as the transition date and, therefore, comparative figures for 2007 are included for each of the headings in the balance sheet, the income statement, the statement of changes in equity, the cash flow statement and the notes thereto in addition to the figures for 2008. These comparative figures have been obtained applying the Spanish GAAP enacted by Royal Decree 1514/2007. Therefore, the previous year's figures differ from those set forth in the approved 2007 financial statements, which were prepared in accordance with generally accepted accounting principles and standards in force in Spain at that time. Note 24 to the financial statements, "Issues relating to the transition to new accounting principles," provides an explanation of the main differences between the accounting criteria applied in 2007 and those currently applicable, as well as the quantification of the impact on equity at January 1 and December 31, 2007 and on results for 2007 caused by the change in accounting criteria. Our opinion refers only to the financial statements for 2008. On March 12, 2008 we issued our audit report on the 2007 financial statements, prepared in conformity with generally accepted accounting principles and standards in force in Spain for that year, in which we expressed an unqualified opinion.

3. In our opinion, the accompanying 2008 financial statements give a true and fair view, in all material respects, of the equity and financial position of IBERDROLA RENOVABLES, S.A. at December 31, 2008 and the results of its operations, changes in equity and cash flow for the year then ended, and contain the required information necessary for their adequate interpretation and understanding, in conformity with the applicable accounting principles and standards generally accepted in Spain, which are consistent with those applied in the preparation of the figures and information related to 2007 which have been included in these 2008 financial statements for comparative purposes.

4. The accompanying 2008 management report contains such explanations as the directors consider appropriate concerning the situation of the Company, the evolution of its business and other matters; however, it is not an integral part of the financial statements. We have checked that the accounting information included in the aforementioned management report agrees with the financial statements for the year ended December 31, 2008. Our work as auditors is limited to verifying the management report in accordance with the scope mentioned in this paragraph, and does not include the review of information other than that obtained from the Company's accounting records.

ERNST & YOUNG, S.L.  
(Registered in ROAC under n° S0530)

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Francisco Rahola Carral

February 25, 2009

**IBERDROLA RENOVABLES S.A.**

**Financial Statements  
for the year ended  
31 December 2008**

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**IBERDROLA RENOVABLES, S.A.**  
**Balance sheet at 31 December 2008 and 2007**  
(Thousands of euros)

<b>ASSETS</b>	<b>Notes</b>	<b>2008</b>	<b>2007 (*) (unaudited)</b>
<b>NON-CURRENT ASSETS</b>		<b>8,319,952</b>	<b>6,835,035</b>
Intangible assets	6	8,405	8,143
Software		8,405	8,143
<b>Property, plant and equipment</b>	7	<b>86,939</b>	<b>86,133</b>
Land and buildings		3,087	628
Plant and other PP&E items		82,625	78,530
PP&E under construction and prepayments		1,227	6,975
<b>Investments in group companies and associates</b>	8	<b>8,217,033</b>	<b>6,687,190</b>
Equity instruments		6,701,151	5,547,291
Loans to companies		1,498,710	1,127,013
Other financial assets		17,172	12,886
<b>Financial investments</b>	9.1	<b>645</b>	<b>9,059</b>
Loans to third parties		393	18
Derivatives		-	8,750
Other financial assets		252	291
<b>Deferred tax assets</b>	15	<b>6,930</b>	<b>44,510</b>
<b>CURRENT ASSETS</b>		<b>5,423,498</b>	<b>4,805,102</b>
<b>Inventories</b>	10	<b>412,677</b>	<b>209,893</b>
Prepayments to suppliers		412,677	209,893
<b>Trade and other receivables</b>	9.1	<b>188,470</b>	<b>249,310</b>
Receivable from group companies and associates		175,410	178,257
Other receivables		2,793	1,096
Receivables from employees		73	70
Current income tax assets	15	-	21,558
Other receivables from public administrations	15	10,194	48,329
<b>Investments in group companies and associates</b>	9.1	<b>4,802,365</b>	<b>4,336,155</b>
Loans to companies		275,050	104,051
Derivatives		283,024	-
Other financial assets		4,244,291	4,232,104
<b>Current financial investments</b>	9.1	<b>5,843</b>	<b>9,081</b>
Loans to companies		-	2,854
Derivatives		5,841	6,193
Other financial assets		2	34
<b>Accruals</b>		<b>471</b>	<b>397</b>
<b>Cash and cash equivalents</b>	11	<b>13,672</b>	<b>266</b>
Cash		13,672	266
<b>TOTAL ASSETS</b>		<b>13,743,450</b>	<b>11,640,137</b>

(\*) The balance sheet at 31 December 2007 is presented for comparison purposes only.

**IBERDROLA RENOVABLES, S.A.**  
**Balance sheet at 31 December 2008 and 2007**  
(Thousands of euros)

<b>EQUITY AND LIABILITIES</b>	<b>Notes</b>	<b>2008</b>	<b>2007 (*) (unaudited)</b>
<b>EQUITY</b>		<b>10,459,916</b>	<b>10,315,135</b>
<b>CAPITAL AND RESERVES</b>	<b>12</b>	<b>10,461,926</b>	<b>10,319,118</b>
<b>Share capital</b>		<b>2,112,032</b>	<b>2,112,032</b>
Issued capital		2,112,032	2,112,032
<b>Share premium</b>		<b>7,991,034</b>	<b>7,991,034</b>
<b>Reserves</b>		<b>217,341</b>	<b>107,688</b>
Legal and statutory reserves		33,082	24,832
Other reserves		184,259	82,856
<b>Profit/loss for the year</b>	<b>4</b>	<b>131,107</b>	<b>107,069</b>
<b>Other equity instruments</b>		<b>10,412</b>	<b>1,295</b>
<b>UNREALISED GAINS (LOSSES) RESERVE</b>	<b>12.5</b>	<b>(2,010)</b>	<b>(3,983)</b>
Hedging instruments		(2,010)	(3,983)
<b>NON-CURRENT LIABILITIES</b>		<b>2,208,080</b>	<b>61,995</b>
<b>Provisions</b>	<b>13</b>	<b>9,241</b>	<b>1,049</b>
Provisions for employee benefits		5,335	277
Other		3,906	772
<b>Borrowings</b>	<b>14</b>	<b>23,798</b>	<b>4,623</b>
Derivatives		21,472	-
Other financial liabilities		2,326	4,623
<b>Borrowings from group companies and associates</b>	<b>14</b>	<b>2,173,390</b>	<b>45,751</b>
<b>Deferred tax liabilities</b>	<b>15</b>	<b>1,651</b>	<b>10,572</b>
<b>CURRENT LIABILITIES</b>		<b>1,075,454</b>	<b>1,263,007</b>
<b>Provisions</b>	<b>13</b>	<b>-</b>	<b>3</b>
<b>Borrowings</b>	<b>14</b>	<b>26,468</b>	<b>12,376</b>
Derivatives		1,890	20
Other financial liabilities		24,578	12,356
<b>Payables to group companies and associates</b>	<b>14</b>	<b>801,772</b>	<b>918,203</b>
<b>Trade and other payables</b>	<b>14</b>	<b>247,214</b>	<b>332,425</b>
Suppliers, group companies and associates		72,652	298,764
Other payables		15,122	29,838
Employee benefits payable		1,842	2,227
Current tax liabilities	<b>15</b>	<b>14,509</b>	<b>1,596</b>
Other payables to public administrations	<b>15</b>	<b>1,307</b>	<b>-</b>
Customer advances		141,782	-
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>13,743,450</b>	<b>11,640,137</b>

(\*) The balance sheet at 31 December 2007 is presented for comparison purposes only.

**IBERDROLA RENOVABLES, S.A.**  
**Income statement for the years ended 31 December 2008 and 2007**  
(Thousands of euros)

	Notes	2008	2007 (*) (unaudited)
<b>CONTINUING OPERATIONS</b>			
<b>Revenue</b>	<b>16.1</b>	<b>110,455</b>	<b>210,633</b>
Sale of goods		19,582	13,292
Rendering of services		90,873	197,341
<b>Cost of sales</b>		<b>(90,873)</b>	<b>(171,745)</b>
<b>Other operating income</b>		<b>114,329</b>	<b>27,700</b>
Ancillary income		113,965	27,700
Grants related to income		364	-
<b>Staff costs</b>		<b>(61,127)</b>	<b>(40,035)</b>
Wages, salaries et al		(46,475)	(31,860)
Social security costs, et al	16.2	(14,652)	(8,175)
<b>Other operating expense</b>		<b>(73,917)</b>	<b>(46,244)</b>
External services	16.3	(71,321)	(45,667)
Taxes		(2,437)	(577)
Other operating expenses		(159)	-
<b>Depreciation and amortisation</b>	<b>7-8</b>	<b>(9,816)</b>	<b>(8,714)</b>
<b>Overprovisions</b>		<b>2</b>	<b>-</b>
<b>Impairment losses and gains/losses on disposal of non-current assets</b>	<b>7</b>	<b>(72)</b>	<b>-</b>
Impairment and losses		(72)	-
<b>OPERATING PROFIT OR LOSS</b>		<b>(11,019)</b>	<b>(28,405)</b>
<b>Finance income</b>	<b>16.4</b>	<b>302,399</b>	<b>154,823</b>
From equity investments		13,452	127,949
In group companies and associates		13,452	127,949
From debt securities and other financial instruments		288,947	26,874
Of group companies and associates		286,650	23,553
Of third parties		2,297	3,321
<b>Finance costs</b>	<b>16.5</b>	<b>(75,109)</b>	<b>(27,561)</b>
Borrowings from group companies and associates		(74,150)	(27,502)
Third-party borrowings		(944)	(59)
Provision discount adjustment		(15)	-
<b>Change in fair value of financial instruments</b>		<b>(26,053)</b>	<b>-</b>
Trading portfolio and other securities		(26,053)	-
<b>Exchange gains/losses</b>		<b>(6,100)</b>	<b>(1,565)</b>
<b>Impairment and gains/losses on disposal of financial instruments</b>		<b>(2,982)</b>	<b>(1,496)</b>
Impairment and losses		(3,334)	(1,496)
Gains/losses on disposals and other gains and losses		352	-
<b>NET FINANCE COST</b>		<b>192,155</b>	<b>124,201</b>
<b>PROFIT BEFORE TAX</b>		<b>181,136</b>	<b>95,796</b>
<b>Income tax expense</b>		<b>(50,029)</b>	<b>11,273</b>
<b>PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS</b>		<b>131,107</b>	<b>107,069</b>
<b>PROFIT FOR THE YEAR</b>		<b>131,107</b>	<b>107,069</b>

(\*) The income statement for 2007 is presented for comparison purposes only.

**IBERDROLA RENOVABLES, S.A.****Statement of changes in equity for the years ended 31 December 2008 and 2007**

(Thousands of euros)

**A) Statement of recognised income and expense for the years ended 31 December 2008 and 2007**

	Notes	2008	2007 (*) (unaudited)
<b>PROFIT FOR THE PERIOD</b>		<b>131,107</b>	<b>107,069</b>
<b>INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY</b>			
From cash flow hedges		2,818	(5,690)
From actuarial gains and losses and other adjustments		(261)	-
Other		60	(1,427)
Tax effect		(766)	1,707
<b>TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY</b>		<b>1,851</b>	<b>(5,410)</b>
<b>TOTAL RECOGNISED INCOME AND EXPENSE</b>		<b>132,958</b>	<b>101,659</b>

(\*) The statement of recognised income and expense for 2007 is presented for comparison purposes only.



**IBERDROLA RENOVABLES, S.A.**

**B) Statement of changes in equity for the years ended 31 December 2008 and 2007**

(Thousands of euros)

(Thousands of euros)	Issued capital (Note 12)	Share premium (Note 12)	Reserves (Note 12)	Profit for the year (Note 12)	Other equity instruments	Net unrealised gains (loss) reserve (Note 12)	TOTAL
<b>BALANCE AT 31 DECEMBER 2006</b>	<b>164,600</b>	<b>101,979</b>	<b>89,688</b>	<b>107,942</b>	<b>-</b>	<b>-</b>	<b>464,209</b>
Adjustments for conversion to new accounting principles (Note 24)	-	-	8,633	-	-	-	8,633
<b>ADJUSTED BALANCE AT 1 JANUARY 2007</b>	<b>164,600</b>	<b>101,979</b>	<b>98,321</b>	<b>107,942</b>	<b>-</b>	<b>-</b>	<b>472,842</b>
<b>Total recognised income and expense</b>	<b>-</b>	<b>-</b>	<b>(1,427)</b>	<b>107,069</b>	<b>-</b>	<b>(3,983)</b>	<b>101,659</b>
<b>Transactions with shareholders and owners</b>							
Capital increases	1,947,432	7,889,055	-	-	-	-	9,836,487
Dividends paid	-	-	10,794	(107,942)	-	-	(97,148)
Other	-	-	-	-	1,295	-	1,295
<b>BALANCE AT 1 JANUARY 2008</b>	<b>2,112,032</b>	<b>7,991,034</b>	<b>107,688</b>	<b>107,069</b>	<b>1,295</b>	<b>(3,983)</b>	<b>10,315,135</b>
<b>Total recognised income and expense</b>	<b>-</b>	<b>-</b>	<b>(122)</b>	<b>131,107</b>	<b>-</b>	<b>1,973</b>	<b>132,958</b>
<b>Transactions with shareholders and owners</b>							
Appropriation of profit	-	-	107,069	(107,069)	-	-	-
Gain/loss from transactions with treasury shares (net)	-	-	2,706	-	-	-	2,706
Actuarial gains (losses)	-	-	-	-	-	-	-
Other changes in equity	-	-	-	-	9,117	-	9,117
<b>BALANCE AT 31 DECEMBER 2008</b>	<b>2,112,032</b>	<b>7,991,034</b>	<b>217,341</b>	<b>131,107</b>	<b>10,412</b>	<b>(2,010)</b>	<b>10,459,916</b>

## IBERDROLA RENOVABLES, S.A.

### Cash flow statement for the years ended 31 December 2008 and 2007 (Thousands of euros)

	Notes	2008	2007 (unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Profit before tax</b>		<b>181,136</b>	<b>95,796</b>
<b>Adjustments to profit</b>			
Depreciation and amortisation	6- 7	9,816	8,714
Impairment losses	7- 8	3,406	1,496
Changes in provisions		8,199	397
Finance income	16.4	(302,399)	(154,823)
Finance costs	16.5	75,109	27,561
Exchange gains/losses		(6,100)	(1,565)
Change in fair value of financial instruments		26,053	-
<b>Change in working capital</b>			
Inventories		(202,784)	(157,263)
Trade and other receivables		66,865	789,673
Other assets		(458,896)	(678,671)
Trade and other payables		(187,553)	1,240,583
<b>Other cash flows from operating activities</b>			
Interest paid		(46,199)	(27,561)
Dividends received		13,452	127,949
Interest received		288,947	26,874
Income tax receipts (payments)		(17,402)	(2,780)
Other payments (receipts)		(7)	(634)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>(548,357)</b>	<b>1,295,746</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
<b>Payments on investments</b>			
Group and associates		(1,321,728)	(297,344)
Intangible assets		(3,211)	(4,365)
Property, plant and equipment		(7,745)	(4,930)
Other financial assets		(210,711)	(382,811)
<b>CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES</b>		<b>(1,543,395)</b>	<b>(689,450)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
<b>Proceeds from and payments on equity instruments</b>		<b>2,706</b>	<b>-</b>
Proceeds from issuance of equity instruments			
Acquisition of own equity instruments		67,173	-
Disposal of own equity instruments		(64,467)	-
<b>Proceeds from and payments of financial liabilities</b>		<b>2,102,452</b>	<b>(523,827)</b>
Borrowings from group companies and associates		2,127,639	(523,827)
Other borrowings		(25,187)	-
<b>Dividends paid and payments on other equity instruments</b>		<b>-</b>	<b>(98,526)</b>
Dividends		-	(98,526)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		<b>2,105,158</b>	<b>(622,353)</b>
<b>NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>13,406</b>	<b>(16,057)</b>
<b>Cash and cash equivalents at 1 January</b>		<b>266</b>	<b>16,323</b>
<b>Cash and cash equivalents at 31 December</b>		<b>13,672</b>	<b>266</b>

(\*) The cash flow statement for 2007 is presented for comparison purposes only.

## **IBERDROLA RENOVABLES, S.A.**

### **Notes to the financial statements for the year ended 31 December 2008**

#### **1. ACTIVITY**

Iberdrola Renovables, S.A. (hereinafter IBERDROLA RENOVABLES), was incorporated on 9 July 2001. Its corporate purpose is to engage in all types of activities, projects and services related to:

- The production and marketing of electricity generated using renewable energies under the ordinary regime, particularly mini-hydroelectric plants, as well as the operation and maintenance of these kinds of energy plants.
- The provision of all kinds of services related to the engineering of renewable energy power plants in general, and specifically research, engineering or energy consultancy studies, and environmental, technical and economic studies relating to such power plants. Also, the operation and maintenance of plants owned by third parties and participation in projects concerning such plants both as owner or as contractor for their operation, conservation and maintenance.

Pursuant to a resolution adopted at the General Shareholders' Meeting of 26 June 2008, IBERDROLA RENOVABLES' registered office is at Calle Menorca 19, Planta 13, Valencia.

As explained in Note 12, the majority shareholder of IBERDROLA RENOVABLES is Iberdrola, S.A. (hereinafter, IBERDROLA). As a result of IBERDROLA's acquisition of Scottish Power, plc., on 23 April 2007 and prior to the initial public offering of shares described in Note 12, IBERDROLA RENOVABLES acquired, via a capital increase with a non-monetary contribution on 3 October 2007, the renewable energy branch of Scottish Power, plc (hereinafter, SCOTTISH POWER), mainly located in the UK and the US, as well as its activities in gas storage, the sale of gas and electricity and thermal generation of electricity in the US.

#### **2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS**

These financial statements have been prepared in accordance with the new accounting principles approved by Royal Decree 1514/2007 of 16 November and prevailing mercantile law.

The figures shown in these financial statements are presented in thousands of euros unless otherwise indicated.

##### **2.1 True and fair view**

These financial statements have been prepared from IBERDROLA RENOVABLES' auxiliary accounting records, in accordance with prevailing accounting legislation, to give a true and fair view of the equity, financial position and results of IBERDROLA RENOVABLES. The cash flow statement has been prepared to present fairly the origin and usage of IBERDROLA RENOVABLES' monetary assets such as cash and cash equivalents.

These annual financial statements have been prepared by IBERDROLA RENOVABLES' directors, will be submitted for approval by the shareholders in general meeting and are expected to be approved without modification.

As required by law, IBERDROLA RENOVABLES has prepared its consolidated financial statements in accordance with International Financial Reporting Standards. The principal balance sheet and income statement headings in the IBERDROLA RENOVABLES group's 2008 consolidated financial statements are as follows:

(Thousands of euros)	2008	2007
Total assets	20,216,152	17,655,199
Equity:	11,188,279	10,918,454
- Attributable to equity holders of the parent	11,114,775	10,783,855
- Attributable to minority interests	73,504	134,599
Revenue	2,030,317	953,015
Profit or loss for the year:	397,390	128,752
- Attributable to equity holders of the parent	390,160	117,538
- Attributable to minority interests	7,230	11,214

## 2.2 Comparison of information

The 2008 financial statements are the first financial statements to be prepared based on the new accounting principles approved by Royal Decree 1514/2007 of 16 November. IBERDROLA RENOVABLES has opted to measure its assets and liabilities at the transition date as per the previous accounting principles except for financial instruments, which are measured at fair value, under one of the options specifically permitted by the Royal Decree.

IBERDROLA RENOVABLES has considered the transition date to be 1 January 2007 and, therefore, for comparative purposes has included figures for 2007 alongside the 2008 figures for each item in the balance sheet, the income statement, the statement of changes in equity, the cash flow statement and the notes thereto. The 2007 figures have been obtained applying the principles and standards established in the new accounting policies approved by Royal Decree 1514/2007. Therefore, the figures corresponding to the previous year differ from those contained in the 2007 financial statements, which were prepared based on the accounting principles and standards in force at that time. The principal differences between the accounting principles applied in the previous years and those applied this year, as well as the quantification of the impact of this change in principles at 1 January and at 31 December 2007 on equity and on 2007 results, are explained in Note 24 "Issues related to the transition to the new accounting principles."

## 2.3 Critical issues concerning the assessment of uncertainty

The directors have prepared the financial statements using estimates based on historical experience and other factors considered reasonable under the circumstances. The carrying value of assets and liabilities, which is not readily apparent from other sources, was established on the basis of these estimates. IBERDROLA RENOVABLES periodically reviews these estimates. However, given the uncertainty inherent in them, the need may arise to make significant adjustments to the carrying amounts of assets and liabilities affected in future periods should changes occur in the hypotheses or circumstances on which the resulting values were based.

The key assumptions regarding the future, in addition to other relevant information regarding uncertainty estimation at the reporting date, which represent a considerable risk that the carrying amounts of assets and liabilities may require significant adjustments in the following financial year, are as follows:

### Impairment of non-current assets

When measuring non-current assets other than financial assets, especially goodwill and intangible assets with an indefinite useful life, estimates must be made to determine their fair value to assess whether they are impaired. To determine fair value, IBERDROLA RENOVABLES estimates the expected cash flows from assets and the cash-generating units to which they belong, applying an appropriate discount rate to calculate the present value of these cash flows.

### Pensions

The cost of defined benefit pension plans is determined by actuarial valuations. The actuarial valuations require the use of estimates as to the discount rate, return on assets, salary increases, mortality tables and social security pension increases. These estimates are subject to significant uncertainties given that such plans are liquidated in the long-term. The liability corresponding to these plans at 31 December 2008 amounted to EUR 1,140 thousand (2007: EUR 277 thousand) (Note 13).

### Contingent liabilities

As indicated in Note 13, there are certain contingent tax and legal liabilities that have not been provisioned in these financial statements. While the outcome of each of these items in the future could require payment of certain amounts by IBERDROLA RENOVABLES, none of them could be considered significant in the context of these financial statements.

Under prevailing tax regulations, tax returns may not be considered final until they have either been inspected by tax authorities or until the four-year inspection period has expired. IBERDROLA RENOVABLES and its tax advisors consider that, in the event of a tax inspection, no significant tax contingencies would arise as a result of varying interpretations of the tax legislation applicable to the IBERDROLA RENOVABLES' transactions.

### **3. REGULATIONS GOVERNING ELECTRICITY GENERATION UNDER THE SPECIAL REGIME**

IBERDROLA RENOVABLES' power generation business under the ordinary regime is regulated by Articles 21 to 26 of Electricity Industry Law 54/1997 of 27 November and subsequent implementing regulations.

Although the Company's mini-hydroelectric installations use technologies eligible for the special regime, they are operated under the ordinary regime as they come under the provisions of Royal Decree 1538/1987 of 11 December and so, pursuant to Article 23 of the Electricity Industry Law, must remain under the ordinary regime.

Under Article 47 of Royal Decree 661/2007, the Ministry of Industry, Tourism and Commerce can allow this type of mini-hydroelectric plant, with output of 10MW or less, to charge a premium where there is sufficient investment committed to increasing the plant's generating capacity.

IBERDROLA RENOVABLES' power generation business under the special regime is regulated by Electricity Industry Law 54/1997 of 27 November and subsequent implementing regulations.

The regulatory framework to support renewable energies under the special regime established by Royal Decree 436/2004 was rescinded by Royal Decree 661/2007 in May 2007. This new Royal Decree modified the levels of remuneration, specified that energy derived from renewable sources should be given priority access to the network and guaranteed sales.

The main implications of this Royal Decree for the economic framework for electricity generation by subsidiaries of IBERDROLA RENOVABLES are the following:

- a) Owners of generating facilities coming on stream after 31 December 2007 must choose, for a period of at least one year, between the following two options:
  - Feeding the power to the grid through the transmission or distribution network at a regulated feed-in tariff expressed in euro cents per kilowatt-hour.
  - Selling energy to the power generation market at the price set in the organised market or a freely negotiated price by the owner of the plant at a premium in euro cents per kilowatt-hour. In this case, upper and lower limits ("ceilings" and "floors") are set for the aggregate price (the market price plus a premium), so that the premium decreases as the market price increases. At the same time, the lower limit guarantees minimum remuneration, regardless of the market price.  
Regulated tariff levels, ceilings and floors are updated in accordance with the annual CPI.

b) Installations which began operating before 31 December 2007 (except photovoltaic installations) have until 1 January 2009 to decide whether to continue operating under the regime set by Royal Decree 436/2004 or adopt the new remuneration framework. This Royal Decree establishes two remuneration schemes. Under the first scheme, the generator feeds electricity to the distributor at the pre-existing price set for this modality, without scope for future resetting. The second option consists of selling electricity onto the wholesale generation market at the prevailing price plus the incentive and premium provided for in said Royal Decree when the new legislation was published.

#### 4. APPROPRIATION OF PROFIT

The appropriation of 2008 profit proposed by the Board of Directors and which it expects to be approved at the Shareholders' Meeting is to pay a dividend of 2.5 euro cents per share on each of the 4,224,064,900 ordinary shares in circulation, giving a total dividend payment of EUR 105,601 thousand.

(Thousands of euros)	2008
Proposed appropriation	
Profit for the year	131,107
<hr/>	
Appropriation to:	
Legal reserve	13,111
Retained earnings	12,395
Dividends	105,601
	<b>131,107</b>

##### 4.1 Limitations on the distribution of dividends

IBERDROLA RENOVABLES is obliged to transfer 10% of the profit for the year to a legal reserve until this reserve reaches an amount at least equal to 20% of share capital. Unless the balance of the reserve exceeds this amount, it cannot be distributed to shareholders (Note 12).

Once the legal and company bylaw requirements have been met, dividends may only be distributed against profit for the year or, freely distributable reserves, if the value of equity is not lower than share capital or, would not become lower than share capital as a result of distributing dividends. Accordingly, profit recognised directly in equity cannot be directly or indirectly distributed. Where losses exist from previous years that reduce IBERDROLA RENOVABLES' equity to below the amount of share capital, profit must be allocated to offset these losses.

#### 5. RECOGNITION AND MEASUREMENT ACCOUNTING POLICIES

The main recognition and measurement accounting policies applied in the preparation of these financial statements are the following:

##### 5.1 Intangible assets

Intangible assets are initially measured at either acquisition or production cost.

Following initial measurement, they are stated at cost less accumulated amortisation and any impairment loss.

The "Intangible assets" in the balance sheet are all software applications and the item includes the costs of acquisition from third-parties. These costs are amortised on a straight-line basis over the useful life of the asset (four years).

Repairs which do not prolong the useful life of the assets and maintenance expenses are charged directly to the income statement as incurred.

## 5.2 Property, plant and equipment

Property, plant and equipment are initially measured at either acquisition or production cost.

Following initial measurement, they are stated at cost less accumulated depreciation and any recognised impairment loss.

The cost of technical electrical energy installations includes, in addition to their acquisition cost, all expenses inherent to these installations (research, authorisation, licences, permits, etc.) and to their manufacture and construction until they are put into use.

IBERDROLA RENOVABLES transfers work in progress to property, plant and equipment in use once the plant starts up.

The cost of assets with installation periods exceeding one year includes financial expenses accrued prior to putting the assets to use. Such costs meet the capitalisation requirements described above.

Repairs which do not prolong the useful life of the assets and maintenance expenses are charged directly to the income statement as incurred. Expenses incurred for expansion or improvements which increase the productivity or prolong the useful life of the asset are capitalised as an increase in the value of the assets.

In 2008, IBERDROLA RENOVABLES capitalised no finance costs under "Property, plant and equipment" as such costs were immaterial in scale.

When available for use, items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives.

The estimated useful lives of property, plant and equipment are as follows:

	Useful life
Buildings	50 years
Electricity technical plant	35 years
Other installations and other P,P&E	4-12 years

In the case of hydro-electric plants, as these facilities are operated under concessions, the depreciation of civil engineering assets is performed over the concession period, while electromechanical equipment is depreciated over 35 years, provided that this does not imply ongoing depreciation after the concession period has ended.

IBERDROLA RENOVABLES reviews the assets' residual value, useful lives and depreciation methods at year end and adjusts them prospectively where applicable.

## 5.3 Service concession arrangements for hydro-electric power plants

In accordance with Law 29/1985, of 2 August, partially amended by Law 46/1999, of 13 December, all Spanish hydro-electric power plants are subject to temporary service concession arrangements. According to the terms of these arrangements, upon expiration of the arrangement ownership of the plants, in full working condition, is transferred back to the government.

IBERDROLA RENOVABLES considers that there is no need to set up a reversion fund as the plants' maintenance programs ensure that they will continue to operate correctly.

## **5.4 Swaps**

For equipment acquired via swaps, IBERDROLA RENOVABLES assesses each transaction to determine whether the swap has the substance of a commercial swap.

When the transaction has commercial substance, the asset received is measured at the fair value of the asset given up, plus any monetary compensation where applicable, unless the fair value of the asset received is more evident. Valuation differences arising upon derecognition of the asset are recognised in the income statement.

When the exchange does not have commercial substance or when fair value cannot be reliably measured, the asset received is measured at the carrying amount of the asset given up, plus any monetary compensation, where applicable.

## **5.5 Impairment of non-financial assets**

IBERDROLA RENOVABLES assesses at each year end whether there is an indication that a non-current asset or, where applicable, a cash-generating unit may be impaired. If such an indication exists, and for goodwill and intangible assets with indefinite useful lives in all cases, the Company estimates the asset's recoverable amount.

The recoverable amount is the higher of the cash-generating unit's (CGU) fair value less cost to sell and value in use. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired. To assess value in use, expected future cash flows are discounted to their present value using risk free market rates, adjusted by the risks specific to the asset. For those assets that do not generate cash inflows that are largely independent of those from other assets or groups of assets, the recoverable amount is determined for the cash-generating units to which the asset belongs.

Impairment loss and its reversion are recognised in the income statement. An impairment loss is reversed if the circumstances giving rise to it have ceased to exist, except where it relates to goodwill. The reversal is limited to the carrying amount that would have been determined had no impairment loss been recognised for the asset.

The 2008 income statement includes a charge of EUR 72 thousand for these items. There was no charge for impairment loss in 2007 (Note 7).

## **5.6 Leases**

Leases are considered to be financial leases when, based on the economic terms of the arrangement, all risks and rewards incidental to ownership of the leased item are substantially transferred to the Company. All other lease arrangements are classified as operating leases.

Assets acquired under financial lease arrangements are recognised, based on their nature, at the fair value of the leased item or, if lower, the present value at the commencement of the lease of the minimum lease payments. A financial liability is recorded for the same amount. Lease payments are apportioned between finance charges and reduction of the lease liability. These assets are depreciated, impaired, and derecognised using the same criteria applied to assets of a similar nature.

Operating lease payments are recognised as expenses in the income statement when accrued.

## **5.7 Financial assets**

### Recognition and measurement

#### *Loans and receivables*

The Company recognises in this category trade and non-trade receivables, which include financial assets with fixed or determinable payments not quoted on active markets and for which IBERDROLA RENOVABLES expects to recover the full initial investment, except in cases of credit deterioration.



Upon initial recognition in the balance sheet, they are recognised at fair value, which, unless there is evidence to the contrary, is the transaction price, which is equivalent to the fair value of the consideration paid plus directly attributable transaction costs.

These financial assets are measured at amortised cost.

Nevertheless, non-trade receivables which mature within less than one year with no contractual interest rate, as well as advances and loans to personnel, receivable dividends and called-up payments on equity instruments, the amount of which is expected in the short term, are carried at nominal value both at initial and subsequent remeasurements, when the effect of not discounting cash flows is insignificant.

The difference between fair value and amounts paid for operating lease security deposits is recognised in the income statement as an advance lease payment over the lease term. When assessing the fair value of security deposits, the period remaining to the end of the lease is determined based on the minimum term as per the current lease agreement.

#### *Equity investments in group companies, jointly-controlled entities and associates*

This includes equity investments in companies in which the entity exercises control, joint control via bylaws or contractual arrangements, or has significant influence.

Upon initial recognition in the balance sheet, they are recognised at fair value, which, unless there is evidence to the contrary, is the transaction price, which is equivalent to the fair value of the consideration paid plus directly attributable transaction costs. In the case of non-monetary contributions to a group company for the purpose of a business, however, the investment is measured at the carrying amount of the assets constituting the business. The initial value includes preferential subscription and similar rights.

Following initial measurement, these financial assets are stated at cost, less any accumulated impairment loss.

When an investment is reclassified as an investment in a group company, joint venture or associate, cost value is deemed to be the asset's recognised carrying amount. Previously recognised value adjustments are then carried in equity until the investment is either sold or impaired.

#### *Hedging derivatives*

This category includes derivatives classified as hedging instruments.

Financial instruments which have been designated as hedging instruments are measured as indicated in Note 5.10.

#### Cancellation

Financial assets are derecognised when the contractual rights to related cash flows have expired or when the assets are transferred, provided that related risks and rewards are substantially transferred. This is assessed by comparing IBERDROLA RENOVABLES' exposure to the change in the amounts and schedule of net cash flows from the transferred asset before and after the transfer.

When IBERDROLA RENOVABLES has neither transferred nor retained substantially all the risks and rewards of the financial asset, the financial asset is derecognised when it has not retained control of the asset, which is determined based on the transferee's ability to transfer the asset. When IBERDROLA RENOVABLES retains control of the asset, it continues to recognise the asset at the amount of its exposure to changes in the fair value of the transferred asset; i.e. to the extent of its continuing involvement, and recognises the related liability.

When the financial asset is derecognised, the difference between the consideration received less directly attributable transaction costs, taking into account any new asset acquired less any liability assumed, and the carrying amount of the financial asset plus any cumulative amounts recognised directly in equity determines the related gain or loss and is recognised in the income statement in the year.

IBERDROLA RENOVABLES does not derecognise financial assets and recognises a financial liability at the amount of consideration received in transfers of financial assets where it retains substantially all the risks and benefits incidental to ownership, such as discounted bills of sale, “recourse factoring”, sales of financial assets under repurchase agreements at a fixed price or at the selling price plus a margin and securitisations of financial assets where the transferor retains subordinated financing or other types of guarantees that absorb substantially all the expected losses.

#### Interest and dividends received on financial assets

Interest and dividends on financial assets accrued subsequent to acquisition are recognised as income. Interest is recognised using the effective interest rate method and dividends when the right to receive payment is established.

Accordingly, upon initial measurement of the related financial assets, the explicit and unmatured interest accrued at that time and the dividends agreed by the competent body upon acquisition are recorded separately based on their maturity. Explicit interest refers to the contractual interest rate applied to the financial instrument.

When dividends paid explicitly from profits obtained prior to the acquisition date exceed profits generated by the investee since the acquisition, these dividends are not recognised as income, but are rather deducted from the carrying amount of the investment.

### **5.8 Impairment of financial assets**

IBERDROLA RENOVABLES adjusts the carrying amount of financial assets against the income statement when there is objective evidence of actual impairment.

To determine impairment loss, IBERDROLA RENOVABLES assesses the potential loss of individual as well as groups of assets with similar risk characteristics.

#### Equity instruments

There is objective evidence that equity instruments are impaired when one or more events have occurred after initial recognition that indicate that the cost of the investment in equity instruments may not be recovered due to a prolonged or significant decline in fair value. Accordingly, in all cases, IBERDROLA RENOVABLES considers that quoted equity instruments are impaired when their value has decreased over 18 months and by 40% of their initial quoted price without having recovered their initial value.

In the case of equity instruments measured at cost in Investments in group companies, jointly-controlled entities and associates, impairment loss is measured as the difference between the carrying amount of the financial asset and the recoverable amount. The recoverable amount is measured as the greater of the asset's fair value, less costs to sell, and the present value of future cash flows derived from the investment. Unless better evidence is available, impairment of this type of asset is estimated taking into account the equity of the subsidiary, adjusted by any unrealised capital gain existing on the measurement date. Such losses are recorded in the income statement as a direct decline in value of the equity instrument.

For investments in group companies, jointly-controlled entities and associates, the reversal of an impairment loss is recognised in the income statement and is limited to the carrying value of the investment that would have been recognised on the reversal date had the original impairment not occurred.

### **5.9 Financial liabilities**

#### Recognition and measurement

##### *Trade and other payables*

This includes financial liabilities generated by the purchase of goods and services arising from trade transactions, and non-trade payables that are not derivative instruments.

Upon initial recognition in the balance sheet, they are recognised at fair value, which, unless there is evidence to the contrary, is the transaction price, which is equivalent to the fair value of the consideration received, adjusted by directly attributable transaction costs.

Following initial recognition, these financial liabilities are measured at amortised cost. Interest is recognised in the income statement using the effective interest rate method.

However, trade payables maturing in less than a year without a contractual interest rate, as well as amounts due to third parties for capital calls expected to be paid in the short term, are measured both initially and subsequently at nominal value when the impact of not discounting cash flows is not material.

The difference between fair value and amounts received for operating lease security deposits is recognised in the income statement as an advance lease payment over the lease term. When assessing the fair value of security deposits, the period remaining to the end of the lease is determined based on the minimum term as per the current lease agreement.

#### *Hedging derivatives*

This category includes derivatives classified as hedging instruments.

Financial instruments which have been designated as hedging instruments are measured as indicated in Note 5.10.

#### *Non-hedging derivatives*

Derivatives that have been designated as non-hedging instruments are measured at fair value. Changes in fair value are recognised in the income statement.

#### Cancellation

IBERDROLA RENOVABLES derecognises a financial liability when the obligation under the liability is extinguished.

When a debt instrument is replaced by another on substantially different terms, the original liability is derecognised and the new liability is recognised. Similarly, substantial modifications in the terms of an existing financial liability are treated in the same way.

The difference between the carrying amount of the financial liability or part of the financial liability and the amount paid to extinguish the liability, including attributable transaction costs and any asset transferred other than cash or liability assumed, is recognised in the income statement for the period.

When the debt instrument is replaced by another on terms that are not substantially different, the original liability is not derecognised, and the carrying amount is adjusted for the fees paid. The amortised cost of the financial liability is determined using the effective interest rate method. The effective interest rate is the rate that matches the carrying amount of the financial liability at the date of modification with the cash flows payable under the new terms.

### **5.10 Hedge accounting**

Transactions are only deemed hedges when they eliminate efficiently any risk inherent to the hedged item or position throughout the duration of the hedge, which implies that at the inception of the contract, the hedging item is highly effective (prospective effectiveness) and there is sufficient evidence that the hedge will be effective throughout the life of the hedged item or position (retrospective effectiveness).

IBERDROLA RENOVABLES adequately documents the hedge, including how it intends to achieve and measure its effectiveness under its current risk management policy.

The hedge effectiveness is measured by testing to verify that the differences arising from changes in the value of the hedged item and the corresponding hedging instrument remain within a range of 80% to 125% over the remaining term to maturity, and comply with forecasts established at the related contract dates.

If at any time financial derivatives do not meet the conditions required to be considered hedges, they are to be reclassified as trading derivatives.

For the purpose of their measurement, non-hedging transactions are classified as:

- Fair value hedges: a hedge of the exposure to changes in the fair value of a recognised asset or liability or firm commitment. Changes in the fair value of the hedging instrument and the hedged item as a result of exchange differences are recognised in the income statement.
- Cash flow hedges: a hedge of the exposure to variability in cash flows that is either attributable to a specific risk associated with a recognised asset or liability or a highly probable forecast transaction of the foreign currency risk in a firm commitment. The portion of the gain or loss of the hedging instrument that is determined to be an effective hedge is recognised temporarily in equity; gains or losses are recognised in the income statement in the year or years in which the hedged item affects profit or loss.
- Hedges of a net investment in a foreign operation: a hedge of the exposure to foreign currency risk from investments in group companies, jointly-controlled entities and associates whose activities are conducted in a functional currency other than that used in the financial statements. Hedges of investments in group companies, jointly-controlled entities and associates are treated as fair value hedges for the foreign currency component.

Changes in value of the hedging instrument and the hedged item attributable to the risk being hedged are recognised in the income statement.

The hedge of the net investment in a foreign operation via a group company, jointly-controlled entity or associate, gives rise to an adjustment in the item representing the value of the investment, with a credit or debit to the income statement for the portion of the hedge meeting the criteria to be deemed effective.

IBERDROLA RENOVABLES' hedging transactions basically consist of cash-flow hedges for some foreign currency current accounts and borrowings and hedges of the net investments by its UK and US subsidiaries.

### **5.11 Treasury shares**

Treasury shares are recognised in equity as a decrease in "Capital and reserves" when acquired. No loss or gain is shown in the income statement on sale or cancellation. Expenses incurred in connection with transactions with treasury shares are recognised directly in equity as a decrease in reserves.

### **5.12 Inventories**

IBERDROLA RENOVABLES sells and supplies wind turbines to group companies and related parties through individual contracts. The Company records the costs incurred and prepayments to suppliers under "Inventories" in the accompanying balance sheet until all the conditions stated in Note 5.19 are met, at which point the sale is recognised under "Revenue – Rendering of services" in the income statement.

### **5.13 Cash and cash equivalents**

"Cash and cash equivalents" includes cash, current accounts, short-term deposits and purchases of assets under resale agreements which meet the following criteria:

- They are readily convertible to cash.
- They mature within less than three months from the acquisition date.
- The risk of change in value is insignificant.
- They are part of IBERDROLA RENOVABLES' standard cash management strategy.

In terms of the cash flow statement, occasional bank overdrafts used as part of the Company's cash management strategy are recognised as a decrease in cash and cash equivalents.

## **5.14 Provisions**

Provisions are recognised in the balance sheet when the IBERDROLA RENOVABLES has a present obligation (derived from a contract through its explicit or implicit terms, legislation or other operation of law) as a result of past events and it is probable that a quantifiable outflow of resources will be required to settle the obligation.

Provisions are measured at the present value of the best estimate of the amount that an entity would rationally pay to settle the obligation at the balance sheet date or to transfer it to a third party at that time, recognizing provision discount adjustments as a finance cost as they accrue. No discounts are made on those provisions falling due within twelve months that do not have a significant financial effect. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

## **5.15 Provisions for long-term employee benefits**

Contributions to defined contribution post-employment benefit plans are expensed under "Staff costs" on an accrual basis.

In the case of defined benefit plans, IBERDROLA RENOVABLES' policy is to recognise the related expense on an accrual basis over the working lives of the employees based on actuarial studies by independent experts using the projected unit credit method to measure the obligation accrued at the end of the period. Any actuarial gains and losses are recognised in "Other reserves" when they arise. The provision recognised in this connection represents the present value of the defined benefit obligation less the fair value of plan assets.

Where the fair value of the assets exceeds the present value of the obligation, the net asset is not recognised in the balance sheet unless it is virtually certain that it will be recovered.

## **5.16 Equity-settled transactions**

The delivery of IBERDROLA shares to employees as compensation for their services is recognised under "Staff costs" on the income statement as the workers perform the remunerated services, with a credit to "Other reserves" at the fair value of the equity instruments on the grant date, i.e., the date the IBERDROLA group and its employees reach an agreement establishing the terms of the share grant.

In the event of cash settled share-based payments linked to IBERDROLA RENOVABLES' share price, the payment is charged to "Staff costs" in the income statement and credited to "Non-current borrowings – Other financial liabilities" or "Current borrowings – Other financial liabilities" in the balance sheet. The fair value of the consideration is remeasured at each accounting close.

Either way, if the share delivery or cash payment become irrevocable, the IBERDROLA RENOVABLES group will immediately recognise the entire amount in full at the grant date.

## **5.17 Income tax expense**

IBERDROLA RENOVABLES files tax returns as part of the consolidated tax group headed by IBERDROLA. In consequence, taxable income, and tax credits and rebates are calculated jointly.

"Income tax expense" is calculated as the sum of current tax resulting from applying the corresponding tax rate to taxable profit for the year, less any applicable rebates and tax credits, taking into account changes during the year in recognised deferred tax assets and liabilities. The corresponding tax expense is recognised in the income statement, except when it relates to transactions recognised directly in equity, in which case the corresponding tax expense is likewise recognised in equity under the corresponding item.

Deferred income tax is recognised using the liability method on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts. The tax base of an asset or liability is the amount attributed to it for tax purposes.

The tax effect of temporary differences is included in "Deferred tax assets" or "Deferred tax liabilities" in the balance sheet, as applicable.

Deferred tax liabilities are recognised for all temporary differences, except where disallowed by prevailing tax legislation.

IBERDROLA RENOVABLES recognises deferred tax assets for all deductible temporary differences, unused tax credits and unused tax loss carry forwards, to the extent that it is probable that future taxable profit will be available against which these assets may be utilised, except where disallowed by prevailing tax legislation. At each financial year end, IBERDROLA RENOVABLES assesses the deferred tax assets recognised and those that have not yet been recognised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply at the time of the reversal based on tax laws enacted and on how it reasonably expects to recover the deferred tax asset or settle the deferred tax liability. Changes to the carrying amounts of deferred income tax assets and liabilities are recognised in the income statement, except where the related deferred tax assets and liabilities are recognised directly in equity.

Deferred tax assets and liabilities are not discounted and are classified as non-current assets or non-current liabilities, respectively.

#### **5.18 Classification of current and non-current assets and liabilities**

Assets and liabilities are classified in the balance sheet as current and non-current. Accordingly, assets and liabilities are classified as current when they are associated with IBERDROLA RENOVABLES' operating cycle and it is expected that they will be sold, consumed, realised or settled within the normal course of that cycle; if they differ from the aforementioned assets, and are expected to mature, to be sold or settled within one year; if they are held for trading or are cash and cash equivalents whose use is not restricted to one year.

The normal operating cycle for all IBERDROLA RENOVABLES' activities is less than one year.

#### **5.19 Income and expense**

Income and expenses are recognised at the moment the goods or services represented by them take place, regardless of when actual payment or collection occurs.

##### *Sales of goods and rendering of services*

Revenue from the sale of goods and rendering of services is recognised at the fair value of the related consideration received or receivable, less the amount of any discount, price reduction or similar granted by the Company, as well as the indirect taxes levied on the transactions which can be passed on to third parties. Interest on trade loans maturing in less than a year without a contractual interest rate is capitalised as an increase in "Revenue" as the impact of not discounting cash flows is not significant.

Revenue is recognised based on the economic substance of the transaction and is recognised when all of the following conditions are met:

- IBERDROLA RENOVABLES has transferred to the buyer the significant risks and rewards of ownership of the goods, regardless of the legal title;
- IBERDROLA RENOVABLES has relinquished managerial involvement to the extent usually associated with ownership and effective control over the goods;
- The amount of the revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to IBERDROLA RENOVABLES; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

In addition, revenue from the rendering of services is recognised when the outcome of the transaction can be estimated reliably, by reference to the stage of completion at the reporting date. When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are deemed recoverable.

## **5.20 Foreign currency transactions**

IBERDROLA RENOVABLES' functional and presentation currency is the euro.

Transactions in foreign currency are initially translated at the exchange rate prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange prevailing at the balance sheet date. All differences, gains and losses, originating in the translation process, including those arising from the settlement of balance sheet items, are taken to profit or loss for the year.

Non-monetary items measured at historical cost are translated at the exchange rate prevailing on the date of the transaction.

Non-monetary items measured at fair value are translated at the exchange rate prevailing when the fair value is determined. When a gain or loss on a non-monetary item is recognised directly in equity, any exchange component of that gain or loss shall be recognised directly in equity. Conversely, when a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss shall be recognised in the income statement.

## **5.21 Environmental assets and liabilities**

Expenses relating to decontamination and restoration work in contaminated areas, as well as the elimination of waste and other expenses incurred to comply with environmental protection legislation, are expensed in the year to which they relate, unless they correspond to purchases of assets incorporated in equity to be used over an extended period, in which case they are recognised in the corresponding line of "Property, plant and equipment" and depreciated using the same criteria.

## **5.22 Related party transactions**

Related-party disclosures are measured as described above, except for the following transactions:

- Non-monetary contributions to a group company are measured at the carrying value of the assets and liabilities constituting the business that is contributed.
- In mergers, spin-offs, and non-monetary contributions of a direct or indirect subsidiary, acquired assets are carried at the amount at which they are stated in the consolidated financial statements, once the transaction is completed. If the transaction is carried out with a group company which is not a direct or indirect subsidiary, acquired assets are measured at the carrying amount at which they were recognised prior to the transaction in the separate financial statements. Any differences are recognised in reserves.

## 6. INTANGIBLE ASSETS

The movements in the items composing "Intangible assets" are as follows:

<b>(Thousands of euros)</b>	<b>Balance at 1 January</b>	<b>Additions and allowances</b>	<b>Balance at 31 December</b>
<b>2008</b>			
Cost Software	12,471	3,211	15,682
Accumulated depreciation Software	(4,328)	(2,949)	(7,277)
<b>Net carrying value</b>	<b>8,143</b>	<b>262</b>	<b>8,405</b>
<b>2007</b>			
Cost Software	8,106	4,365	12,471
Accumulated depreciation Software	(2,200)	(2,128)	(4,328)
<b>Net carrying value</b>	<b>5,906</b>	<b>2,237</b>	<b>8,143</b>

### 6.1 Other information

At 31 December 2008, there were no firm commitments to acquire intangible assets.

Fully-amortised intangible assets at 31 December 2008 and 2007 amounted to EUR 2,371 thousand and EUR 648 thousand, respectively.



## 7. PROPERTY, PLANT AND EQUIPMENT

The movements in the items composing "Property, plant and equipment" are as follows:

(Thousands of euros)	Balance at 1 January	Additions and allowances	Disposals and reversal of an impairment loss	Transfers	Balance at 31 December
<b>2008</b>					
<b>Cost</b>					
Land	445	-	-	-	445
Buildings	248	2,505	-	-	2,753
Electricity technical plant:	192,955	-	-	8,221	201,176
Hydro-electric installations	191,017	-	-	1,166	192,183
Other installations	1,938	-	-	7,055	8,993
Other installations and other P, P&E	8,108	2,521	-	174	10,803
Electricity technical plant in progress:	6,975	2,719	-	(8,395)	1,299
Hydro-electric installations	551	1,160	-	(1,166)	545
Other installations	6,424	1,559	-	(7,229)	754
<b>Total cost</b>	<b>208,731</b>	<b>7,745</b>	-	-	<b>216,476</b>
<b>Accumulated depreciation</b>					
Buildings	(65)	(46)	-	-	(111)
Electricity technical plant:	(118,358)	(5,569)	-	-	(123,927)
Hydro-electric installations	(118,036)	(3,539)	-	-	(121,575)
Other installations	(322)	(2,030)	-	-	(2,352)
Other installations and other P,P&E	(4,175)	(1,252)	-	-	(5,427)
<b>Total accumulated depreciation</b>	<b>(122,598)</b>	<b>(6,867)</b>	-	-	<b>(129,465)</b>
Impairment losses	-	(72)	-	-	(72)
	-	(72)	-	-	(72)
<b>Net carrying value</b>	<b>86,133</b>	<b>806</b>	-	-	<b>86,939</b>
<b>2007</b>					
<b>Cost</b>					
Land	443	2	-	-	445
Buildings	131	130	(13)	-	248
Electricity technical plant:	190,848	-	(3)	2,110	192,955
Hydro-electric installations	189,103	-	(3)	1,917	191,017
Other installations	1,745	-	-	193	1,938
Other installations and other P,P&E	6,945	1,163	-	-	8,108
Electricity technical plant in progress:	5,450	3,635	-	(2,110)	6,975
Hydro-electric installations	-	2,468	-	(1,917)	551
Other installations	5,450	1,167	-	(193)	6,424
<b>Total cost</b>	<b>203,817</b>	<b>4,930</b>	<b>(16)</b>	-	<b>208,731</b>
<b>Accumulated depreciation</b>					
Buildings	(70)	(8)	13	-	(65)
Electricity technical plant:	(112,967)	(5,394)	3	-	(118,358)
Hydro-electric installations	(112,801)	(5,238)	3	-	(118,036)
Other installations	(166)	(156)	-	-	(322)
Other installations and other P,P&E	(2,991)	(1,184)	-	-	(4,175)
<b>Total accumulated depreciation</b>	<b>(116,028)</b>	<b>(6,586)</b>	<b>16</b>	-	<b>(122,598)</b>
<b>Net carrying value</b>	<b>87,789</b>	<b>(1,656)</b>	-	-	<b>86,133</b>

## 7.1 Operating leases

IBERDROLA RENOVABLES has arranged an operating lease on its Madrid offices with a third party outside the IBERDROLA group until 31 January 2011. The lease is automatically renewed if neither party notifies the other to the contrary.

The expense relating to this lease was EUR 1,096 thousand in 2008 and is recognised under “External services” on the income statement.

The future minimum payments under the non-cancellable operating lease at 31 December are as follows:

(Thousands of euros)	2008	2007
Up to one year	1,096	1,096
Between one and five years	3,008	4,104
	<b>4,104</b>	<b>5,200</b>

## 7.2 Other information

IBERDROLA RENOVABLES had acquired the following property, plant and equipment from group companies at 31 December:

(Thousands of euros)	2008	2007
Electricity technical plant		
Cost	105,770	104,604
Accumulated depreciation	(49,644)	(46,645)
	<b>56,126</b>	<b>57,959</b>

At 31 December 2008 and 2007 IBERDROLA RENOVABLES had firm purchasing commitments of EUR 1,252 thousand and EUR 2,230 thousand, respectively.

The value of fully depreciated items of property, plant and equipment in use at 31 December 2008 and 2007 was EUR 55,156 thousand and EUR 51,488 thousand, respectively.

IBERDROLA RENOVABLES has arranged insurance policies to cover the carrying amount of these assets.

## 8. LONG-TERM INVESTMENTS IN GROUP COMPANIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES

The movements in the items contributing to investments in group companies, jointly-controlled entities and associates are as follows:

(Thousands of euros)	Balance at 1 January	Exchange gains/ losses	Additions	Derecognition or reversal	Valuation of net investment hedge	Reclassification as current	Other	Balance at 31 December
<b>2008</b>								
Equity instruments	5,550,637	-	1,321,728	-	(164,594)	-	-	6,707,771
Receivables from group companies (Note 9.1)	1,127,013	38,563	664,885	(275,688)	-	(56,063)	-	1,498,710
Other financial assets (Note 9.1)	12,886	-	6,286	(2,000)	-	-	-	17,172
Impairment losses								
On investments in group companies and associates	(3,346)	-	(3,334)	-	-	-	60	(6,620)
	<b>6,687,190</b>	<b>38,563</b>	<b>1,989,565</b>	<b>(277,688)</b>	<b>(164,594)</b>	<b>(56,063)</b>	<b>60</b>	<b>8,217,033</b>
<b>2007</b>								
Equity instruments	479,630	-	5,089,090	(8,146)	(9,937)	-	-	5,550,637
Receivables from group companies (Note 9.1)	70,016	(11,157)	1,175,293	(49,979)	-	(57,160)	-	1,127,013
Other financial assets (Note 9.1)	34,975	-	899	(22,988)	-	-	-	12,886
Impairment losses								
On investments in group companies and associates	(1,850)	-	(1,496)	-	-	-	-	(3,346)
	<b>582,771</b>	<b>(11,157)</b>	<b>6,263,786</b>	<b>(81,113)</b>	<b>(9,937)</b>	<b>(57,160)</b>	<b>-</b>	<b>6,687,190</b>

A list of all group companies and associates as well as their key financial data are included in the Appendix.

### 8.1 Significant movements

The principal transactions in "Equity instruments" during 2008 were as follows:

- Increase in the share capital of Scottish Power Renewable Energy Holding Ltd. through the non-cash contribution of its stake in IBERDROLA Renewable Energies USA, Ltd. of EUR 213,733 thousand.
- Increase in the share capital of Scottish Power Renewable Energy Holding Ltd. of EUR 931,255 thousand.
- Acquisition of an additional 44.04% shareholding of ordinary shares and 49.93% of preference shares in Greek group C. Rokas, S.A., for EUR 163,766 thousand.
- Acquisition of a 50% additional shareholding in Eólicas de Euskadi for EUR 88,099 thousand.
- Capital increase by Iberdrola Renovables Francia S.A. of EUR 96,500 thousand wholly subscribed by IBERDROLA RENOVABLES.
- Acquisition of a 10% additional shareholding in Biovent Energía S.A. for EUR 18,213 thousand.
- Increase in the share capital of Iberdrola Renovables de México of EUR 11,508 thousand and subsequent sale of IBERDROLA RENOVABLES' entire shareholding in Parques Eólicos de México to Iberdrola Renovables de México.
- Other investments in Spain, Poland, Brazil and Hungary totalling EUR 23,898 thousand.

The main additions to “Equity instruments” in 2007 were as follows:

- Acquisition of the entire share capital of Scottish Power Renewable Energy Holding Ltd. through a EUR 4,779,395 thousand non-monetary capital increase (see Note 12).
- Capital increase by IBERDROLA Renewable Energies USA, Ltd. of EUR 131,342 thousand.
- Capital increase by Iberdrola Renovables Castilla y León, S.A of EUR 30,398 thousand.
- Capital increase by Iberdrola Renovables de Italia, S.p.A of EUR 16,593 thousand.
- Acquisition of an additional 2.8% shareholding in Greek group C. Rokas, S.A. for EUR 41,963 thousand.
- Other investments in Spain, France, Hungary and Mexico totalling EUR 74,449 thousand.

## 9. FINANCIAL ASSETS

The breakdown of financial assets, except for the investments in group companies, jointly-controlled entities and associates (Note 8), at 31 December is as follows:

(Thousands of euros)	Loans, derivatives and other financial assets	
	2008	2007
<b>Non-current financial assets</b>		
Loans and receivables	1,516,527	1,140,208
Derivatives	-	8,750
	<b>1,516,527</b>	<b>1,148,958</b>
<b>Current financial assets</b>		
Loans and receivables	4,707,813	4,588,353
Derivatives	288,865	6,193
	<b>4,996,678</b>	<b>4,594,546</b>

### 9.1 Loans and receivables

The breakdown of financial assets included in this category at 31 December is as follows:

(Thousands of euros)	2008	2007
<b>Non-current financial assets</b>		
Loans to group companies (Note 19.1)	1,498,710	1,127,013
Loans to third parties	393	18
Deposits given and prepayments	17,172	12,886
Derivatives (Note 14.1)	-	8,750
Other financial assets	252	291
	<b>1,516,527</b>	<b>1,148,958</b>
<b>Current financial assets</b>		
Trade and other receivables	188,470	249,310
Loans to group companies (Note 19.1)	275,050	104,051
Loans to third parties	-	2,854
Derivatives (Note 14.1)	288,865	6,193
Other financial assets	4,244,293	4,232,138
	<b>4,996,678</b>	<b>4,594,546</b>

### Loans to group companies

The breakdown of "Loans to group companies" at 31 December is as follows:

<b>(Thousands of euros)</b>	<b>2008</b>	<b>2007</b>
<b>Non-current</b>		
SPREHL (Scottish Power Renewable Energy Holding, Ltd)	706,078	667,515
Iberdrola Renovables Castilla La Mancha, S.A.U.	288,422	332,801
Iberdrola Renovables Portugal, S.A.	22,133	29,260
Iberdrola Renovables Castilla y León, S.A.	410,292	43,700
Biovent Energía, S.A.	52,079	44,963
Other group companies	19,706	8,774
	<b>1,498,710</b>	<b>1,127,013</b>

<b>(Thousands of euros)</b>	<b>2008</b>	<b>2007</b>
<b>Current</b>		
SPREHL (Scottish Power Renewable Energy Holding, Ltd)	27,388	6,018
Iberdrola Renovables Castilla La Mancha, S.A.U.	52,271	46,317
Iberdrola Renovables Portugal, S.A.	30,844	15,176
Iberdrola Energía Solar de Puertollano, S.A.	78,300	-
C.Rokas S.A.	26,021	-
Energiaki Alogorachis Anonimi Eteria	17,714	20,294
Other group companies	42,512	16,246
	<b>275,050</b>	<b>104,051</b>

The total amount receivable from Scottish Power Renewable Energy Holding Ltd derives from the capital increase made on 5 November 2007 (see Note 12), which was fully subscribed and paid in by IBERDROLA via the contribution of collection rights on a loan taken out in US dollars that IBERDROLA held with respect to Scottish Power Renewable Energy Holdings Ltd.. This loan accrues interest at LIBOR on 3M US dollar deposits plus 0.8% and matures in 2012.

Meanwhile, on 10 December 2007, IBERDROLA RENOVABLES signed a loan agreement with Iberdrola Energías Renovables de Castilla-La Mancha S.A.U. maturing in June 2012. The outstanding balance at 31 December 2008 was EUR 340,693 thousand. This loan bears interest at a rate equivalent to 6M Euribor plus 0.5%.

The receivable from Iberdrola Renovables Portugal, S.A. mainly comprises two credit lines with limits of EUR 30,000 thousand and EUR 22,900 thousand, respectively, of which the amounts drawn at 31 December 2008 were EUR 30,844 thousand and EUR 22,133 thousand, respectively. These loans pay interest at a rate equivalent to 3M Euribor plus 0.6% and 3M Euribor plus 0.75% and mature in February 2009 and September 2011, respectively.

The receivable from Iberdrola Renovables Castilla y León, S.A. comprises two subordinated credit lines with limits of EUR 87,217 thousand and EUR 60 million and amounts drawn of EUR 323,075 thousand and EUR 341,900 thousand, respectively, paying interest of 12-month Euribor plus 1.3% and 6M Euribor plus 0.9%, respectively. Both loans are due to mature in 2021.

The receivable from Biovent Energía S.A. relates to a subordinated loan granted in 2003 with a limit of EUR 270,700 thousand. This loan pays an interest rate equivalent to Euribor plus 0.75% and matures in June 2019.

The receivable from Iberdrola Energía Solar de Puertollano, S.A. relates to participating loan with a limit of EUR 121,500 thousand granted in 2007. The amount drawn down at 31 December 2008 was EUR 78,300 thousand. This loan pays an interest rate equivalent to 3M Euribor plus 1.00% and matures in August 2009.

The receivable from C. Rokas, S.A. relates to a loan agreement granted in July 2008 for up to EUR 25,600 thousand, of which EUR 26,021 thousand had been drawn down at 31 December 2008 plus interest pending settlement. This loan pays an interest rate equivalent to 6M Euribor plus 1.00% and matures in December 2009.

#### Trade and other receivables

The breakdown of "Trade and other receivables" at 31 December is as follows:

(Thousands of euros)	2008	2007
Receivable from group companies and associates (Note 19.1)	175,410	178,257
Other receivables	2,793	1,096
Receivables from employees	73	70
Current income tax assets (Note 15)	-	21,558
Other receivables from public administrations (Note 15)	10,194	48,329
	<b>188,470</b>	<b>249,310</b>

The only foreign currency receivable at 31 December 2008, relates to a balance of 335 thousand Polish zlotys, equivalent to EUR 102 thousand. At 31 December 2007 there were no foreign currency receivables outstanding.

#### Other financial assets

The breakdown of "Other financial assets" at 31 December is as follows:

(Thousands of euros)	31.12.08	31.12.07
Scottish Power Renewable Energy Holding, Ltd.	1,322,594	842,177
Iberdrola Renovables Castilla La Mancha, S.A.U.	579,918	690,953
Iberdrola Renovables Andalucía, S.A.U.	415,437	330,752
Ibernova Promociones, S.A.U.	389,685	339,012
Iberdrola Energías Renovables Galicia, S.A.U.	386,679	452,130
Iberdrola, S.A.	275,431	1,039,324
Iberdrola Renovables Aragón, S.A.	139,449	150,711
Energia Wiatrowa Karscino S.P. Z.O.O.Ewk	113,081	106,633
Iberdrola Renewables Polska, Sp. Zoo	90,984	-
Parques Ecologicos de Mexico	80,030	13,352
Perfect Wind S.A.S.	77,788	-
Ciener, S.A.U.	44,974	68,284
Kaptar Szeleromu, Kft	36,480	-
Iberdrola Renovables Italia, S.p.A.	29,609	938
Sistemas Energéticos Tacica De Plata S.A.	29,223	-
Sistemas Energéticos Nacimiento, S.A.	26,456	-
Iberdrola Energies Renouvelables, S.A.S.	19,945	153,781
Iberdrola Renewable Energies Ltd.	17,822	13,309
Parque Eólico Puerto de Malaga, S.L.	17,418	-
Cepe Carriere Martin	16,636	-
Sistemas Energéticos Altamira, S.A.	15,939	-
Iberdrola Regenerative Energíen, GMBH	14,643	29,206
Sistemas Energéticos S.A.S. La Higuera, S.A.	13,359	-
P.E. Talizat, S.A.S.	12,659	-
Windpark Jülicher Land	12,468	-
S.E. La Torrecilla, S.A.	10,802	-
S.E. Chandrexa. S.A.	10,773	-
Sistemas Energeticos La Linera S.A.	9,258	-
Other	34,751	1,542
<b>Total</b>	<b>4,244,291</b>	<b>4,232,104</b>

"Other financial assets" basically covers credit facilities granted to IBERDROLA RENOVABLES group companies at market rates to finance the group's expansion at home and internationally.

All these facilities have a duration of one year and can be tacitly extended for yearly periods unless they are cancelled by one of the parties

Most are denominated in euros and pay interest quarterly. The balance payable and/or receivable with IBERDROLA RENOVABLES accrues interest daily at a rate of 3M Euribor plus a margin of 20 basis points and 3M Euribor less a margin of 10 basis points, respectively.

IBERDROLA RENOVABLES has agreed two current account contracts with Scottish Power Renewable Energy Holding, Ltd, ("SPREHL") denominated in US dollars and pounds sterling. During the life of these contracts, the balances receivable by IBERDROLA RENOVABLES from SPREHL will accrue daily interest at 3M Libor USD and 3M Libor GBP respectively, plus a margin of 20 basis points. Balances payable will accrue daily interest at 3M Libor USD and 3M Libor GBP less a margin of 10 basis points.

## **10. INVENTORIES**

IBERDROLA RENOVABLES sells and supplies wind turbines to group companies and related parties through individual contracts. IBERDROLA RENOVABLES records billings received as "Prepayments to suppliers" under "Inventories" in the accompanying balance sheet until all the conditions indicated in Note 5.19 are met, at which point the sale is recognised under "Revenue – Rendering of services" in the income statement.

At 31 December 2008, the Company had firm commitments to purchase wind turbines amounting to EUR 52,312 thousand. Firm commitments to sell wind turbines to group companies at 31 December 2008 totalled EUR 335,403 thousand.

## **11. CASH AND CASH EQUIVALENTS**

"Cash and cash equivalents" includes all sight current accounts.

Cash on deposit at banks usually pays an interest rate similar to the market rate for overnight deposits. There are no restrictions on cash withdrawals for significant amounts and there are no substantial differences between the market value and the carrying value of cash and cash equivalents.

## **12. EQUITY – CAPITAL AND RESERVES**

### **12.1 Issued capital**

During 2006 and until 3 October 2007, the IBERDROLA RENOVABLES group's share capital consisted of 16,460,044 bearer shares with a nominal value of EUR 10 each, fully subscribed and paid by IBERDROLA.

On 22 May 2007, the Board of Directors of IBERDROLA resolved to initiate an initial public offering to place 20% of the share capital of IBERDROLA RENOVABLES on the market.

As part of this process, on 3 October 2007 IBERDROLA fully subscribed an increase in the share capital of IBERDROLA RENOVABLES, through the issue of 133,539,956 new shares, each with a nominal value of EUR 10. The total amount of the increase was EUR 5,208,833 thousand. To pay for this increase, IBERDROLA contributed to IBERDROLA RENOVABLES the entire share capital of Scottish Power Renewable Energy Holding Ltd, which owns the following SCOTTISH POWER business lines:

- Renewable energies in the UK
- Renewable energies in the US
- Gas storage in the US
- Electricity and gas supply and trading in the US
- Thermal electricity generation in the US

Subsequently, to enable the initial public offering to take place, on 5 November 2007 IBERDROLA subscribed another capital increase in IBERDROLA RENOVABLES, in which 18,962,596 new shares were issued, each with a nominal value of EUR 10 and share premium of EUR 25.79. This capital increase, with a total value of EUR 678,671 thousand, was paid by IBERDROLA via the contribution of collection rights that IBERDROLA held with respect to ScottishPower Renewable Energy Holdings Ltd.

On the same date, a resolution was passed to split the number of IBERDROLA RENOVABLES shares to give a new total of 3,379,251,290, via a reduction in their nominal value from EUR 10 to EUR 0.50.

On 12 December 2007 the capital increase relating to the initial public offering mentioned above was carried out: 844,812,980 shares were issued, each with a nominal value of EUR 0.50 and a share premium of EUR 4.80. The total amount of the transaction was EUR 4,477,508 thousand, of which EUR 422,406 thousand relates to the nominal value of issued shares and EUR 4,055,102 thousand to the share premium.

Therefore, on 31 December 2007 and 2008, the share capital of IBERDROLA RENOVABLES amounted to EUR 2,112,032 thousand represented by 4,224,064,900 shares, each with a nominal value of EUR 0.50. These shares are listed on the Spanish Continuous Market and have been included in the Ibex-35 index since 4 February 2008.

As the IBERDROLA RENOVABLES group considers that all the costs involved in the initial public offering were incurred for the purpose of carrying out a capital increase, that the resulting new shares were placed on the market, and that the ultimate aim of the operation was under no circumstances to float the remaining 80% of the shares, which remain under the stable ownership of IBERDROLA, these costs, which total EUR 143,022 thousand, have been recognised, net of tax, under "Share premium" in the balance sheet.

On 31 December 2008, IBERDROLA held 80% of the shares in IBERDROLA RENOVABLES. According to the public information available to IBERDROLA RENOVABLES no other shareholder owned more than 3% of the shares on this date.

The IBERDROLA RENOVABLES group's main capital management objectives are to ensure short-term and long-term financial stability, appreciation of its shares, suitable investment financing and a reduction of its leverage.

The general policy of IBERDROLA RENOVABLES has been to finance its expansion and the ordinary development of its businesses mainly via financing received from its shareholder, IBERDROLA, which enjoys strong credit ratings (A3 Moody's, A- S&P), helps it maximise the value of its businesses and guarantees the financial strength of the IBERDROLA RENOVABLES group.

The purpose of the capital increase in December 2007 was to reduce debt owed to IBERDROLA and ultimately to finance its expansion plan.

## **12.2 Share premium**

The revised text of the Spanish Corporation Law expressly permits the use of the share premium account balance to increase capital and does not establish any restrictions as to its use.

## **12.3 Legal reserve**

Under the revised Spanish Corporation Law, 10% of income for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of share capital.

The legal reserve, currently standing at EUR 33,082 thousand, can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount. Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.



## 12.4 Treasury shares

Movements in “Treasury shares” held by the Company during 2008 and 2007 were as follows:

	No. of shares	Amount (thousands of euros)
<b>Balance at 31 December 2007</b>	-	-
Acquisitions	22,880	64,467
Disposals	(22,880)	(64,467)
<b>Balance at 31 December 2008</b>	-	-

IBERDROLA RENOVABLES obtained EUR 2,706 thousand from the sale of treasury shares in 2008, which was recognised under “Other Reserves” in the Balance Sheet at 31 December 2008.

In 2007 no transactions with treasury shares were carried out.

## 12.5 Equity – Net unrealised gains/(losses) reserve

The movements in the items composing the “Net unrealised gains/(losses) reserve” are as follows:

(Thousands of euros)	Balance at 1 January	Valuation adjustment	Tax effect of additions	Balance at 31 December
<b>2008</b>				
Cash flow hedges (Note 14.1)				
Currency forward	3,983	(2,818)	845	2,010
	<b>3,983</b>	<b>(2,818)</b>	<b>845</b>	<b>2,010</b>
<b>2007</b>				
Cash flow hedges (Note 14.1)				
Currency forward	-	5,690	(1,707)	3,983
	-	<b>5,690</b>	<b>(1,707)</b>	<b>3,983</b>

## 12.6 Share-based payment plans

In 2008, the IBERDROLA RENOVABLES Board of Directors approved an incentive plan for certain employees called the 2008-2010 Strategic Bonus, which is designed to incentivise the achievement of the targets set out in the IBERDROLA RENOVABLES group’s strategic plan for 2008 to 2010. The main features of this plan are as follows:

- i) It is linked to the achievement of a series of targets defined in the 2008-2010 Strategic Plan.
- ii) In principle, it will be paid entirely in shares. In certain circumstances, and subject to the prior approval of the Appointments and Remuneration Committee, it may be paid in cash.
- iii) Shares will be delivered on three dates, prior to 30 March 2011, 2012 and 2013. Plan beneficiaries must be still be working in the IBERDROLA RENOVABLES group on these dates in order to qualify for the incentive payment.

At 31 December 2008 the “Staff costs” heading of the 2008 income statement includes costs of EUR 3,895 thousand accrued under this incentive plan. This is recognised under “Other equity instruments”.

Furthermore, in October 2007, the Board of Directors of IBERDROLA RENOVABLES approved a share-based payment plan involving the award of IBERDROLA RENOVABLES shares as part of its IPO. The aim of this plan is to reward those employees of IBERDROLA RENOVABLES that have in the past made a particular contribution to the creation of value, the management and governance of IBERDROLA RENOVABLES and involves the award of a specific number of IBERDROLA RENOVABLES shares, in equal parts every year for three years subsequent to March 2008. The maximum aggregate number of shares that each beneficiary of the plan will be entitled to receive is 1,700,000.

### 13. PROVISIONS AND CONTINGENCIES

#### 13.1 Provisions

The breakdown of "Provisions" at 31 December is as follows:

(Thousands of euros)	Non-current	Current	Total
<b>2008</b>			
Provisions for employee benefits			
Free electricity	485	-	485
Long-service bonuses	655	-	655
Other	8,101	-	8,101
	<b>9,241</b>		<b>9,241</b>
<b>2007</b>			
Provisions for employee benefits			
Free electricity	149	-	149
Long-service bonuses	128	-	128
Other	772	3	775
	<b>1,049</b>	<b>3</b>	<b>1,052</b>

#### Provisions for employee benefits

Each year IBERDROLA RENOVABLES estimates, based on an independent actuarial report, the payments for pensions and similar benefits that it will have to meet in the coming year. These are recognised as current liabilities in the balance sheet.

#### a) Defined benefit plans and other non-current employee benefits

IBERDROLA RENOVABLES also maintains a provision against certain commitments to its employees, which are covered by internal funds linked to social security benefits, consisting mainly of free electricity for retired employees and other non-current benefits basically long-service bonuses for serving employees.

The movement in provisions for the commitments detailed in the previous section in 2008 and 2007 is as follows:

(Thousands of euros)	Free electricity	Long-service bonuses
<b>Balance at 1 January 2007</b>	<b>64</b>	<b>-</b>
Normal cost (Note 16.2)	82	128
Finance cost (Note 16.5)	3	-
<b>Balance at 31 December 2007</b>	<b>149</b>	<b>128</b>
Normal cost (Note 16.2)	54	46
Finance cost (Note 16.5)	9	7
Actuarial differences		
in the income statement (Note 16.2)	12	479
in reserves	261	-
Payments and other	-	(5)
<b>Balance at 31 December 2008</b>	<b>485</b>	<b>655</b>

The main assumptions applied in the actuarial reports that determined the provisions needed to meet the abovementioned commitments at 31 December 2008 and 2007 are as follows:

	2008			2007		
	Discount rate	Wage increase rate	Mortality tables	Discount rate	Wage increase rate	Mortality tables
Long-service bonuses and free electricity	4.75% / 4.85%	2.50%	PERM/F 2000P	4.50%	2.50%	PERM/F 2000P

b) Defined contribution plan

The active employees of IBERDROLA RENOVABLES and employees who have retired since 9 October 1996 and are members of the IBERDROLA RENOVABLES pension plan, are covered by an occupational, defined-contribution retirement pension system independent of the social security system.

In accordance with this system and IBERDROLA RENOVABLES' effective collective labour agreement, the periodic contribution to be made is calculated as a percentage of the annual pensionable salary of each employee, except for employees joining the Company after 1 January 1996, who are subject to a contributory system where the Company pays 1/3 and the employee 2/3. IBERDROLA RENOVABLES funds these contributions for all its current employees.

IBERDROLA RENOVABLES' contributions in 2008 and 2007 were EUR 490 thousand and EUR 789 thousand, respectively, and are recognised under "Staff costs" in the accompanying income statement.

c) Other

The movement and breakdown of provisions for taxes and other provisions in the balance sheet in 2008 and 2007 is as follows:

Thousands of euros	
<b>Balance at 1 January 2007</b>	<b>1,222</b>
Allowances	184
Provisions applied and payments	(634)
<b>Balance at 31 December 2007</b>	<b>772</b>
Allowances	8,336
Provisions applied and payments	(1,007)
<b>Balance at 31 December 2008</b>	<b>8,101</b>

"Other provisions" basically comprises the unpaid portion of compensation stipulated in the bylaws and a provision to meet regulatory fees from prior years and other taxes.

### 13.2 Contingencies

IBERDROLA RENOVABLES does not have the documentation confirming that it has all the municipal licences required to operate its oldest mini-hydroelectric plants.

IBERDROLA RENOVABLES has begun a process to remedy this situation and identified the licences that it needs to obtain for each plant. City councils grant municipal licences based on objective, and not purely discretionary, criteria relating to compliance with certain legal requirements. The Company does not expect to incur significant costs in remedying the situation, as the fees charged by city councils for issuing the licences are not high.

## 14. FINANCIAL LIABILITIES

The breakdown of “Financial liabilities” at 31 December is as follows:

(Thousands of euros)	Derivatives and other financial liabilities	
	2008	2007
<b>Non-current financial liabilities</b>		
Trade and other payables	2,123,128	50,374
Derivatives	74,060	-
	<b>2,197,188</b>	<b>50,374</b>
<b>Current financial liabilities</b>		
Trade and other payables	1,042,691	1,262,984
Derivatives	32,763	20
	<b>1,075,454</b>	<b>1,263,004</b>
	<b>3,272,642</b>	<b>1,313,378</b>

The breakdown of financial liabilities included in “Derivatives and other financial liabilities” at 31 December is as follows:

(Thousands of euros)	2008	2007
Non-current		
Borrowings from group companies and associates (Note 19.1)	2,173,390	45,751
Derivatives	21,472	-
Other financial liabilities	2,326	4,623
	<b>2,197,188</b>	<b>50,374</b>
Current		
Payables to group companies and associates (Note 19.1)	801,772	918,203
Trade and other payables	247,214	332,425
Derivatives	1,890	20
Other financial liabilities	24,578	12,356
	<b>1,075,454</b>	<b>1,263,004</b>

### Borrowings from group companies and associates

The breakdown of “Borrowings from group companies and associates” at 31 December is as follows:

(Thousands of euros)	2008	2007
Non-current		
Iberdrola S.A.	2,095,511	-
Gamesa Eólica, S.A.	28,600	36,746
Ecobarcial, S.A.	26,650	-
Iberdrola Energía Solar de Puertollano, S.A.	13,185	4,063
Other group companies	9,444	4,942
	<b>2,173,390</b>	<b>45,751</b>
Current		
Iberdrola S.A.	712,561	917,337
Gamesa Eólica, S.A.	62,114	-
Eólicas de Euskadi, S.A.	25,366	-
Other group companies	1,731	866
	<b>801,772</b>	<b>918,203</b>

At 31 December 2008 IBERDROLA RENOVABLES maintained a long-term credit line with IBERDROLA from which it had drawn down EUR 2,042,923 thousand. It also maintained current accounts denominated in euros and foreign currencies totalling EUR 681,688 thousand and derivatives hedging net investments in foreign operations and cash flow hedges with a fair value at 31 December 2008 of EUR 52,588 thousand and EUR 30,873 thousand, respectively.

The principal financial agreements between IBERDROLA RENOVABLES and IBERDROLA are as follows:

On 20 November 2007, the Board of Directors of IBERDROLA RENOVABLES passed a resolution to enter into a long-term financing contract with IBERDROLA for a maximum of EUR 2 billion (or its equivalent in US dollars or sterling). The interest on this financing can be of two types (at IBERDROLA RENOVABLES' option), either (i) fixed (based on the swap rate on Reuters' ICAP8 screen) or (ii) variable (based on Euribor for euro drawings or Libor for US dollar or sterling drawings) plus a margin of 0.95% annually. The financing will be repaid in one single repayment in seven years (or earlier under certain circumstances set out in the contract).

On 29 December 2008, in accordance with the above-mentioned loan agreement, IBERDROLA RENOVABLES had drawn down EUR 2 billion in euros, US dollars and sterling, recognised under "Non-current liabilities – Borrowings from group companies and associates".

On 2 November 2007 IBERDROLA RENOVABLES arranged three new current account contracts with IBERDROLA, denominated in euros, US dollars and sterling, respectively, to replace the existing ones, as part of the new arrangements for financing subsidiaries via IBERDROLA RENOVABLES. During the life of these contracts, the balances payable by IBERDROLA RENOVABLES to IBERDROLA will accrue daily interest at 3M Euribor, 3M Libor USD and 3M Libor GBP respectively, plus a margin of 20 basis points. Balances receivable will accrue daily interest at 3M Euribor, USD 3M Libor and GBP 3M Libor respectively, less a margin of 10 basis points.

On 10 December 2007, IBERDROLA RENOVABLES arranged a new current account contract with IBERDROLA, denominated in Polish zlotys. During the life of this contract, the balance payable and/or receivable between IBERDROLA RENOVABLES with IBERDROLA will accrue daily interest at 3M Wibor plus a margin of 20 basis points and 3M Wibor less a margin of 10 basis points, respectively.

On 8 April 2008, IBERDROLA RENOVABLES arranged a new current account contract with IBERDROLA, denominated in Hungarian florins. During the life of this contract, the balance payable and/or receivable between IBERDROLA RENOVABLES with IBERDROLA will accrue daily interest at 3M Bubor plus a margin of 40 basis points and 3M Bubor less a margin of 10 basis points, respectively.

These current account contracts have a duration of one year and can be tacitly extended for yearly periods unless cancelled by one of the parties.

The balance of "Non-current liabilities – Borrowings from group companies and associates" with Gamesa Eólica, S.A. relates to an agreement signed between IBERDROLA RENOVABLES and the Gamesa group in 2002, under which the latter committed to buy stakes in a number of wind farm companies.

Under current payables, the balance of "Current liabilities - Payables to group companies and associates" with Gamesa Eólica, S.A. of EUR 62,114 thousand, basically includes the outstanding amounts payable at 31 December 2008 for the purchase of the wind turbines used in the wind developments.

Other current payables to group companies mainly consist of current account contracts to support the expansion of other group companies that also have receivable balances with IBERDROLA RENOVABLES.

## Derivatives

The breakdown of items contributing to “Derivatives” at 31 December 2008 and 2007 is as follows:

(Thousands of euros)	2008				2007			
	Current		Non-current		Current		Non-current	
With third parties outside the group	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
<b>HEDGES</b>	288,127	32,763	-	52,588	6,193	16	8,750	-
<b>FOREIGN CURRENCY HEDGES</b>	34,551	32,763	-	-	(3,744)	16	8,750	-
<b>Cash flow hedges</b>								
- Currency forwards	34,551	32,763	-	-	(3,744)	16	8,750	-
<b>HEDGES OF A NET INVESTMENT IN A FOREIGN OPERATION:</b>	253,576	-	-	52,588	9,937	-	-	-
<b>Cash flow hedges</b>								
- Currency forwards	253,576	-	-	52,588	9,937	-	-	-
<b>NON-HEDGING DERIVATIVES</b>	738	-	-	21,472	-	4	-	-
<b>Derivatives on own shares</b>								
- Options	738	-	-	21,472	-	-	-	-
<b>Interest rate derivatives</b>								
- Interest rate swap	-	-	-	-	-	4	-	-
	<b>288,865</b>	<b>32,763</b>	<b>-</b>	<b>74,060</b>	<b>6,193</b>	<b>20</b>	<b>8,750</b>	<b>-</b>

The maturity schedule of the notional underlyings of derivative instruments contracted by IBERDROLA RENOVABLES and outstanding at 31 December 2008 is as follows:

(Thousands of euros)	2009	2010	2011
<b>Hedging derivatives:</b>	<b>2,170,343</b>	<b>1,356,070</b>	<b>-</b>
<b>Foreign currency hedges</b>	<b>886,431</b>	<b>-</b>	<b>-</b>
Cash flow hedges			
- Currency forwards	886,431	-	-
<b>Hedges of net investment in a foreign operation</b>	<b>1,283,912</b>	<b>1,356,070</b>	<b>-</b>
Cash flow hedges			
- Currency forwards	1,283,912	1,356,070	-
<b>Non-hedging derivatives:</b>	<b>8,246</b>	<b>-</b>	<b>56,965</b>
<b>Derivatives on own shares</b>			
- Options	8,246	-	56,965
<b>TOTAL DERIVATIVES</b>	<b>2,178,589</b>	<b>1,356,070</b>	<b>56,965</b>

IBERDROLA RENOVABLES uses derivatives as foreign currency hedges to offset the potential negative effects that fluctuations in exchange rates could have on foreign currency loans and current accounts. The nominal value of the liabilities for which foreign currency hedges have been arranged is as follows:

Type of hedge	2008			2007
	Thousands of pounds sterling	Thousands of US dollars	Thousands of Polish zlotys	Thousands of US dollars
Cash flow	135,000	1,023,205	21,000	998,000

IBERDROLA RENOVABLES also hedges net investments in foreign operations to offset exchange rate effects on its direct stake in subsidiary Scottish Power Renewables Energy Holding, Ltd.

Also, the US dollar credit line open with its controlling shareholder IBERDROLA hedges the foreign currency risk on the subsidiaries of Scottish Power Renewables Energy Holding, Ltd. whose functional currency is US dollars.

The nominal value of the assets hedged against net investment in foreign operations is as follows:

Type of hedge	2008		2007
	Thousands of pounds sterling	Thousands of US dollars	Thousands of US dollars
Cash flow hedges	879,000	2,098,771	148,771

#### Trade and other payables

The breakdown of "Trade and other payables" at 31 December is as follows:

(Thousands of euros)	2008	2007
Suppliers, group companies and associates (Note 19.1)	72,652	298,764
Other payables	15,122	29,838
Employee benefits payable	1,842	2,227
Current income tax liabilities (Note 15)	14,509	1,596
Other payables to public administrations (Note 15)	1,307	-
Customer advances	141,782	-
	<b>247,214</b>	<b>332,425</b>

## 15. TAXES

IBERDROLA RENOVABLES files a consolidated tax return, having formed part of tax group 2/86, headed by IBERDROLA, since its incorporation.

In past years, IBERDROLA RENOVABLES was involved in a series of corporate restructuring moves under the tax regime provided for under Chapter VIII, Title VII of the Spanish Revised Corporate Income Tax Law enacted by Legislative Royal Decree 4/2004 of 5 March. The disclosures required under this law are provided in the notes to the financial statements of the years in which the transactions took place.

The reconciliation between the parent company's accounting profit and its taxable profit for income tax purposes in 2008 and 2007 is as follows:

(Thousands of euros)	2008	
	Increase/decrease in income statement	Increase/decrease in income and expense recognised directly in equity
Income and expense for the year before tax	181,136	5,325
Permanent differences	675	(2,766)
Temporary differences		
- Arising in the year	12,710	(2,559)
- Arising in prior years	-	(108,890)
<b>Taxable profit</b>	<b>194,521</b>	<b>(108,890)</b>

<b>2007</b>		
<b>(Thousands of euros)</b>	<b>Increase/decrease in income statement</b>	<b>Increase/decrease in income and expense recognised directly in equity</b>
Income and expenses for the year before tax	95,796	(148,824)
Permanent differences	(8,762)	-
Temporary differences		
- Arising in the year	(27,138)	148,824
<b>Taxable profit</b>	<b>59,896</b>	<b>-</b>

The difference between the tax expense recognised in 2008 and 2007 and the tax payable for each year is recognised under "Deferred tax assets" and "Deferred tax liabilities" in the balance sheet at 31 December 2008 and 2007 and arises mainly as a result of the following:

- Temporary differences derived from the differences in accounting and tax criteria for recognising certain allocations to other provisions.
- Temporary differences associated with the tax treatment of the financial goodwill generated in the acquisition of securities relating to holdings in non-resident entities.

IBERDROLA RENOVABLES does not consider that the twenty-eighth additional provision to Law 4/2008 (integration of accounting adjustments made for first-time application of the new Spanish accounting principles in taxable profit) will have any material effect on the tax expense for the year.

The breakdown between current and deferred income tax is as follows:

<b>2008</b>		
<b>(Thousands of euros)</b>	<b>Income statement</b>	<b>Income and expense recognised directly in equity</b>
Effective tax expense	50,029	768
Detail:		
- Current	53,842	(32,667)
- Deferred	(3,813)	33,435

<b>2007</b>		
<b>(Thousands of euros)</b>	<b>Income statement</b>	<b>Income and expense recognised directly in equity</b>
Effective tax expense	(11,273)	(44,647)
Detail:		
- Current	(19,414)	-
- Deferred	8,141	(44,647)



The accrued corporate income tax expense for 2008 was calculated as follows:

(Thousands of euros)	2008	2007
Accounting profit before tax	181,136	95,796
Permanent differences	675	(8,762)
<b>Adjusted accounting profit</b>	<b>181,811</b>	<b>87,034</b>
Gross tax payable	54,543	28,286
Tax credits (a)	(4,550)	(42,912)
Effect of consolidated taxation:		
- Intergroup dividends (b)	-	(35,126)
- Provision for securities (c)	-	4,600
- Correction to tax credits (b)	-	35,126
Correction to tax rate (d)	-	(823)
Other (e)	36	(424)
<b>Income tax</b>	<b>50,029</b>	<b>(11,273)</b>

The breakdown of "Receivables from public administrations" and "Other payables to public administrations" in IBERDROLA's balance sheet at 31 December 2008 and 2007 is as follows:

(Thousands of euros)	2008	2007
<b>Receivables from public administrations</b>		
VAT receivable	6,013	47,986
Receivable for tax withholdings	3,087	21,558
Tax withholdings and prepayments	1,068	-
Sundry tax receivables	6	343
Social security tax receivable	20	-
	<b>10,194</b>	<b>69,887</b>
<b>Payables to public administrations</b>		
Tax withholdings payable	598	776
Other tax payables	-	64
Social security payable	709	756
Income tax payable	14,509	-
	<b>15,816</b>	<b>1,596</b>

The movement in "Deferred tax assets" and "Deferred tax liabilities" in 2008 and 2007 is as follows:

(Thousands of euros)	01.01.08	Credit (charge) to income statement	Credit to "Other reserves" and others	Credit (charge) to "Unrealised gains/losses reserve"	Other	31.12.08
<b>Deferred tax assets:</b>						
Measurement of derivative financial instruments:	1,707	-	-	35	-	1,742
Cash flow hedges	-	-	-	-	-	-
Pensions and other similar obligations	232	3,755	78	-	-	4,065
Costs related to the initial public offering	42,466	-	-	-	(42,466)	-
Tax credits for loss carryforwards and other tax credits	42	-	-	-	-	42
Other deferred tax assets	63	321	956	-	(259)	1,081
	<b>44,510</b>	<b>4,076</b>	<b>1,034</b>	<b>35</b>	<b>(42,725)</b>	<b>6,930</b>

(Thousands of euros)	01.01.07	Credit (charge) to income statement	Credit to "Other reserves"	Credit (charge) to "Unrealised gains/losses reserve"	31.12.07
<b>Deferred tax assets:</b>					
Measurement of derivative financial instruments:					
Cash flow hedges	-	-	-	1,707	1,707
Pensions and similar commitments	23	209	-	-	232
Costs related to the initial public offering	-	-	42,466	-	42,466
Tax loss and tax credit carryforwards	29	13	-	-	42
Other deferred tax assets	773	(223)	(487)	-	63
	<b>825</b>	<b>(1)</b>	<b>41,979</b>	<b>1,707</b>	<b>44,510</b>

(Thousands of euros)	01.01.08	Charge/(credit) to income statement	Credit (charge) to "Unrealised gains/losses reserve"	Other	31.12.08
<b>Deferred tax liabilities</b>					
Measurement of derivative instruments:					
Cash flow hedges	-	-	845	-	845
Other deferred tax liabilities	10,572	257	35	(10,058)	806
	<b>10,572</b>	<b>257</b>	<b>880</b>	<b>(10,058)</b>	<b>1,651</b>

(Thousands of euros)	01.01.07	Charge/(credit) to income statement	Credit to "Other reserves"	31.12.07
<b>Deferred tax liabilities</b>				
Other deferred tax liabilities		3,420	8,141	10,572
		<b>3,420</b>	<b>8,141</b>	<b>10,572</b>

In general, IBERDROLA RENOVABLES has 2005 and subsequent years open for review by the tax inspection authorities for the main taxes applicable to it, except for corporate income tax, for which 2004 and subsequent years are open.

IBERDROLA RENOVABLES' Directors and tax advisors consider that no significant liabilities would arise for the Company in the event of a review of the years open to inspection or as a result of the matters mentioned in the paragraphs above:

- In a letter dated 10 October 2007, the European Commission notified Spain of its decision to invoke the procedure provided for in Article 88, section 2 of the EU Treaty (state aid) in connection with the provisions of article 12.5 of the revised Corporate Income Tax Law.
- The UK tax authorities (HMRC) and the US Internal Revenue Service have reviewed tax matters in relation to certain financing transactions undertaken between the subgroups Scottish Power Ltd and Iberdrola Renewables Holding Inc. (previously PacifiCorp Holdings Inc.). IBERDROLA believes that the potential contingent liabilities relating to the tax risk described above are adequately provisioned.

The breakdown of balances relating to income tax assets and liabilities at 31 December is as follows:

<b>(Thousands of euros)</b>	<b>2008</b>	<b>2007</b>
Deferred tax assets	6,930	44,510
Current income tax assets	-	21,558
Other receivables from public administrations	10,194	48,329
	<b>17,124</b>	<b>114,397</b>
Deferred tax liabilities	1,651	10,572
Current tax liabilities	14,509	1,596
Other payables to public administrations	1,307	-
	<b>17,467</b>	<b>12,168</b>

## **16. INCOME AND EXPENSE**

### **16.1 Revenue**

“Sale of goods” in the income statement includes income from the sale of electricity generated by IBERDROLA RENOVABLES.

“Rendering of services” in the income statement basically relates to billings for the sale of wind turbines to group subsidiaries.

### **16.2 Social security costs**

The detail of this heading is the following:

<b>(Thousands of euros)</b>	<b>2008</b>	<b>2007</b>
Social security	12,977	6,683
Vested pensions	951	672
Other employee welfare expenses	724	820
	<b>14,652</b>	<b>8,175</b>

### **16.3 External services**

The detail of this heading is the following:

<b>(Thousands of euros)</b>	<b>2008</b>	<b>2007</b>
Leases	5,352	2,490
Repairs and maintenance	12,296	9,658
Independent professional services	7,340	5,300
Transportation services	105	68
Insurance premiums	780	697
Management fee charged by IBERDROLA	26,427	4,154
Travel expenses	5,007	4,466
Utilities	246	275
Other services	13,768	18,559
	<b>71,321</b>	<b>45,667</b>

## 16.4 Finance income

The breakdown of "Finance income" is as follows:

(Thousands of euros)	2008	2007
Dividends from group companies (Note 19.1)	13,452	127,949
Interest from loans to group companies (Note 19.1)	286,650	23,553
Interest received from third parties		
Loans to third parties	2,297	3,321
	<b>302,399</b>	<b>154,823</b>

## 16.5 Finance costs

The breakdown of "Finance costs" is as follows:

(Thousands of euros)	2008	2007
Interest on payables to group companies (Note 19.1)	74,150	27,502
Interest on payables to third parties		
Other finance costs	959	59
	<b>75,109</b>	<b>27,561</b>

## 16.6 Employees

The average number of employees at IBERDROLA RENOVABLES in 2008 and 2007, by professional category, is as follows:

	Headcount at year end 2008			Average number of employees in the year
	Men	Women	Total	
Senior executives	17	3	20	20
Directors, engineers and technical staff	181	122	303	263
Administrative personnel	58	18	76	66
Production staff	307	34	341	277
	<b>563</b>	<b>177</b>	<b>740</b>	<b>626</b>

	Headcount at year end 2007			Average number of employees in the year
	Men	Women	Total	
Senior executives	17	2	19	19
Directors, engineers and technical staff	177	87	264	235
Administrative personnel	4	18	22	22
Production staff	219	2	221	194
	<b>417</b>	<b>109</b>	<b>526</b>	<b>470</b>

## 17. GUARANTEE COMMITMENTS TO THIRD PARTIES

IBERDROLA RENOVABLES is required to provide the bank or corporate guarantees associated with the normal management of the Company's activities.

### a) Guarantees for the exercise of an activity

IBERDROLA RENOVABLES guarantees the fulfilment of various obligations assumed by group subsidiaries. These cover obligations deriving from the exercise of their business.

i) Bank guarantees

IBERDROLA RENOVABLES has contracted guarantees for fulfilment of the various obligations deriving from the exercise of its business activities.

ii) Personal guarantees

IBERDROLA RENOVABLES has contracted guarantees with third parties to cover the operating risks of its subsidiaries from buying and trading electricity and gas in the USA.

b) Financial guarantees

IBERDROLA RENOVABLES acts as guarantor to the following companies:

- IBERDROLA for the financing of the EUR 350,000 thousand EIB loan.
- Eólicas de Euskadi for its EUR 33,215 thousand syndicated loan.

IBERDROLA RENOVABLES considers that any additional liabilities that could arise from the guarantees extended at 31 December 2008 and which were unprovisioned at 31 December 2008 would not be significant.

## 18. COMMITMENTS

In the normal course of its business IBERDROLA RENOVABLES guarantees the fulfilment of contracts. These guarantees generally consist of personal guarantees of commitments to buy property and plant and to supply turbines where IBERDROLA RENOVABLES acts as guarantor for its subsidiaries.

## 19. RELATED PARTY DISCLOSURES

Company transactions in 2008 and 2007 with related parties, as well as the nature of the relationship, were as follows:

Nature of the relationship	Related parties
Group parent	IBERDROLA
Group companies	(*)
Associates	(*)
Related companies	Iberdrola Generación, S.A. Iberdrola Ingeniería y Construcción, S.A.U. Gamesa group Iberdrola Distribución, S.A.U.
Directors	Directors
Executives	Senior executives

(\*) The breakdown of group companies and associates is given in Appendix 1 to these notes.

## 19.1 Related entities

The balances with related entities are as follows:

(Thousands of euros)	Group parent	Other group companies	Jointly-controlled entities	Related parties	Total
<b>2008</b>					
Non-current loans (Note 9.1)	-	1,498,182	516	12	1,498,710
Trade receivables (Note 9.1)	168,544	-	3,336	3,530	175,410
Current loans (Note 9.1)	-	274,880	170	-	275,050
Other current financial assets (Note 9.1)	275,431	3,968,400	460	-	4,244,291
Non-current borrowings (Note 14)	2,095,511	17,999	31,280	28,600	2,173,390
Current borrowings (Note 14)	712,561	26,808	289	62,114	801,772
Suppliers (Note 14)	-	1,587	-	71,065	72,652
<b>2007</b>					
Non-current loans (Note 9.1)	-	1,126,988	-	25	1,127,013
Trade receivables (Note 9.1)	-	106,978	34,162	37,117	178,257
Current loans (Note 9.1)	-	104,039	-	12	104,051
Other current financial assets (Note 9.1)	1,039,324	3,192,780	-	-	4,232,104
Non-current borrowings (Note 14)	-	9,005	-	36,746	45,751
Current borrowings (Note 14)	917,337	866	-	-	918,203
Suppliers (Note 14)	-	22,870	-	275,894	298,764

Transactions entered into with related parties were as follows:

(Thousands of euros)	Group parent	Other group companies	Jointly-controlled entities	Related parties	Total
<b>2008</b>					
Sale of goods	-	-	-	19,582	19,582
External services	(29,468)	(290)	-	(5,807)	(35,565)
Finance income - interest (Note 16.4)	9,845	276,636	169	-	286,650
Finance income - dividends (Note 16.4)	-	2,348	11,104	-	13,452
Finance costs (Note 16.5)	(71,508)	(2,332)	(310)	-	(74,150)
Other operating income	-	109,405	2,458	3	111,866
<b>2007</b>					
Sale of goods	-	-	-	13,292	13,292
Purchases	-	-	-	-	-
External services	(20,454)	(169)	-	(4,233)	(24,856)
Finance income - interest (Note 16.4)	-	23,553	-	-	23,553
Finance income - dividends (Note 16.4)	-	116,789	11,160	-	127,949
Finance costs (Note 16.5)	-	(27,502)	-	-	(27,502)
Other operating income	-	24,665	1,152	-	25,817

Revenue from the rendering of services mainly includes the sale of wind turbines to group companies and associates.

“Other operating income” includes revenue for services in the areas of management, administration, tax and legal advice and other corporate services from certain subsidiaries as well as revenue arising from contracts which licence hydro-electric plants to subsidiaries.

“External services” in the accompanying table includes the charge for services rendered by IBERDROLA, in the areas of management, administration, tax and legal advice and other corporate services for approximately EUR 26,427 thousand.

Finance income arises from income accrued on the current accounts that IBERDROLA RENOVABLES maintains with its subsidiaries.

On 5 November 2007, IBERDROLA and IBERDROLA RENOVABLES signed an agreement to establish a framework for transparent relations between the two entities (and their group companies). In accordance with corporate governance best practice, and in particular the second recommendation of the Unified Code of Corporate Governance, the agreement aims to define the scope of activity of IBERDROLA RENOVABLES and to regulate the required mechanisms for preventing and responding to potential conflict of interest situations and for carrying out related party transactions.

This Framework Agreement shall remain in force (i) so long as IBERDROLA holds, either directly or indirectly, a majority holding (i.e. over fifty percent of the share capital) in IBERDROLA RENOVABLES; or (ii) even in the event of this holding falling to or below fifty percent of the share capital, so long as over half of the Directors of IBERDROLA RENOVABLES have been appointed by IBERDROLA. The termination of the Framework Agreement shall have no bearing over that of the other agreements that IBERDROLA RENOVABLES and IBERDROLA or any other of their respective group companies may have signed. The latter will remain in force in accordance with their own particular terms.

In addition, on 20 November 2007, IBERDROLA RENOVABLES, as approved by its Board of Directors following a favourable report from the Related Parties Committee, and IBERDROLA signed a brand and domain name licensing, assignment and management agreement relating to the Company's use of certain brands and domain names owned by IBERDROLA (including the "Iberdrola" brand) and the assignment of other Iberdrola brands related to certain software applications.

Also, in 2007, IBERDROLA and IBERDROLA RENOVABLES entered into a contract whereby IBERDROLA undertook to indemnify IBERDROLA RENOVABLES for any liabilities, losses, claims or damages, both real and contingent, requiring cash settlements to be made in relation to activities of ScottishPower Holdings Inc., the parent company for SCOTTISH POWER's US activities taken over by IBERDROLA RENOVABLES on 3 October 2007.

The amounts that IBERDROLA RENOVABLES may recover from third parties for activities carried out by Scottish Power Holdings Inc. prior to 3 October 2007 that are unrelated to its current business, will be offset against any sums that IBERDROLA, S.A. must pay to IBERDROLA RENOVABLES in accordance with the provisions of the indemnity contract.

The contract will run for an indefinite period and will be rescinded as soon as the potential contingencies prescribe or when five years have lapsed since (a) IBERDROLA ceases to own more than 50% of the IBERDROLA RENOVABLES' share capital, either directly or indirectly, or (b) the date on which the majority of the members of IBERDROLA RENOVABLES' Board of Directors are not appointed on the proposal of IBERDROLA.

## 20. BOARD OF DIRECTORS' REMUNERATION AND INFORMATION REQUIRED UNDER ARTICLE 127 TER. FOUR OF SPANISH CORPORATIONS LAW

### 20.1 2008 Compensation stipulated in the bylaws

Article 44, sections 1 and 2 of the IBERDROLA RENOVABLES bylaws establishes the following: "1. The Directors, in their capacity as members of the Board of Directors, shall have the right to receive compensation from IBERDROLA RENOVABLES consisting of (a) a fixed payment; and (b) fees for attending Board and Board Committees meetings.// The total amount of compensation that IBERDROLA RENOVABLES may pay to the members of the Board for the items set forth in the preceding paragraph shall not exceed the amount to be determined by the shareholders at the General Shareholders' Meeting for such purposes. The amount set at the General Shareholders' Meeting shall be maintained for so long as it is not modified by a new resolution of the shareholders at the General Shareholders' Meeting.// The setting of the exact amount to pay within the limit set by the shareholders at the General Shareholders' Meeting, the distribution thereof among the various Directors, the standards to take into account for distribution thereof among the various Directors, the frequency of payment, and, in general, all that is not provided for by the shareholders acting at the General Shareholders' Meeting, shall be the responsibility of the Board of Directors, following a proposal from the Appointments and Compensation Committee. //2. Independently of the provisions of the foregoing paragraph, and subject always to the approval of the shareholders, Directors' remuneration may also consist of the delivery of shares or share options, as well as a payment which takes as its reference the value of IBERDROLA RENOVABLES' shares."

Pursuant to Article 44 of IBERDROLA RENOVABLES' bylaws on 5 November 2007, IBERDROLA issued the following resolution, "Total remuneration of the Board of Directors shall be limited to five million euros per year. This amount shall be increased each year in accordance with the rise in the consumer price index". This decision will remain in force until a different decision is implemented at a future General Shareholders' Meeting. In accordance with Article 44 of the bylaws, fixed and variable remuneration and indemnities payable to Directors holding executive positions within IBERDROLA RENOVABLES shall form part of and be settled with a charge to the above-mentioned total amount.

The breakdown of the compensation agreed for Directors in 2008 by the Board of Directors followed a proposal submitted by the Appointments and Remuneration Committee, and is recognised under "Staff Costs" on the accompanying Consolidated Income Statement as follows:

#### a) Compensation stipulated in the bylaws

The payments to current Directors required by the bylaws were EUR 1,380 thousand and EUR 211 thousand (\*) in 2008 and 2007, respectively. The amounts received by the Directors depend on the duties assigned to them, the detail being as follows:

Breakdown of annual compensation by position held:

	Thousands of euros	
	2008	2007
Chairman of the Board of Directors	180	180
Committee Chairmen	120	120
Committee members	100	100
Directors	60	60

The amounts paid in 2008 and 2007 were allocated as follows:

	Thousands of euros	
	2008	2007
Chairman	180	28
Committee Chairmen	240	36
Committee members	600	92
Directors	360	55
	<u>1,380</u>	<u>211(*)</u>



(\*) This figure is the pro-rata for 2007 of the allocation approved annually according to the number of days elapsed from the date of incorporation of the Board of Directors (5 November 2007) until year-end 2007.

Inlaw allocation accrued during 2008 for the Chairman of the Board of Directors and five Proprietary Directors designed by IBERDROLA, S.A. is totally paid to this Society.

**b) Attendance fees**

The attendance fees paid to the Directors, charged to "Compensation stipulated in the bylaws" are as follows:

	Thousands of euros	
	2008	2007
Chairmen (of Board and Board Committees)	3.6	3.6
Directors	1.8	1.8

The attendance fees paid to Directors, with a charge to compensation stipulated in the bylaws, totalled EUR 619 thousand and EUR 155 thousand in 2008 and 2007 respectively, which were paid in 2008 and 2007, according to the following breakdown:

	Thousands of euros	
	2008	2007
Chairman	112	22
Committee Chairmen	171	40
Committee members	277	70
Directors	59	23
	<u>619</u>	<u>155</u>

**c) Other remuneration**

In 2008 the Directors of IBERDROLA RENOVABLES with executive responsibilities and also eligible for "Compensation stipulated in the bylaws" for 2008, received fixed remuneration of EUR 380 thousand, variable remuneration of EUR 224 thousand, and compensation in kind and other payments totalling EUR 15 thousand.

In 2008, the Board of Directors of IBERDROLA RENOVABLES with executive responsibilities and also eligible for "Compensation stipulated in the bylaws" received a bonus of EUR 893 thousand for achieving targets set in multi-year strategic plans and for exceptional, one-off situations, recognised as a credit to previous years' payments required under bylaws.

**d) Provisions and guarantees provided by the Company for the Directors**

The premium paid to cover Directors' civil liability insurance, with a charge to compensation stipulated in the bylaws for 2008, was EUR 229 thousand in 2008. In 2007 the Company made no payment to cover Directors' civil liability insurance.

Other insurances paid with a charge to compensation stipulated in the bylaws amounted to EUR 255 thousand.

The undistributed portion of compensation stipulated in the bylaws for 2008 and 2007, amounting to EUR 1,968 thousand and EUR 422 thousand respectively, was used to provision the obligations incurred by the Company should they materialise. At 31 December 2008 and 2007, the IBERDROLA RENOVABLES group had granted no loans or advances to members of the Board of Directors of IBERDROLA RENOVABLES.

## 20.2 Information required under Article 127 ter. four of the Spanish Corporation Law

Pursuant to Article 127 ter. section 4 of the Spanish Corporation Law details of the interests held by members of the Board of Directors in the share capital of companies with identical, similar or complementary activities to those which comprise the corporate purpose of IBERDROLA RENOVABLES are as follows.

Directors	Company	Total number of shares (direct and indirect)
José Ignacio Sánchez Galán	Iberdrola, S.A.	2,570,745
Xabier Viteri Solaun	Iberdrola, S.A.	13,853
Javier Sánchez-Ramade Moreno	Iberdrola, S.A.	47,400,000
José Luis San Pedro Guerenabarrena	Iberdrola, S.A.	96,024
José Sainz Armada	Iberdrola, S.A.	61,654
Alberto Pedro Cortina Koplowitz	SICA Desarrollos, S.L.	27,000
Carlos Egea Krauel	Iberdrola, S.A.	6,200
Manuel Moreu Munaiz	Seaplace, S.L.	25,500

Following is the information required under the aforementioned legislation concerning the performance by the directors, as independent professionals or as employees, of activities that are identical, similar or complementary to the activity that constitutes the corporate purpose of IBERDROLA RENOVABLES:

Directors	Company	Position or activity
José Ignacio Sánchez Galán	Iberdrola, S.A.	Chairman, Chief Executive Officer
	Scottish Power, Ltd.	Chairman
José Luis San Pedro Guerenabarrena	Iberdrola, S.A.	Director of Operations
	Scottish Power, Ltd.	Director
José Sainz Armada	Iberdrola, S.A.	Economic-Financial Manager
	Scottish Power, Ltd.	Director
Carlos Egea Krauel	Enagás, S.A.	Director
	Energías Renovables de la Región de Murcia, S.A.	Chairman
Xabier Viteri Solaun	Iberdrola Renewables Inc.	Director
	Iberdrola Renewables Holdings, Inc.	Chairman
Manuel Moreu Munaiz	Seaplace, S.L.	Chairman
Álvaro Videgain Muro	Sener Grupo Ingeniería, S.L.	Representative of Faliene 2003, S.L.

## 21. REMUNERATION OF SENIOR EXECUTIVES

Employee benefits to senior executives (salary, compensation in kind, social security costs, pension schemes, etc.) amounted to EUR 3,746 thousand and EUR 3,175 thousand in 2008 and 2007, respectively, recognised under “Staff costs” in the accompanying 2008 and 2007 income statements.

In addition to the variable compensation paid in 2008, a multi-year performance-linked bonus payment of EUR 1,590 thousand was made, which had been fully provisioned in previous years.

The employment contracts of senior executives, including executive directors, of IBERDROLA RENOVABLES and its group contain golden parachute clauses for cases of termination or changes of control. These contracts have been approved by the Board of Directors of IBERDROLA RENOVABLES, S.A.

The objective is to achieve a level of loyalty among top-ranking executives that is effective and sufficient for the management of IBERDROLA RENOVABLES and thereby avoid the loss of experience and skills that could jeopardise the achievement of strategic objectives. In essence, these clauses recognise termination benefits based on the length of service at the Company of the members of the executive team, with annual salary payments ranging from a minimum of two to a maximum of five years.

## 22. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Under the General Risk Policy, which was approved in November 2004 by the IBERDROLA Board of Directors, IBERDROLA RENOVABLES undertakes to use its capabilities to the full in order to ensure that all significant risks of all kinds are adequately identified, measured, managed and controlled, applying the following “basic action guidelines”:

- Incorporation of the risk-opportunity approach into the group’s management.
- Separation, at operating level, of functions between the risk-taking areas and the areas responsible for analysing, controlling and supervising the risks.
- Assurance of short- and long-term business and financial stability, maintaining an appropriate balance between risk, value and benefit.
- Correct use of financial risk hedging instruments and their recognition in accordance with the applicable accounting and financial standards.
- Transparency in reporting on the group’s risks and the functioning of the systems developed to control them.
- Development of a risk-opportunity control and management culture within the IBERDROLA group.
- Coordination with general policy of all the specific risk-related policies that have to be implemented.
- Compliance with current regulations and legislation in relation to risk control, management and oversight.
- Continuous improvement incorporating international best practice on transparency and corporate governance into the processes of risk control, management and supervision.

In order to implement this policy and respect these principles, the group has developed an Integral Risk Control and Management System based on a suitable definition, separation and assignment of functions and responsibilities, and of the required procedures, methodologies and support tools.

The system, which in November 2005 received quality certification from AENOR under the ISO 9001:2000 standard, is based on three fundamental cornerstones:

- A risk policy and limit structure, developed in 2005, that guarantees controlled management of the risks by the businesses.
- Monitoring and control of the risks in the income statement.
- Analysis and control of risks related to new investments.

IBERDROLA’s risk policies and limits on interest rates, exchange rates, liquidity and credit, which have been approved by the Operating Committee, apply to IBERDROLA RENOVABLES.

IBERDROLA RENOVABLES is exposed to credit, interest rate, currency and liquidity risks.

### **Credit risk**

Credit risk arises when there is a possible loss caused by IBERDROLA RENOVABLES’ counterparty failing to meet its contractual obligations, i.e. the possibility that financial assets will not be recovered in full when due.

The credit risk arising from the default of a counterparty (customer, supplier, partner or financial institution) is duly controlled at IBERDROLA RENOVABLES through various policies and risk limits which include requirements for the following:

- Contracts tailored to the transaction performed.
- Sufficient internal or external creditworthiness of the counterparty.
- Additional guarantees whenever necessary.
- Time limits on open positions.
- Limits on the costs of doubtful debts and on the finance costs arising from debtor defaults.

In addition, there is an action protocol detailing corrective measures when a counterparty's credit rating drops to below investment grade, and the market value of derivatives and credit risk are measured regularly in order to ensure that the risk limits established are being observed at all times.

The maximum exposure to credit risk at 31 December 2008 and 2007 was as follows:

(Thousands of euros)	2008	2007
Investments in group companies and associates	8,217,033	6,687,190
Financial investments	645	9,059
Trade and other receivables	188,470	249,310
Investments in group companies and associates	4,802,365	4,336,155
Current financial investments	5,843	9,081
Cash and cash equivalents	13,672	266
	<b>13,228,028</b>	<b>11,291,061</b>

The breakdown, by counterparty, of the concentration of credit risk related to "Trade and other receivables" at 31 December 2008 and 2007 is as follows:

(Thousands of euros)	Continuing operations (Note 9.1)	
	2008	2007
Not due	167,767	171,532
Past due, not impaired		
Up to 30 days	4,402	7,588
30 – 90 days	108	18
90 – 180 days	784	82
180 days – 1 year	5,024	130
Over 1 year	118	3
<b>Total</b>	<b>178,203</b>	<b>179,353</b>

## Interest rate risk

Interest rate risk arises when there is a possible loss due to fluctuations in the fair value or future cash flows of a financial instrument due to changes in market interest rates. IBERDROLA RENOVABLES' exposure to the risk of changes in interest rates is mainly related to non-current loans and credit facilities received at floating interest rates.

IBERDROLA RENOVABLES mitigates this risk by managing the proportion of its debt that bears fixed interest to that which bears floating interest on the basis of the situation of the markets, through new sources of financing and the use of interest rate derivatives, all within the approved risk limits.

Taking into account hedging instruments, the breakdown of non-current financing based on the type of interest rate is as follows:

<b>(Thousands of euros)</b>	<b>2008</b>	<b>2007</b>
Non-current loans at fixed-interest rate	718,077	4,623
Non-current loans at floating interest rate	1,376,451	9,005
	<b>2,094,528</b>	<b>13,628</b>

## Foreign currency risk

Foreign currency risk is the risk of possible loss caused by changes in the fair value or future cash flows of a financial instrument because of fluctuations in exchange rates. The Company's exposure to the risk of exchange rate fluctuations is mainly related to balances held by group companies in currencies other than the functional currency and net investment by its Scottish subsidiary.

IBERDROLA RENOVABLES reduces this risk by ensuring that all its economic flows are denominated in the presentation currency of each group company, provided that this is possible and economically practicable. The resulting open positions are integrated and managed through the use of derivatives, within the approved limits.

Currencies most used by IBERDROLA RENOVABLES group other than the euro are basically the US dollar and sterling.

## Liquidity risk

Liquidity risk is the possibility that IBERDROLA RENOVABLES will have insufficient funds, or access to sufficient funds at an acceptable cost, to meet its payment obligations at all times. IBERDROLA RENOVABLES aims to maintain sufficient available funds. Company policies establish the minimum liquidity levels required at all times.

The IBERDROLA group's liquidity policy ensures that it can meet its payment obligations without having to obtain financing under unfavourable terms. For this purpose, it uses various management measures such as the arrangement of committed credit facilities of sufficient amount and flexibility, diversification of the coverage of financing needs through access to different markets and obtaining financing with its majority shareholder, IBERDROLA.

The contractual maturity schedule, undiscounted to present value, of financial liabilities at 31 December was as follows:

(Thousands of euros)	Up to 3 months	3 months - 1 year	Between 1 and 5 years	Over 5 years	Total
<b>2008</b>					
Derivatives	-	32,763	74,060	-	106,823
Other financial liabilities	24,561	17	1,030	1,296	26,904
Borrowings from group companies					
Principal	-	741,990	28,600	2,092,202	2,862,792
Interest	28,909	-	-	-	28,909
	<b>53,470</b>	<b>774,770</b>	<b>103,690</b>	<b>2,093,498</b>	<b>3,025,428</b>

(Thousands of euros)	Up to 3 months	3 months - 1 year	Between 1 and 5 years	Over 5 years	Total
<b>2007</b>					
Derivatives	20	-	-	-	20
Other financial liabilities	-	12,356	3,427	1,196	16,979
Borrowings from group companies					
Principal	-	907,799	36,746	9,005	953,550
Interest	10,404	-	-	-	10,404
	<b>10,424</b>	<b>920,155</b>	<b>40,173</b>	<b>10,201</b>	<b>980,953</b>

As these amounts are undiscounted and include future interest, the figures in the above table do not coincide with those recognised in the balance sheet.

## 23. OTHER DISCLOSURES

### 23.1 Audit fees

Fees paid to the auditor by IBERDROLA RENOVABLES group companies for audit services, including those relating to the IBERDROLA RENOVABLES initial public offering in 2007, provided by the statutory auditor and related companies in 2008 and 2007, amounted to EUR 3,802 thousand and EUR 4,976 thousand euros, respectively. Auditors' fees paid to other auditors who contributed to the audit of IBERDROLA RENOVABLES group companies in 2008 and 2007 were EUR 146 thousand and EUR 133 thousand, respectively.

Also, fees for other professional services provided to various group companies by the statutory auditor and related companies in 2008 and 2007 were EUR 245 thousand and EUR 95 thousand, respectively.

### 23.2 Information on environmental issues

In 2008 and 2007, IBERDROLA RENOVABLES incurred no material environmental expenses. The Company has not considered it necessary to record any provision for liabilities and charges in connection with environmental issues, nor are there any contingencies relating to environmental protection and enhancement.

## 24. ISSUES RELATED TO THE TRANSITION TO NEW ACCOUNTING PRINCIPLES

### 24.1 General overview

As described in Note 2.2, the accompanying financial statements are the first that IBERDROLA RENOVABLES has prepared under the new accounting principles approved by Royal Decree 1514/2007. The Company chose to measure all assets and liabilities at 1 January 2007, the transition date, in accordance with the principles and standards prevailing before the entry into force of Law 16/2007, of 4 July, on the adaptation of commercial legislation on accounting for international harmonisation based on EU regulations, except for financial instruments which are measured at their fair value.

The impact of adjustments made to comply with first-time application was recognised in equity pursuant to the Second Transitional Provision of Royal Decree 1514/2007.

### 24.2 Main differences between the accounting policies applied in 2007 and 2008.

#### a) Reconciliation at 1 January 2007 and 31 December 2007 of IBERDROLA RENOVABLES, S.A.'s balance sheet as reported under the former standards and the new Spanish accounting principles.

(Thousands of euros)	Note	Balances under former Spanish accounting standards	Net reconciliation amount on transition to new accounting principles	Balances under new accounting principles
<b>1 January 2007</b>				
Other intangible assets		5,921	(15)	5,906
Property, plant and equipment		87,789	-	87,789
Non-current financial assets and receivables	2	589,484	(4,742)	584,742
Deferred tax assets	3	60	765	825
Deferred expenses		864	(864)	-
<b>Non-current assets</b>		<b>684,118</b>	<b>(4,856)</b>	<b>679,262</b>
Inventories		52,630	-	52,630
Trade and other receivables	4	341,955	(15,996)	325,959
Cash and cash equivalents		40	16,283	16,323
<b>Current assets</b>		<b>394,625</b>	<b>287</b>	<b>394,912</b>
<b>TOTAL ASSETS</b>		<b>1,078,743</b>	<b>(4,569)</b>	<b>1,074,174</b>
Provisions		1,286	-	1,286
Borrowings from group companies and associates		574,202	-	574,202
Other payables		22,897	(473)	22,424
Uncalled capital	2	15,848	(15,848)	-
Deferred tax liabilities		301	3,119	3,420
<b>Total current and non-current liabilities</b>		<b>614,534</b>	<b>(13,202)</b>	<b>601,332</b>
<b>Total assets less liabilities</b>		<b>464,209</b>	<b>8,633</b>	<b>472,842</b>
Share capital		164,600	-	164,600
Share premium		101,979	-	101,979
Legal reserve		14,038	-	14,038
Other reserves	6	75,650	8,633	84,283
Net profit for the period		107,942	-	107,942
<b>EQUITY</b>		<b>464,209</b>	<b>8,633</b>	<b>472,842</b>



(Thousands of euros)	Note	Balances under former Spanish accounting standards	Net reconciliation amount on transition to new accounting principles	Balances under new accounting principles
<b>31 December 2007</b>				
Other intangible assets	1	149,701	(141,558)	8,143
Property, plant and equipment		86,133	-	86,133
Non-current financial assets and receivables	2	6,665,441	30,808	6,696,249
Deferred tax assets	3	64	44,446	44,510
Deferred expenses		809	(809)	-
<b>Non-current assets</b>		<b>6,902,148</b>	<b>(67,113)</b>	<b>6,835,035</b>
Inventories		209,893	-	209,893
Trade and other receivables	4	4,596,075	(1,132)	4,594,943
Cash and cash equivalents		266	-	266
<b>Current assets</b>		<b>4,806,234</b>	<b>(1,132)</b>	<b>4,805,102</b>
<b>TOTAL ASSETS</b>		<b>11,708,382</b>	<b>(68,245)</b>	<b>11,640,137</b>
Deferred income		9,917	(9,917)	-
Provisions		1,049	3	1,052
Borrowings from group companies and associates		1,256,415	6,303	1,262,718
Other payables		54,961	(4,301)	50,660
Deferred tax liabilities		-	10,572	10,572
Uncalled capital	2	898	(898)	-
<b>Total current and non-current liabilities</b>		<b>1,323,240</b>	<b>1,762</b>	<b>1,325,002</b>
<b>Total assets less liabilities</b>		<b>10,385,142</b>	<b>(70,007)</b>	<b>10,315,135</b>
Share capital		2,112,032	-	2,112,032
Share premium	5	8,090,122	(99,088)	7,991,034
Legal reserve		24,832	-	24,832
Other reserves	6	75,650	7,206	82,856
Net profit for the period		82,506	24,563	107,069
Other equity instruments		-	1,295	1,295
Hedging instruments		-	(3,983)	(3,983)
<b>EQUITY</b>		<b>10,385,142</b>	<b>(70,007)</b>	<b>10,315,135</b>

- 1) Decrease as, under the new accounting principles, capital increase costs, net of the corresponding tax effect, are deducted from equity, whereas under the previous standards applicable to IBERDROLA RENOVABLES, included in Royal Decree 1643/1990 (the 1990 accounting standards), they were recorded as intangible assets and amortised over a period of up to five years (Note 12).
- 2) The movement is due to various effects:
  - i) Recognition of all derivative instruments at fair value whether they meet the criteria for hedge accounting or not, including hedges of net investments in foreign subsidiaries, jointly-controlled entities and associates.
  - ii) Application of the criteria for calculating impairment of investments in group companies, jointly-controlled entities and associates. To this end the new accounting principles establish that the recoverable value of these investments is the greater of fair value less costs to sell and the present value of expected cash flows from the investment. Under the 1990 standards, unlisted equity investments were measured at their carrying amount plus unrealised capital gains upon acquisition and those existing at subsequent valuation dates.
  - iii) Under the new accounting principles, uncalled capital is recognised as a deduction from the line where the related investment is recorded, whereas under the 1990 standards it was recognised as a liability in the Balance Sheet.

The detail is as follows:

<b>(Thousands of euros)</b>	<b>31.12.2007</b>	<b>01.01.2007</b>
Effect of recognising financial derivatives with negative fair value	(1,699)	-
Equity instruments - Hedge of a net investment in a foreign operation	(9,937)	(1,262)
Reversal of impairment provision for investments in group companies, jointly-controlled entities and associates	43,342	12,368
Uncalled capital	(898)	(15,848)
	<b>30,808</b>	<b>(4,742)</b>

3) The main effects on this heading in the balance sheet are as follows:

- i) Classification of deferred tax assets under non-current assets as stipulated in the new accounting principles, rather than under current assets as under the 1990 standards.
- ii) Tax effect of other adjustments.

The breakdown of the effects of the transition to the new accounting principles on “Deferred tax assets” in the balance sheet is as follows:

<b>(Thousands of euros)</b>	<b>31.12.2007</b>	<b>01.01.2007</b>
Reclassification of deferred tax assets to non-current	273	502
Tax effect of other adjustments	44,173	263
	<b>44,446</b>	<b>765</b>

4) The explanation for the main items impacted by the transition to the new accounting principles is as follows:

- i) Recognition at fair value of derivatives with short-term maturities that qualify for hedge accounting.
- ii) Classification under “Cash and cash equivalents” in the balance sheet according to the new accounting principals of financial instruments with a maturity of less than three months that are readily convertible into cash and whose value to and acquisition by IBERDROLA RENOVABLES were part of its ordinary cash management policy.

5) Recognition of the costs of the capital increase as a reduction in the “Share premium”, net of tax effects.

6) The transition-related adjustments with an impact on “Other reserves” and “Profit for the year” described above are as follows:

<b>(Thousands of euros)</b>	<b>31.12.2007</b>	<b>01.01.2007</b>
Effect of reversal of impairment provisions on investments in group companies, jointly-controlled entities and associates	43,342	12,368
Tax effect of reversal of impairment provisions on investments in group companies, jointly-controlled entities and associates	(11,058)	(3,118)
Measurement of financial derivatives	(3,983)	-
Other equity instruments	1,295	-
Other movements	(515)	(617)
	<b>29,081</b>	<b>8,633</b>

b) **Reconciliation of IBERDROLA RENOVABLES, S.A.'s income statement for the year ended 31 December 2007**

<b>(Thousands of euros)</b>					
<b>Year ended 31 December 2007</b>	<b>Note</b>	<b>Balances under former Spanish accounting standards</b>	<b>Reclassification of extraordinary items (1)</b>	<b>Net reconciliation amount on transition to new accounting principles</b>	<b>Balances under new accounting principles</b>
Revenue		210,633	-	-	210,633
Cost of sales		(329,008)	-	-	(329,008)
Other operating income		27,693	7	-	27,700
Staff costs		(40,035)	-	-	(40,035)
Other operating expense		(46,235)	(9)	-	(46,244)
Depreciation and amortisation	4	(10,193)	-	1,479	(8,714)
Changes in inventory		157,263	-	-	157,263
<b>Operating profit</b>		<b>(29,882)</b>	<b>(2)</b>	<b>1,479</b>	<b>(28,405)</b>
Finance income		154,823	-	-	154,823
Finance costs		(27,561)	-	-	(27,561)
Exchange gains/losses		(1,565)	-	-	(1,565)
Impairment losses and gains/losses on disposal of fixed assets	2	-	(35,638)	34,142	(1,496)
<b>Net finance cost/income</b>		<b>125,697</b>	<b>(35,638)</b>	<b>34,142</b>	<b>124,201</b>
Extraordinary profit/loss	1	(35,640)	35,640	-	-
<b>Profit/loss before tax</b>		<b>60,175</b>	<b>-</b>	<b>35,621</b>	<b>95,796</b>
Corporate income tax	3	22,331	-	(11,058)	11,273
<b>Profit/loss for the year</b>		<b>82,506</b>	<b>-</b>	<b>24,563</b>	<b>107,069</b>

1) Under the new accounting principles there is no extraordinary profit or loss and each item is classified according to its nature.

2) Meanwhile, as explained above, the enactment of the new standards has led to the reversal of a portion of the valuation adjustments recognised on investments in group companies, jointly-controlled entities and associates.

3) Tax effects of the adjustments made to the income statement.

4) Elimination of the amortisation charge on capital increase costs in 2008.

## 25. SUBSEQUENT EVENTS

On 17 February 2009 a new legislative initiative called Stimulus Bill was approved by the president of the US designed to reactivate the economy and was drafted jointly by the US House of Representatives and Senate. Its measures include an extension of the Production Tax Credit (PTC) until 2012, an option to monetise PTCs by converting them into ITCs (Investment Tax Credits), thereby effectively getting a subsidy of 30% of eligible costs, subject to approval by the Treasury Secretary. It also sets up a programme of loan guarantees of approximately USD 8 billion for projects to develop renewable energy and improve power transmission, applying to projects whose construction starts before 1 October 2011.

## 26. EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

These financial statements are presented on the basis of accounting principles generally accepted in Spain. Consequently, certain accounting practices applied by the Company may not conform with generally accepted principles in other countries.

**ADDITIONAL INFORMATION RELATED TO GROUP COMPANIES AND ASSOCIATES OF IBERDROLA RENOVABLES IN 2008**

Company	Location	Activity	% interest	Carrying amount	Thousands of euros		Dividends received
					Capital and Reserves 12.31.08	2008 profit/loss for the year	
<b>GROUP COMPANIES</b>							
Grupo Iberdrola Regenerative Energien GmbH	Germany	Energy	100.00%	31,058	31,417	(3,337)	-
Iberdrola Energias Renov. do Brasil Ltda, S.A.	Brazil	Energy	100.00%	43,524	30,585	1,086	-
Iberdrola Energias Renovaveis do Brasil S.A.	Brazil	Energy	100.00%	1,130	1,157	(268)	-
Iberdrola Energia ot Vazobnoviaemi Iztochnici Energía I Vent, S.A.	Bulgaria	Energy	100.00%	-	3	(190)	-
Electra Sierra de San Pedro S.A.	Spain	Energy	90.00%	1,030	1,127	21	-
Iberdrola Energías Marinas de Cantabria, S.A.	Spain	Energy	80.00%	347	473	(77)	-
Ibernova Promociones,S.A.U.	Spain	Energy	60.00%	782	2,586	10	-
Iberdrola Renovables Galicia, S.A.U.	Spain	Energy	100.00%	33,992	43,988	12,125	-
Iberdrola Renovables Andalucía, S.A.U.	Spain	Energy	100.00%	47,828	86,761	51,604	-
Iberdrola Renovables Canarias, S.A.	Spain	Energy	100.00%	9,984	6,884	(7,760)	-
Iberdrola Renovables Castilla La Mancha, S.A.U.	Spain	Energy	100.00%	205	292	(200)	-
Iberdrola Renovables Castilla y León, S.A	Spain	Energy	100.00%	57,706	135,255	141,627	-
Biovent Energía, S.A.	Spain	Energy	95.00%	32,741	31,412	2,272	-
Ciener S.A.U.	Spain	Energy	95.00%	28,413	41,055	25,397	-
Iberdrola Energías Renovables Aragón, S.A.U.	Spain	Energy	100.00%	6,545	23,261	7,761	-
Eólicas de Euskadi, S.A.	Spain	Energy	100.00%	29,102	51,707	22,204	-
Sistemas Energéticos de Levante, S.A.	Spain	Energy	100.00%	102,745	36,159	20,864	-
Iberdrola Renovables de Valencia, S.A.	Spain	Energy	60.00%	61	102	(5)	-
Iberdrola Renovables de Cantabria, S.A.	Spain	Energy	100.00%	61	61	(1)	-
Ousaühing Raisner,A.S.	Spain	Energy	100.00%	61	61	-	-
Ousaühing Raisner,A.S.	Estonia	Energy	65.00%	494	2,693	(722)	-
Iberdrola Energies Renouvelables, S.A.S.	France	Energy	100.00%	96,521	(11,275)	(18,489)	-
C.Rokas, S.A. Subgroup (*)	Greece	Energy	96.74%	296,999	92,374	12,966	2,347
Energiaki Alogorachis, S.A.	Greece	Energy	100.00%	4,766	2,051	416	-
Magellan Investment Vagyonkezeló, Kft	Hungary	Energy	100.00%	14,187	70	(65)	-
Amitaius Vagyonkezeló, Kft	Hungary	Energy	100.00%	14,094	35	(40)	-

Company	Location	Activity	% interest	Carrying amount	Thousands of euros		Dividends received
					Capital and Reserves 12.31.08	2008 profit/loss for the year	
Amithaba Vagyonkezelelo, Kft	Hungary	Energy	100.00%	16,651	17	(53)	-
Iberdrola Renovables México, S.A. de C.V	Mexico	Energy	100.00%	11,508	164	(2)	-
Iberdrola Energia Odnawialna Spółka z ograniczoną odpowiedzialnością	Poland	Energy	100.00%	10,105	6,499	(8,747)	-
Aeolia Produção de Energia, S.A.	Portugal	Energy	78.00%	-	20	(266)	-
Iberdrola Renewables Portugal, S.A.	Portugal	Energy	100.00%	3,335	1,519	(395)	-
Iberdrola Renewable Energies of UK Limited	UK	Energy	100.00%	7	(5,366)	(2,981)	-
Scottish Power Renewable Energy Holdings Limited	UK	Energy	100.00%	5,749,853	2,330,967	(18,121)	-
Das Yenilenebilir Enerjiler Ticaret	Turkey	Energy	100.00%	-	(3)	(129)	-
Iberdrola Magyarország Megújuló Energia Korlátott Felelősségű Társaság	Hungary	Energy	100.00%	1,050	918	(704)	-
Iberdrola Renovables Italia S.p.A	Italy	Energy	100.00%	14,312	15,637	3,025	-
Iberdrola Energía Renovables La Rioja S.A.	Spain	Energy	63.55%	7,128	75,950	25,996	11,104
Iberdrola Atjaunojamie Energoresursi SIA	Latvia	Energy	100.00%	43			
<b>ASSOCIATES</b>							
Electra de Malvana, S.A.	Spain	Energy	48.00%	213	468	(58)	-
Electra de Montanchez, S.A.	Spain	Energy	40.00%	169	438	(48)	-
Rioglass Photovoltaica, S.A.	Spain	Energy	24.50%	904	-	-	-
Energías Renovables de la Región de Murcia, S.A.	Spain	Energy	50.00%	25,615	55,182	11,587	-
Eólica 2000, S.L.	Spain	Energy	49.00%	5,882	3,485	2	-

## **IBERDROLA RENOVABLES, S.A.**

### **Management report**

**Year ended 31 December 2008**

#### **1. SIGNIFICANT EVENTS 2008**

##### **1.1 Wind turbine supply agreement between IBERDROLA RENOVABLES, S.A. and Gamesa Eólica, S.L.U.**

IBERDROLA RENOVABLES and Gamesa Energía S.L.U. signed the largest wind turbine supply agreement in the history of the wind power sector, covering total capacity of 4,500 megawatts (MW) between 2010 and 2012.

The IBERDROLA RENOVABLES Group will install the turbines in its wind farm developments in Spain, the rest of Europe, the US and Mexico. The contract covers assembly and start-up, as well as operating and maintenance services during the life of the guarantee.

##### **1.2 Strategic agreement between IBERDROLA RENOVABLES, S.A. and Gamesa Energía, S.A.U.**

IBERDROLA RENOVABLES and Gamesa Energía, S.A.U. ("Gamesa Energía") have signed a strategic agreement to jointly promote, develop, and manage wind projects in Spain and certain continental European countries, thereby boosting capacity for future development and growth.

The purpose of the strategic deal, signed on 13 June 2008, is to jointly develop wind power projects, drawing on the two companies' experience and knowledge of the sector, thereby enhancing value creation for their shareholders. The combination of two world leaders in the sector of wind farm development will consolidate the position of both companies in the markets where they currently operate and markets targeted by their strategic alliance (basically, Spain and continental Europe).

The strategic alliance will give IBERDROLA RENOVABLES access to new markets where there are established teams on the ground, mitigating risks through geographical diversification and generating economies of scale.

The strategic agreement reflects the interest shared by the two companies in working together to jointly develop wind farms, building on their sector experience and know-how and generating numerous benefits by pooling their business assets. Bringing together the two businesses will enhance the creation of shareholder value for both companies thanks to their complementary mix of activities.

##### **1.3 Other wind turbine supply agreements signed by IBERDROLA RENOVABLES, S.A.**

The IBERDROLA RENOVABLES Group contracted to buy two hundred 1.5 MW wind turbines from General Electric Company, supplying total capacity of 300 MW for delivery in 2010. The total estimated cost of this wind capacity is EUR 430 million.

IBERDROLA RENOVABLES Group has contracted to buy 310 MW of wind turbine capacity from Alstom Ecotecnia to be installed in various countries including Spain, Poland, France, Portugal, Germany and the UK. The investment associated with this capacity will total approximately EUR 435 million, a figure that includes the turbines and other costs such as transport, civil works, electrical plants, installation and connection to the grid.

#### **1.4 IBERDROLA RENEVABLES' Strategic Plan, 2008-2012**

On 25 June 2008, the Board of Directors of IBERDROLA RENEVABLES approved the Company's 2008-2012 Strategic Plan.

Delivering the targets set out in its Strategic Plan would enable IBERDROLA RENEVABLES to generate EUR 800 million in profit for 2010, multiplying the previous year's bottom line by a factor of seven.

The 2008-2012 Strategic Plan calls for investment of EUR 18,800 million throughout the period, to double installed capacity to 13,500 MW by 2010 and then raise it to at least 18,000 MW by 2012, with new plants distributed across Spain, the US and the rest of Europe.

This level of investment will drive EBITDA and net profit at IBERDROLA RENEVABLES to EUR 3.4 billion and EUR 1 billion, respectively, by 2012 when the current Strategic Plan ends.

Finally, the Company plans to maintain its financial strength throughout, thanks to growth in the asset base of 75%, equity of around EUR 14 billion and leverage at all times below 50%.

#### **1.5 Agreement of a EUR 600 million loan to fund projects in Italy.**

In the first half of 2008 IBERDROLA RENEVABLES agreed a EUR 604 million long-term syndicated loan to finance its expansion plans in Italy.

The loan was taken out by Societa Energie Rinnovabili, S.p.A. the jointly controlled entity owned by IBERDROLA RENEVABLES and its Italian partner API Holding with a syndicate of 11 banks.

IBERDROLA RENEVABLES and its partner API Holding will use the syndicated loan to fund their expansion plans in Italy (approximately 350 MW of new capacity). Specifically it will be used to finance the investment in installations, associated taxes, interest accrued during construction and working capital.

#### **1.6 Public Tender Offer for 100% of the Rokas Group**

On 1 July 2008 IBERDROLA RENEVABLES launched an all-cash public tender offer valued at approximately EUR 175 million for all the shares of the Greek company C. Rokas S.A., parent company of Rokas Group, Greece's leading wind power generator.

Prior to launching the bid, IBERDROLA RENEVABLES already held 52.70% of the ordinary shares and 47.32% of the preference shares of C. Rokas S.A., the parent company of the Greek group.

As a result of the voluntary tender offer on all the outstanding ordinary and preference shares of the Greek company, at the end of 2008 IBERDROLA RENEVABLES held 96.739% of the ordinary shares and voting rights in the company and 97.246% of the preference shares.

On 30 December 2008, IBERDROLA RENEVABLES applied to the Greek Security Markets Commission to initiate a squeeze out on all the shares that it did not own at a cash price equal to the offer price.

#### **1.7 Income statement highlights**

Profit for the year increased by 22.4% to EUR 131.1 million from the EUR 107.0 million earned in 2007.

Revenue from sales of electricity rose by 47.3% from EUR 13.3 million in 2007 to EUR 19.6 million in 2008. The increase was due to a 39.1% rise in average prices and a 5.8% expansion of production compared to 2007.

Revenue from “Rendering of services”, basically billings for supplying turnkey wind farms and turbines to subsidiaries, was down by 53.9%, falling from EUR 197.3 million in 2007 to EUR 90.8 million in 2008. This reduction was because in 2008 the Group scaled back the installation of turnkey wind farms to concentrate on selling equipment to its subsidiaries.

“Other operating income” jumped from EUR 27.7 million in 2007 to EUR 113.9 million, a rise of 311.2%. This reflected a rise in services provided to Group companies.

Although the Company recorded an operating loss of EUR 11.0 million, net finance income of EUR 192.1 million raised profit for the year to EUR 131.1 million.

## **1.8 Main operating figures**

The Company generated 329.8 GWh of power during the year, an increase of 5.8% on the 311.5 GWh produced in 2007.

Across the IBERDROLA RENOVABLES Group, capacity installed at renewable facilities rose 31% year-on-year to 9,302 MW (2007: 7,098 MW), with 86.5% of installed capacity located outside Spain.

IBERDROLA RENOVABLES has installed capacity of 4,868 MW in Spain, a 7% increase on 2007, 2,876 MW in the US, up by 86.9%, 665 MW in the UK, up by 74.1%, and 893 MW distributed in the Rest of the World, an increase of 47.1% on 2007.

As for combined cycle gas plants, the Group currently has two in the US providing total capacity of 606 MW.

In the gas storage business, the Group has four plants with total capacity of 1.36 bcm (billion cubic metres) and another 2.30 bcm of contracted capacity under management.

In 2008, total renewables production by the IBERDROLA RENOVABLES Group increased by 71.1% to 16,998 GWh, compared to 9,937 GWh in 2007. Out of this total, 16,461.6 GWh were produced by wind power, 536 GWh by mini-hydroelectric plants and 0.4 GWh by other technologies.

- Wind power generation in Spain totalled 8,505 GWh, an increase of 20.3% on the 7,069 GWh produced in 2007.
- In the US, wind power generation was 5,409 GWh over the year, an increase of 404.8% on 2007 when 1,071 GWh was generated.
- In the UK, wind power output was 1,227 GWh, a 403.18 % increase on the 244 GWh generated in 2007.
- In the Rest of the World, wind power production was 1,321 GWh, a 30.7% rise on the 1,011 GWh generated in 2007.

## **2. REGULATORY ENVIRONMENT**

### **2.1 Regulation in Spain**

IBERDROLA RENOVABLES is active in the electricity generation market. IBERDROLA RENOVABLES' power generation business under the ordinary regime is regulated by Articles 21 to 26 of Electricity Industry Law 54/1997 of 27 November and subsequent implementing regulations.

The regulatory framework to support renewable energies under the special regime is governed by Royal Decree 661/2007, which covers the activities of IBERDROLA RENOVABLES' subsidiaries. The Royal Decree states that in 2010 the tariffs, premiums, supplements and upper and lower limits for different technologies will be reviewed based on targets met and new targets will be set, ensuring reasonable profitability. There will be a further review every four years.



The main development in 2008 regarding the standards governing power generation from renewable sources related to photovoltaic technology. On 26 September 2008 Royal Decree 1578/2008 on the remuneration of electricity generation via solar photovoltaic technology was approved. It applies to all installations officially registered after 1 October 2008. The new decree creates a system of quarterly reviews to cap the MW of capacity permitted to be installed in each period and introduces a set tariff that varies for the next review period based on a complex formula. After one year, the base capacity for the next period will be calculated, increasing or reducing the limits applied in the previous year by the same percentage rate as the remuneration has been reduced or increased, respectively.

## **2.2 Regulation in the US**

In the US, the main regulatory news in 2008 concerned the following:

- On 3 October, the US Congress passed a financial rescue bill. The law includes an extension of the production tax credits (PTCs) for wind power assets to 31 December 2009. PTCs, along with the modified accelerated cost recovery scheme (MACRS) and the renewable portfolio standard (RPS) setting renewable targets for each state are the current measures in place to encourage investment in renewables in the US.
- The electoral programme of the new president, Barack Obama, includes a Federal RPS with a target of 10% of electricity coming from renewable sources by 2012, rising to 25% in 2025. It also proposes extending the PTC for five years.

The new legislative initiative called Stimulus Bill which was recently signed into law by the president is designed to reactivate the economy and was drafted jointly by the US House of Representatives and Senate. Among its measures are an extension of the PTC until 2012 and an option to monetise PTCs by converting them into ITCs (Investment Tax Credits), thereby effectively obtaining a subsidy of 30% of eligible costs, to be implemented by the Treasury Secretary. It also sets up a programme of loan guarantees of approximately USD 8 billion for projects to develop renewable energy and improve power transmission, applying to projects where construction starts before 1 October 2011.

## **2.3 Regulation in the UK**

Current legislation requires that 15.4% of energy sold in the UK must come from renewable sources by 2015, although there are plans to push this back to 20% by 2020. The existing regime, defined by the Renewables Obligation, ends in 2027 although on 25 November 2008 the UK Chancellor of the Exchequer (economy minister) announced that there would be an extension until at least 2037.

As for offshore wind power, capacity has risen from 8 GW to a total of 25 GW. An auction will be held of 11 zones identified as appropriate to develop off-shore wind farms in summer 2009.

Finally, on 26 November 2008, the Queen signed into law a package of measures including the Energy Act, which introduces a system of regulated tariffs for renewable energy installations up to 5 MW and the Planning Act, which will streamline planning procedures for big projects.

## **2.4 European regulation: European renewable energy directive**

On 23 January 2008 the EU Commission published a proposal for a directive on the promotion of energy from renewable sources as one of the fundamental regulatory pillars of the "Climate change and energy package", which introduces measures to achieve three aims in the EU by 2020: a 20% reduction in greenhouse gas emissions, 20% of final energy consumption coming from renewable sources and a 20% increase in energy efficiency.

In December 2008, the European Parliament approved the final text of the Directive along with the rest of the package of directives, ending a process of political negotiation that had dragged on through the whole of 2008 between the European Parliament, Council and Commission. The Council now needs to formally approve the package, which will probably happen in early 2009.

This Directive sets a new legal framework that will translate into a clear incentive to develop renewables across the European Union. The directive sets ambitious and binding targets for all countries, creating a large-scale market which will be developed over the coming decade. The initiative is especially important for companies such as IBERDROLA RENOVABLES which already has a major project pipeline in Europe.

## **2.5 Regulation in Other Countries**

The main regulatory news in other countries where the Group operates was as follows:

- **France.** On 17 November, the Minister for Ecology and Sustainable Development announced a national plan to develop renewable energy which, if approved, would confirm a target of 23% of primary energy consumed to come from renewable sources by 2020. For wind power, the plan sets an ambitious target of 25 GW in 2020, continuing the current scheme based on regulated tariffs and streamlining administrative processes in the case of major projects.
- **Germany.** The Renewable Energy law of 2004 (Erneubare-Energien-Gesetz-EEG), was revised in June 2008 with the revised provisions applying to new plants from January 2009. Basically, it maintains the existing remuneration scheme but pays a higher tariff.
- **Hungary.** On 1 January 2008, Government Decree 389/2007, (23/12) took effect. The price of electricity generated depends on the type of renewable energy sources used and the time of generation (peak/off-peak).

## **3. MAIN RISKS ASSOCIATED WITH THE ACTIVITIES OF IBERDROLA RENOVABLES**

On 14 April 2008, the Board of Directors of IBERDROLA RENOVABLES approved its own Risk Control and Management Policy and the specific risk policies to implement it. It also approved the associated risk limits and started to carry out periodic compliance checks. This formally instituted the independent Risk Management and Control System in IBERDROLA RENOVABLES which is also coordinated with the risk system of parent company Iberdrola S.A.

### **3.1 Market risk**

The IBERDROLA RENOVABLES Group's activities are subject to a range of market risks, including electricity prices in the different markets where it operates and the price of gas used both as a fuel and for the Group's storage and trading activities, among others.

The energy risk management policies lay down the means for controlling and managing market risk in the different businesses.

### **3.2 Business risks**

The activities of IBERDROLA RENOVABLES are subject to a wide range of business risks, including factors affecting hydroelectric and wind power production and other weather conditions, the strategies applied by market agents and others.

### **3.3 Regulatory risk**

Companies in the IBERDROLA RENOVABLES Group are subject to a complex framework of laws and regulations concerning prices and other aspects of their activities in Spain and the other countries in which they operate. The introduction of new laws and regulations, and modifications to existing ones, may have a negative effect on the company's financial situation and the results of its operations.

The Group's risk policies include continuous analysis and monitoring of regulatory changes, together with decision-making based on reasonable assumptions concerning regulatory behaviour, both domestically and internationally.

### **3.4 Operational risks**

During all IBERDROLA RENOVABLES Group activities, direct or indirect losses may occur as a result of inadequate internal procedures, technical failures, human error, or as a result of external events.

IBERDROLA RENOVABLES mitigates these risks by making all necessary investment, by applying operating and maintenance procedures and programmes, supported by quality systems that incorporate control systems and procedures, by separating out functions in the energy trading business and by planning for appropriate training and upskilling of personnel. It also contracts appropriate insurance policies, as required under the installation operational risk policy, the energy management risk policy and the insurance policy.

### **3.5 Environmental risks**

The activities of IBERDROLA RENOVABLES are subject to risks related to the existence of wide ranging regulations and standards which require environmental impact studies to be carried out and from requirements to obtain licences and planning permission which may be subject to environmental conditions. As with other types of risk, the following cannot be guaranteed:

- That the competent authorities will approve the environmental impact assessment.
- That the licences and planning permission required will be granted.
- That there will be no public campaigns against specific projects, which could result in delays or modifications to the project planned.
- That regulations will not be modified or interpreted in a way which results in increased costs, or which affects projects, operations or investment plans.

In addition, the Group's activities involve inherent environmental risks relating to waste management, emissions, leaks and the land where facilities are based or where biodiversity might be affected, and these could give rise to lawsuits for damages, or penalties which might affect the Group's image and reputation.

The Group's risk policies aim to mitigate these environmental risks by implementing environmental management systems for the Company's production and distribution facilities and through permanent cooperation with regulatory bodies and any parties affected.

### **3.6 Risks related to new investments**

All new investment is subject to a range of market, credit, business, regulatory, operational and other risks, which might undermine the objectives or profitability of the project.

Investment projects are subject to considerable and complex risks during the construction of new generating facilities, which are mainly wind farms; these may require licences or planning permission to be sought from the competent authorities, the acquisition of land and the signing of leases, agreeing contracts for the supply of equipment and construction services, operations and maintenance, fuel supplies and transmission, and consumption and finance agreements, all of which may result in delays and increased costs.

The risk policy for investments covers all such risks and establishes specific limits on forecast return and expected profitability risk which must be complied with before a project may be authorised. Furthermore, specific procedures are in place for the approval of major investments, which require an investment dossier to be prepared including a risk analysis before a project can be approved.

There is also a backtesting procedure in place to analyse the risk of new investments. This serves to review the risk assumptions used and draw conclusions for the improvement of future analyses.

### **3.7 Risks associated with activities outside Spain**

All of the Group's activities outside Spain are, to a greater or lesser extent depending on their nature, exposed to the risks described above (weather, demand, regulation, fuel prices, energy prices, the environment, and so on) and also to other types of risk inherent to the countries in which they take place:

- Changes to administrative policies and regulations in the country
- Imposition of monetary and other restrictions on the movement of capital
- Changes in the market
- Economic crises, political instability and social unrest which affects operations
- Public expropriation of assets
- Exchange rate movements

All these risks may potentially affect the earnings of the international subsidiaries, their market value, and conversion and transfer of earnings to the Group and all are covered by the risk policies in place.

### **3.8 Reputational risk**

The Company's reputation is part of its value creation cycle. In this cycle, the perceptions that interest groups have of the company measure the reputational impact of the company's actions; every organisation in IBERDROLA RENOVABLES is committed to the Group's vision, values and policies.

The framework policy for reputational risk establishes the basic principles for managing this risk within the Group, and also establishes monitoring indicators; specific risk policies also cover the same areas and include actions which contribute to limiting or mitigating such effects.

### **3.9 Financial risks**

For information about the policy on financing and financial risk see Note 5 to the consolidated financial statements.

## **4. ENVIRONMENTAL ISSUES**

The core business of IBERDROLA RENOVABLES is the development, construction, management and operation of electricity generating plants using renewable energy sources and the sale of the electricity produced by them. This form of electricity production produces no greenhouse gas emissions and therefore prevents negative impacts on the environment.

At the present time, the IBERDROLA RENOVABLES Group's renewable energy business focuses on wind farms and mini-hydroelectric power plants. However, the Company is developing production plants using other technologies, such as solar thermal, solar photovoltaic, biomass sources, off-shore wind farms and other sources of off-shore energy.

In 2008, IBERDROLA RENOVABLES Group invested EUR 3,804 million, increasing its installed capacity to 9,302 MW at the end of the year, a rise of 31.0% on the previous year.

Every stage of IBERDROLA RENOVABLES Group's business respects the environment and the conservation of biodiversity, from project development and planning through to operations once the plant has come into service.

During the planning and development stage for new facilities, environmental aspects are considered at every stage of the process, as they are during construction; the Company prepares the environmental and other reports required by the legislation of the country in which it is operating, evaluating the effects that the project might have on the area where it is to be built, including the flora and fauna, the climate and any ecosystem which might be affected, to ensure that the project implemented complies with all requirements. Once a plant has come into service in Spain, operations take place under the Iberdrola Group's Global Environmental Management System, which is certified by the Spanish Association for Standardisation and Certification (AENOR, the Asociación Española de Normalización y Certificación).

IBERDROLA RENOVABLES is committed to the environment and to sustainable development. One important aspect of this is the environmental education programme which the company has been carrying out in recent years using three Renewable Energy classrooms located close to wind farms. These education centres have been visited by over 55,000 people, and their objective is to promote awareness among school children and the population in general about the main characteristics and environmental benefits of the various renewable energy sources available, through a training session combining theory, in the classroom, and practice, at a wind farm.

## **5. RESEARCH AND DEVELOPMENT ACTIVITIES**

In 2008 IBERDROLA RENOVABLES continued the programme set out in its Strategic R&D&i Plan 2007-2012. The plan is based on developing initiatives and projects in 10 strategic lines, which can be grouped under two major themes:

- Improvements to operating efficiency
- Development of new generating technologies

R&D&i activity cost a total of EUR 12.1 million in 2008.

In Europe, IBERDROLA RENOVABLES continued to participate in two European projects from the European Union's 6<sup>th</sup> Framework Programme, WindGrid and IS-Power, and has been invited to contribute to the consultative body for the SUSPLAN project under the EU's 7<sup>th</sup> Framework Programme.

IBERDROLA RENOVABLES is again serving on the Executive Committee of the European Technology Platform for Wind Energy (TPWind), the governing body for the Platform. One of the committee's key tasks in 2008 and 2009 is to launch the European Wind Initiative (EWI). This is a public-private initiative designed to be the main management body for proposals, initiatives and funds for wind power innovations in Europe.

In the area of operating efficiency, the company has continued to develop major long-term projects whose main aim is to optimise the use of resources, increase availability of plants and improve the management of resources available. In the vanguard of this effort and pulling them together are the projects run in the Centre for Renewables Operations (CORE) located in Toledo, where the communications systems are being improved and systems adapted to incorporate new types of generating plants and modify the systems used at the older plants.

The OLEO project has been launched to compare the quality of various types of oils over the long term and how they deteriorate in a wind turbine's multipliers. Work has also continued on improvements to the DOMINA project whose aim is to optimise the maintenance and management of assets, and the METEOFLOW project to forecast wind power output, where there have been many adaptations and improvements to the algorithms as well as data processing to improve forecasting of the production of facilities.

Several extremely valuable technological projects are taking place in the field of solar thermal generation. The development of the 50 MW Puertollano solar thermal plant has given the Company the opportunity to develop satellite projects on reducing the manufacturing and installation costs of support structures and on testing new absorbent materials for the collector tube. There are also plans for the plant to house an ambitious project for Direct Steam Generation, which involves the building and testing of a 3 MW pilot plant, where water will be used directly as the heat conducting liquid in the heat absorbing tube, rather than oil as is currently the case.

In offshore energies, IBERDROLA RENOVABLES is developing a number of initiatives in Spain and Scotland. In 2008, Spain's first wave-power plant came onstream off Santoña on the Cantabrian coast (north Spain) in which electricity is generated from the movement of waves. In Scotland, work continues on the roll-out of a 3 MW plant using PELAMIS technology in an area near the Orkney Islands (off the north coast of Scotland) where we are collaborating on the launch of EMEC, the European Marine Energy Centre.

In addition to the activity scheduled in IBERDROLA RENOVABLES' Strategic R&D&i Plan, the Group also owns PERSEO, a venture capital vehicle that invests in companies with high technological capital. PERSEO is 70% owned by IBERDROLA RENOVABLES and has an annual investment budget of EUR 6 million.

## **6. HUMAN RESOURCES**

The Board of Directors of IBERDROLA RENOVABLES has approved a new recruiting and selection policy. This policy has been designed in response to the Company's ongoing international expansion, to harmonise existing policies and to establish a single standard and universal policy. The Board of IBERDROLA RENOVABLES, S.A. has thereby acknowledged that without the help of a qualified, diversified and motivated team, delivery of the Company's strategic targets would not be possible.

IBERDROLA RENOVABLES delivers on-line courses on family-friendly policies, open to all employees, with the aim of publicising the measures and benefits available in the Company to balance personal and professional development.

## **7. TREASURY SHARES**

At the General Shareholders' Meeting of 26 June 2008, shareholders empowered the Board of Directors, under Article 75 of the revised Spanish Corporation Law, to acquire treasury shares on behalf of the company or on behalf of its subsidiaries up to a maximum of five (5) per cent of the share capital in accordance with the law, on the following conditions:

- (a) The shares may be acquired either directly by IBERDROLA RENOVABLES, S.A. or indirectly through its subsidiaries on the same terms as stated in the resolution.
- (b) Acquisitions can be made by purchase, swaps or any other form permitted by Law.
- (c) Acquisitions can be carried out at any time up to the legally permitted maximum.
- (d) Such acquisitions may not be made at a price higher than the market price or lower than the nominal value of the share.
- (e) This authorisation is granted for up to 18 months.
- (f) A restricted reserve shall be created in the Balance sheet of the purchasing company equivalent to the value of the treasury shares or in the parent company under assets. This reserve must be maintained as long as the shares are not disposed of or cancelled in accordance with Article 75, 3 of the Spanish Corporation Law.

Shares acquired under these powers can be transferred or cancelled or used for the compensation systems as provided for under Article 75, 1 of the Spanish Corporation Law. They may also be used to develop programmes that encourage participation in the share capital of IBERDROLA RENOVABLES, S.A. such as the dividend reinvestment plan, loyalty bonuses and other similar instruments.

Using these powers IBERDROLA RENOVABLES acquired in 2008, 22,880 thousand treasury shares for a total of EUR 64,467 thousand. It also disposed of 22,880 thousand treasury shares for a total of EUR 67,173 thousand.

The proceeds from the sale of treasury shares in 2008 were therefore EUR 2,706 thousand higher than their acquisition cost.

## **8. INFORMATION REQUIRED BY ARTICLE 116 BIS OF LAW 24/1988, OF 28 JULY, ON THE SECURITIES MARKET**

In accordance with Article 116 Bis of Law 24/1988, of 28 July, on the Securities Market, the Board of Directors of IBERDROLA RENOVABLES, S.A. ("IBERDROLA RENOVABLES" or "the Company") resolved at its meeting of 24 February 2009 to approve this report to shareholders detailing the issues included in the management reports that accompanied the individual and consolidated financial statements of the Company and its subsidiaries for the year 2008.

### **a) The capital structure, including securities that are not traded on a regulated EC market, the different classes of share, the rights and obligations conferred by each and the percentage of share capital represented by each class.**

The share capital of IBERDROLA RENOVABLES is EUR 2,112,032,450, consisting of 4,224,064,900 fully subscribed and paid shares with a nominal value of 0.50 euros each, numbered in sequence from 1 to 4,224,064,900, inclusive, consisting of a single class and series. The shares are represented by book entries. Ownership of a share confers on the legitimate owner the status of shareholder and the rights established by Law and by the bylaws of the Company.

### **b) Any restrictions on the transfer of securities.**

There are no statutory restrictions on the transfer of the shares comprising the share capital.

### **c) Significant direct and indirect shareholdings.**

Based on information available to the Company, the only major shareholder at the present time is IBERDROLA, S.A., which owns 80% of the share capital of IBERDROLA RENOVABLES.

### **d) Any restrictions on voting rights.**

Each share carries a right to one vote, with no limit on the maximum number of votes which may be cast by each shareholder or by companies belonging to the same group.

### **e) Agreements between shareholders.**

IBERDROLA RENOVABLES is not aware of any shareholder agreements among its shareholders.

f) **Procedures governing the appointment and replacement of directors and the amendment of the Company's bylaws.**

**Appointment and Replacement of Board Members.**

Articles 30, 31 and 32 of the bylaws, and Articles 11, 12, 13, 14, 15 and 16 of the Regulations of the Board of Directors govern the procedures for appointing and re-electing the board members of IBERDROLA RENOVABLES, and for resignations or removal from such positions; these Articles can be summarised as follows:

Capacities. The appointment of Board Members is the responsibility of shareholders at the General Shareholders' Meeting in accordance with the Spanish Corporation Law and Company bylaws.

Proposals for appointments and reappointments to the Board of Directors made by the Board of Directors shall be submitted to the General Shareholders' Meeting for consideration; decisions relating to appointments made by the Board of Directors, pursuant to the powers to co-opt which are legally ascribed to it, must be proceeded by a proposal from the Nominating and Compensation Committee in the case of independent directors, and by a report from the Committee in the case of other directors, which must register the new Board Member in one of the categories established in the Board Regulations.

Incompatibility. The following may not be appointed as Board Members:

- (i) Companies, and their directors or senior executives, whether domestic or foreign, which are competitors of the Company. Under no circumstances will companies which belong to the same Group as the Company be regarded as competitors.
- (ii) Any person who acts as a director for more than four companies which are listed on domestic or foreign stock markets.
- (iii) Any persons who in the two years prior to the appointment have held senior positions in the public administration which are incompatible with simultaneously performing the role of a director of a listed company, in accordance with state and autonomous community legislation, or who have held positions of responsibility in regulatory bodies with responsibility for the energy sector, security markets or any other sector in which the company is involved.
- (iv) Any person whose appointment would be incompatible with, or prohibited by, any legal dispositions of a general nature.

The qualities required of a director. The Board of Directors, and the Nominating and Compensation Committee within its areas of competence, shall ensure that the candidates proposed to the General Meeting for appointment to the Board of Directors, and the appointments that the Board makes directly to cover vacant posts exercising their powers to co-opt, are persons with acknowledged solvency, competence and experience, with particular attention being paid to the selection of independent directors.

Where directors are legal entities, the individual representing the legal entity on the Board is also subject to the same requirements of solvency, competence and experience indicated in the paragraph above and will be required personally to fulfil all the duties as a director laid down in the Regulations of the Board of Directors.

Length of appointment. Directors are appointed for a period of five years, providing that the General Meeting does not vote to remove them and that they do not leave their post; directors may be re-elected on one or more occasions for periods of five years. Vacant seats on the board which arise may be filled by the Board of Directors, on an interim basis exercising their powers to co-opt from among shareholders, in accordance with the Law, until the next General Shareholders' Meeting, which will confirm the appointment or elect another person to fill the vacant seat replacing the co-opted director, or removing the vacant seat.



Reappointment. Proposals for reappointment of Board Members which the Board of Directors decides to submit to the General Meeting must be subject to a formal presentation process, part of which must be a proposal issued by the Nominating and Compensation Committee in the case of independent directors, or a report issued by this Committee for other directors, evaluating the quality of work performed and their dedication to the position during the period of their appointment.

Replacement. Directors' appointments shall end at the expiry of the period for which they are appointed or when shareholders at the General Shareholders' Meeting so decide in exercise of their powers under the Law. Directors must submit their resignation to the Board of Directors in the following circumstances:

- (i) When they reach the age of seventy. The person shall cease to be a director at the first meeting of the Board of Directors held after the General Shareholders' Meeting which voted on the accounts for the year in which the director reached the age referred to herein.
- (ii) When they become incompatible with the position or their appointment becomes prohibited by general dispositions or by the Regulations of the Board of Directors (refer to the "Incompatibility" section above).
- (iii) When, as a result of actions attributable to the director in the performance of this role, serious damage occurs to the assets of the company, or should said person lose the professional reputation required to be one of the Company's directors.
- (iv) When the director receives a serious warning from the Board of Directors as a result of having infringed the obligations of a director, following a proposal from the Audit Committee, and when the warning is approved by a two-thirds majority of the directors.
- (v) When the interests of the Company could be put at risk by the person remaining on the Board; or should the reasons for which they were appointed cease to apply; or in the event that the shareholding of a proprietary director is transferred to another; or when the shareholder who proposed the appointment sells their shareholding in full or reduces it to a level which requires the removal of, or a reduction in the number of, proprietary directors.
- (vi) When an independent director becomes affected by any of the prohibiting circumstances provided for in the second section of the tenth article of the Board Regulations.
- (vii) When the link between a proprietary director and the shareholder which proposed their appointment ceases.

The grounds for resignation contained in sections (v) and (vi) above shall not apply when the Board of Directors considers that there are sufficient reasons to justify the continuing appointment of the director, without prejudice to the effect that the new situation might have on the person's qualifications for the position.

In the event that an individual representing a Company which holds a position as a director should be affected by any of the grounds for resignation described herein, said individual will be prevented from exercising such representation.

The Board of Directors may only propose that an independent director be removed before the period established in the bylaws has expired in the event that the Board considers that there is good cause following a report from the Nominating and Compensation Committee. Good cause shall be specifically understood to include when the director fails to fulfil the duties of the post or, in the case of independent directors, when they are affected by any of the prohibiting circumstances provided for in the second section of the tenth article of the Board Regulations. The removal of a director may also be proposed as a result of a tender offer, merger or other such corporate transaction which would result in a significant change in the company's capital structure.

## Changes to the bylaws

The procedures for amending the bylaws of the Company are, in general, those contained in Article 144 of the Spanish Corporation Law, and require approval by shareholders at the General Shareholders' Meeting with the majorities established in Article 103 of the same Law.

### **g) The powers of directors and, specifically, powers to issue or buy back shares.**

In accordance with Article 40 of the bylaws and Article 18 of the Board Regulations, the Chairman of the Board of Directors shall be considered to be the Chairman of the Company and all the administrative bodies to which the Chairman belongs, and will represent them on a permanent basis.

In addition, in accordance with the provisions of Article 37 of the bylaws and Article 23 of the Board Regulations, the Board of Directors will permanently function through an Executive Standing Committee empowered with all legal and statutory powers which may be devolved to it.

Furthermore, in accordance with Article 41 of the bylaws and Article 20 of the Board Regulations, the Board of Directors has nominated a Chief Executive Officer with all the powers of the Board of Directors, with the exception of those which as a result of legal requirements or the provisions of the bylaws cannot be delegated.

On 5 November 2007, the sole shareholder at the time, Iberdrola, S.A., empowered the Board of Directors, in accordance with Article 153.1 b) of the Spanish Corporation Law, to increase share capital, with the further power to exclude preferential subscription rights. The maximum nominal increase permitted under these powers is EUR 844,812,980, half the share capital at the time the powers were delegated, and may take place in one or several stages at any time within a period of five years from the date that the powers were delegated.

The Board of Directors is also empowered to delegate, in turn, to any of its members all the powers granted to increase the share capital under the same terms and conditions.

To date, the Board of Directors has not made use of these delegated powers.

At the General Shareholders' Meeting of 26 June 2008 shareholders authorised the Company's Board of Directors, with express powers of substitution, to acquire treasury shares up to the legal maximum during a maximum period of 18 months either directly or through subsidiaries, by purchase, swap or any other form permitted by Law. Such acquisitions may not be made at a price higher than the market price or lower than the nominal value of the share.

### **h) Significant agreements concluded by the company that will come into force, be amended or expire in the event of a change of control of the company following a takeover bid, and their effects, except where disclosure would severely prejudice the Company's interests. This exception shall not apply when the Company is legally bound to publish this information.**

The Company has entered into the following major agreements, which could be affected by a change of control:

1. A framework agreement signed by IBERDROLA RENOVABLES regulating third party access to personal data in the provision of services by IBERDROLA, S.A., on 14 May 2007.
2. An options contract signed by Societa Energie Rinnovabili S.p.A. (a subsidiary of the Company) and Api Holding S.p.A on 23 October 2007.
3. A contract for the provision of corporate communication, human resources, safety and hygiene, information technology, fleet and property management, insurance, credit risk, tax, regulatory, financial and cash flow services signed by a subsidiary of IBERDROLA, S.A., ScottishPower UK plc, and ScottishPower Renewable Energy Limited on 2 November 2007.
4. Reciprocal current account contracts (euros, US dollars and UK pounds) signed by the Company and its subsidiaries with IBERDROLA, S.A. on 2 November 2007.

5. A framework contract signed on 5 November 2007 which regulates the relationships between IBERDROLA S.A., IBERDROLA RENOVABLES and the companies in their groups, defining the scope of action for each, regulating the mechanisms required to prevent and resolve any conflicts of interest which might arise, and to carry out all linked operations.
6. A loan contract signed by ScottishPower Renewable Energy Holding Ltd. and IBERDROLA, S.A. (the lender) on 5 November 2007.
7. A framework management contract signed with Iberdrola Ingeniería y Construcción, S.A. on 5 November 2007.
8. A licence contract for the granting of use and management of brands and domain names signed with IBERDROLA, S.A. on 20 November 2007
9. A long-term finance contract (seven years) signed with IBERDROLA, S.A., on 20 November 2007.
10. An indemnity contract signed by IBERDROLA, S.A., the Company and ScottishPower Limited on 20 November 2007.
11. An energy supply contract signed between ScottishPower Renewable Energy Ltd., members of its group and members of IBERDROLA RENOVABLES ENERGY LTD Group on the first part and ScottishPower Energy Retail Ltd., the owner of UK wind farms, on the other part, on 20 November 2007.
12. Electricity supply contracts in the United Kingdom.
13. A Guarantee & Support contract signed by IBERDROLA, S.A. and ScottishPower Holdings Inc on 3 April 2008.
14. A framework agreement regulating the provision of corporate services between IBERDROLA, S.A. and IBERDROLA RENOVABLES on 27 June 2008.

With the exception of the cases detailed below, a change of control of the company would result in termination of these contracts. The UK energy supply contract (contract 11) could continue providing that the new parent company provides sufficient guarantees. In the case of the option contract signed with Api Holding, S.p.A. (contract no. 2), a change of control of the Company would give Api Holding, S.p.A. the right to acquire the shares in Societa Energie Rinnovabili S.p.A. (and any of its subsidiaries) owned by the Iberdrola Renovables Group.

IBERDROLA RENOVABLES and its subsidiaries have arranged loans and other agreements with financial institutions which are susceptible to early redemption or requirements for additional guarantees in the event of a change of control resulting from a tender offer, unless the change of control is not considered to be prejudicial; the total value of these is around EUR 347 million.

**l) Agreements between the Company and its board members, management or employees providing for compensation if they resign or are made redundant without valid reason or if the employment ceases because of a takeover bid.**

Senior executives and CEO: The contracts of IBERDROLA RENOVABLES' five senior executives, including executive directors, contain specific compensation clauses. The objective of these compensation clauses is to achieve a level of loyalty among the most senior executives that is effective and sufficient for the management of the Company and thereby avoid the loss of experience and skills that could jeopardise the achievement of strategic objectives. Compensation is based on the length of service or responsibility exercised by the senior executive in the Company, and ranges from a minimum of two years' annual salary to a maximum of five years'.

Employees: Standard employment contracts with the employees of IBERDROLA RENOVABLES generally contain no specific compensation clauses relating to termination of the employment relationship; in the event of such termination, the provisions of general employment legislation are applicable. There are, however, four standard employment contracts for employees in the management team that do contain specific compensation clauses. Compensation is based on the length of service or responsibility exercised by the employee in the Company, and ranges from a minimum two years' annual salary to a maximum five years'.

**9. ANNUAL CORPORATE GOVERNANCE REPORT**

**ANNUAL CORPORATE GOVERNANCE REPORT**

**LISTED COMPANIES**

DATA IDENTIFYING ISSUER

FISCAL YEAR ENDED

12/31/2008

TAX ID CODE A-83028035

**Registered Name:**

**IBERDROLA RENOVABLES, S.A.**

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**SPECIMEN ANNUAL CORPORATE GOVERNANCE REPORT FOR  
LISTED COMPANIES**

For a better understanding of this specimen report and completion hereof, it is necessary to read the instructions on how to complete it included at the end of this report.

Tax ID or similar code or number (NIF, CIF)	Other information
A-83028035	

**A OWNERSHIP STRUCTURE OF THE COMPANY**

**A.1. Complete the following table about the share capital of the Company:**

Date of last change	Share capital ( € )	Number of shares	Number of voting rights
12/12/2007	2,112,032,450	4,224,064,900	4,224,064,900

**State whether there are different classes of shares with different rights attaching thereto:**

No

**A.2. Breakdown of direct and indirect holders of significant shareholdings in the Company as of the end of the fiscal year, excluding directors:**

Individual or corporate name of shareholder	Number of direct voting rights	Number of indirect voting rights (*)	% of total Voting Rights
IBERDROLA, S.A.	3,379,251,920	0	80%

**Indicate the most significant changes in the shareholding structure that have occurred during the fiscal year:**

**A.3. Complete the following tables about members of the Board of Directors of the Company who have voting rights attaching to shares of the Company:**

Individual or corporate name of director	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
MR. JOSÉ IGNACIO SÁNCHEZ GALÁN	1,277,672	6,813	0.030
MR. XABIER VITERI SOLAUN	151,433	2,878	0.004
MS. MARÍA HELENA	0	0	0.000

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ANTOLÍN RAYBAUD			
MR. LUIS CHICHARRO ORTEGA	0	100,000	0.002
MR. ALBERTO CORTINA KOPLOWITZ	30,000	0	0.001
MR. CARLOS EGEA KRAUEL	0	0	0.000
MR. JULIO FERMOSE GARCÍA	4,527	7,352	0.000
MR. MARCOS FERNANDEZ FERMOSELLE	0	0	0.000
MR. JUAN PEDRO HERNÁNDEZ MOLTÓ	0	0	0.000
MR. SANTIAGO MARTÍNEZ LAGE	11,403	0	0.000
MR. MANUEL MOREU MUNAIZ	11,073	11,073	0.001
MR. JOSÉ LUIS SAN- PEDRO GUERENABARRENA	143,333	0	0.003
MR. JAVIER SÁNCHEZ- RAMADE MORENO	0	1,200	0.000
MR. JOSÉ SAINZ ARMADA	134,807	0	0.003
MR. ÁLVARO VIDEGAIN MURO	10,754	1,142	0.000

(\*) Through:

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Individual or corporate name of indirect shareholder	Individual or corporate name of direct shareholder	Number of direct voting rights	% of total voting rights
MR. JOSÉ IGNACIO SÁNCHEZ GALÁN	MS. MARÍA INMACULADA SÁNCHEZ GALÁN GARCÍA-TABERNERO	2,664	0.000
MR. JOSÉ IGNACIO SÁNCHEZ GALÁN	MR. JOSÉ IGNACIO SÁNCHEZ GALÁN GARCÍA-TABERNERO	1,383	0.000
MR. JOSÉ IGNACIO SÁNCHEZ GALÁN	MR. PABLO SÁNCHEZ GALÁN GARCÍA-TABERNERO	1,383	0.000
MR. JOSÉ IGNACIO SÁNCHEZ GALÁN	MS. TERESA SÁNCHEZ GALÁN GARCÍA-TABERNERO	1,383	0.000
MR. XABIER VITERI SOLAUN	MS. ESPERANZA BELZA ANGULO	1,439	0.000
MR. XABIER VITERI SOLAUN	MS. ANE VITERI BELZA	1,439	0.000
MR. LUIS CHICHARRO ORTEGA	J. GARNIVI, S.L.	100,000	0.002
MR. JULIO FERMOSE GARCÍA	MS. MARÍA ISABEL GONZALEZ INGELMO	7,352	0.000
MR. MANUEL MOREU MUNAIZ	MS. MARÍA GAMAZO TRUEBA	11,703	0.000
MR. JAVIER SÁNCHEZ-RAMADE MORENO	MR. RAFAEL SÁNCHEZ-RAMADE GUTIERREZ DE RAVÉ	1,200	0.000
MR. ÁLVARO VIDEGAIN MURO	MR. ALFREDO ARCOCHA CALVIN	1,142	0.000
<b>% of total voting rights held by the Board of Directors</b>			0.045

**Complete the following tables about members of the Company's Board of Directors who hold rights to shares of the Company:**

- A.4. Describe, if applicable, the family, commercial, contractual or corporate relationships between significant shareholders, to the extent known to the Company, unless they are immaterial or result from the ordinary course of business:**
- A.5. Describe, if applicable, the commercial, contractual or corporate relationships between significant shareholders and the Company and/or its group, unless they are immaterial or result from the ordinary course of business:**

**Type of relationship:**

Contractual

**Brief Description:**

Pursuant to the second recommendation of the Unified Good Governance Code, on November 5, 2007, IBERDROLA RENOVABLES and IBERDROLA, S.A. signed a framework agreement (hereinafter, the "Framework Agreement") in order to establish a transparent framework of relationships between both companies, which defines the scope of activity, regulates the mechanisms required

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to avoid and respond to possible conflict of interest situations, sets out the conditions under which the flow of information must occur and establishes the rules applicable to the conduct of related-party transactions between both companies or companies of their respective groups.

(i) Delimitation of the scope of activity of the Company and IBERDROLA, S.A.

The Framework Agreement provides that renewable energy business shall be carried out generally by companies of the Iberdrola Renovables Group.

As regards the gas business, the general principle is that IBERDROLA, S.A., either directly or through any of the companies that at any time form part of the IBERDROLA Group, shall have the exclusive power and complete freedom to develop, exploit and purchase and sell assets or companies within the scope of activity of the natural gas business on a worldwide level. The only exception to this general principle is that the Company shall continue to carry out, on a non-exclusive basis, the gas activities it has been carrying out in the United States, whose future development and expansion shall be set forth in the business plan in effect at any particular time, which IBERDROLA, S.A. shall respect.

(ii) Regulation of business opportunities.

The Framework Agreement also regulates business opportunities in the respective scope of activity of both companies. In this regard, when IBERDROLA, S.A. identifies a business opportunity in the renewable energy industry, it shall so notify the Company —unless prevented by special confidentiality obligations— in order for the latter to be able to decide on the opportunity to invest in the business in question, in which case IBERDROLA, S.A. shall refrain from exploiting such opportunity.

As regards the gas business, the Company and IBERDROLA, S.A. shall maintain the initiative in the identification of business opportunities in accordance with their respective scopes of activity. However, the Company shall notify IBERDOLA, S.A. of the opportunities of which it becomes aware aside from its current gas activities in the United States in order for the latter company to be able to decide on its participation therein, unless there are special obligations of confidentiality.

(iii) Flow of information between the Company and Iberdrola, S.A.

The Framework Agreement provides that the Company shall furnish Iberdrola, S.A. with such information as the latter requests and as may be necessary for IBERDROLA, S.A. to be able to: (i) fulfill its legal duties as the controlling company of the accounting and tax group to which the Company belongs; (ii) design the policies in an efficient fashion; and (iii) coordinate the strategies of the Iberdrola Group as well as for such other purposes as may inure to the benefit and be in the common interest of both companies.

(iv) Related-Party Transactions

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The Framework Agreement provides that the agreements whereby IBERDROLA, S.A. and the Company or companies within their respective groups carry out related-party transactions shall be executed in writing, unless exceptional circumstances are present. In addition, such related-party transactions must be conducted under arm's length conditions.

The Framework Agreement also provides for the creation of a Related-Party Transactions Committee within the Board of Directors of the Company, which shall issue a prior report on related-party transactions between the Company and IBERDROLA, S.A., or companies within their respective Groups, that meet certain requirements, as well as in situations of conflicts of interest between both companies or companies belonging to their respective Groups. This Committee shall be composed of a majority of independent Directors, and the proprietary Directors of IBERDROLA, S.A. may not be members thereof.

Since its creation, the Related-Party Transactions Committee has regularly reported to the Board on new relationships between Iberdrola, S.A. and the Company and their respective groups. Moreover, all of the existing relationships between both companies or their respective groups which remained in effect as of the entry into force of the Framework Agreement on December 13, 2007 were reviewed by the Related-Party Transactions Committee at its meeting of June 23, 2008, which submitted a report to the Board of Directors regarding the alignment of such contracts with the terms of the Framework Agreement; such report was approved by the Board of Directors at a meeting held on June 25, 2008.

<b>Individual or corporate name of related parties</b>
IBERDROLA, S.A.

**Type of relationship:**

Commercial

**Brief Description:**

The business relationships between Iberdrola, S.A. and Iberdrola Renovables, S.A. and their respective groups may be classified as follows:

- (i) Corporate services, including, among others, an agreement for the licensing, assignment and management of trademarks and domain names, agreements for the provision of corporate services, for planning, control and regulation, development and financial services, human resources, communication and institutional relations, safety and health, information technology, management of fleet and properties, insurance, credit risk management, legal, tax, regulatory and treasury services, coordination of cross-border transactions, secretarial work for certain companies and gas management coordination services.
- (ii) Financing and guarantees, including, among others, long-term financing agreements in favor of Iberdrola Renovables, checking account and mutual credit agreements, credit facilities, loan agreements, a contract of indemnity against liability, losses, claims or damages arising from the activity of companies that have become subsidiaries of the Company as a consequence of the restructuring of the renewable energy business carried out on the occasion of the initial public offering of shares of the Company, as well as bonds and

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guarantees given by the Company or companies within the Iberdrola Group in favor of third-party creditors of companies of the Iberdrola Renovables Group.

- (iii) Sale of power and gas, including, among others, long-term power purchase agreements, agreements for the transportation and purchase of natural gas or the sale of power through local distributors including companies belonging to the Iberdrola Group.
- (iv) Engineering, consulting, construction and technical assistance, including, among others, agreements for the provision of engineering, administration, management, advisory and maintenance services, agreements for the provision of technical assistance with a focus on system facilities, including monitoring systems for all the renewable energy facilities of the Company, as well as technical engineering and integrated management agreements for the development of specific wind farms and mini-hydroelectric plants and framework agreements for the construction of facilities on wind farms.
- (v) Research and development, carried out through Iberdrola's indirect 30% interest in the capital of Perseo Inversiones Financieras, S.L., a company whose purpose is the development of new technologies through projects in the renewable energy area and in which Iberdrola Renovables is the direct holder of the remaining 70%.

More detailed information may be found in section IV.19.4 of the registration document that forms a part of the prospectus for the initial public offering of shares of Iberdrola Renovables, filed with the CNMV on November 22, 2007.

Individual or corporate name of related parties
IBERDROLA, S.A.

**Type of relationship:**

Corporate

**Brief Description:**

Registered shareholder of 80% of the share capital of IBERDROLA RENOVABLES.

Individual or corporate name of related parties
IBERDROLA, S.A.

- A.6. Indicate whether any paracorporate (shareholders') agreements affecting the Company pursuant to the provisions of Section 112 of the Securities Market Law [*Ley del Mercado de Valores – LMV*] have been reported to the Company. If so, briefly describe them and list the shareholders bound by the agreement:**

No

**Indicate whether the Company is aware of the existence of concerted actions among its shareholders. If so, briefly describe them:**

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No

Expressly indicate whether any of such agreements, arrangements or concerted actions have been modified or terminated during the fiscal year.

A.7. Indicate whether there is any individual or legal entity that exercises or may exercise control over the Company pursuant to Section 4 of the Securities Market Law. If so, identify it:

Yes

Individual or corporate name
IBERDROLA, S.A.

Comments
IBERDROLA, S.A. holds an 80% interest in the share capital of IBERDROLA RENOVABLES.

A.8. Complete the following tables about the Company's treasury stock:

At year-end:

Number of direct shares	Number of indirect shares (*)	Total % of share capital
0	0	0

(\*) Through:

Total:	
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Describe any significant changes, pursuant to the provisions of Royal Decree 1362/2007, that have occurred during the fiscal year:

A.9. Describe the terms and conditions and the duration of the powers currently in force given by the shareholders acting at the General Shareholders' Meetings to the Board of Directors in order to acquire or transfer Company stock:

By resolution of the shareholders at the General Shareholders' Meeting of June 26, 2008 and pursuant to the provisions of section 75 of the Amended Text of the current Companies Law [*Ley de Sociedades Anónimas – LSA*], the shareholders resolved to authorize the Board of Directors to be able to carry out the derivative acquisition of the stock of IBERDROLA RENOVABLES on the following terms:

- a) Purchases may be made directly by IBERDROLA RENOVABLES or indirectly through its controlled companies.
- b) Purchases shall be made by means of a purchase and sale agreement, a swap arrangement or any other transaction permitted by law.
- c) Purchases may be made at any time, up to the maximum sum permitted by law.
- d) Purchases may not be made at a higher price than that quoted on the Stock Exchange or at a price lower than the share's nominal value.

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- e) The authorization is granted for a period not exceeding 18 months.
- f) On the liabilities side of the Balance Sheet of the acquiring company there shall be established a restricted reserve equal to the amount of the Company's own stock or the stock of the controlling company recorded on the Assets side. Such reserve shall be maintained while the stock is not transferred or redeemed, in compliance with the provisions under number 3 of Section 75 of the Companies Law.

The authorization expressly provided that the shares purchased could be used both for transfer or redemption or could be applied to the compensation systems provided for in the third paragraph of subsection 1 of Section 75 of the LSA; added to the foregoing alternatives was the possible development of programs fostering the acquisition of interests in the Company such as, for example, dividend reinvestment plans, loyalty bonds or similar instruments.

**A.10. Indicate, if applicable, any legal or by-law restrictions on the exercise of voting rights, and any legal restrictions on the acquisition or transfer of interests in share capital. Indicate whether there are legal restrictions on the exercise of voting rights:**

NO

Maximum percentage of voting rights that a shareholder may exercise due to legal restrictions	0
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**Indicate whether there are by-law restrictions on the exercise of voting rights:**

NO

Maximum percentage of voting rights that a shareholder may exercise due to by-law restrictions	0
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**Indicate whether there are legal restrictions against the acquisition or transfer of interests in the share capital:**

**A.11. Indicate whether the shareholders acting at a General Shareholders' Meeting have approved the adoption of breakthrough measures in the event of a public tender offer pursuant to the provisions of Law 6/2007:**

Yes  No

**If applicable, describe the approved measures and the terms on which the restrictions will become ineffective.**

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## B STRUCTURE OF THE COMPANY'S MANAGEMENT

### B.1. Board of Directors

#### B.1.1. State the maximum and minimum number of Directors set forth in the By-Laws:

Maximum number of directors	15
Minimum number of directors	8

#### B.1.2. Complete the following table identifying the members of the Board of Directors:

Individual or corporate name of director	Representative	Position	Date of first appointment	Date of last appointment	Election procedure
MR. JOSÉ IGNACIO SÁNCHEZ GALÁN		CHAIRMAN	11/5/2007	11/5/2007	VOTE AT GENERAL SHAREHOLDERS' MEETING
MR. XABIER VITERI SOLAUN		CEO	11/5/2007	11/5/2007	VOTE AT GENERAL SHAREHOLDERS' MEETING
MS. MARÍA HELENA ANTOLÍN RAYBAUD		DIRECTOR	11/5/2007	11/5/2007	VOTE AT GENERAL SHAREHOLDERS' MEETING
MR. ALBERTO CORTINA KOPLOWITZ		DIRECTOR	11/5/2007	11/5/2007	VOTE AT GENERAL SHAREHOLDERS' MEETING
MR. LUIS CHICHARRO ORTEGA		DIRECTOR	11/5/2007	11/5/2007	VOTE AT GENERAL SHAREHOLDERS' MEETING
MR. CARLOS EGEA KRAUEL		DIRECTOR	11/5/2007	11/5/2007	VOTE AT GENERAL SHAREHOLDERS' MEETING
MR. JULIO FERMOSE GARCÍA		DIRECTOR	11/5/2007	11/5/2007	VOTE AT GENERAL SHAREHOLDERS' MEETING
MR. MARCOS FERNÁNDEZ FERMOSELLE		DIRECTOR	11/5/2007	11/5/2007	VOTE AT GENERAL SHAREHOLDERS' MEETING
MR. JUAN PEDRO HERNÁNDEZ MOLTÓ		DIRECTOR	11/5/2007	11/5/2007	VOTE AT GENERAL SHAREHOLDERS' MEETING
MR. SANTIAGO MARTÍNEZ LAGE		DIRECTOR	11/5/2007	5/11/2007	VOTE AT GENERAL SHAREHOLDERS' MEETING
MR. MANUEL MOREU MUNAIZ		DIRECTOR	11/5/2007	11/5/2007	VOTE AT GENERAL

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					SHAREHOLDERS' MEETING
MR. JOSÉ LUIS SAN PEDRO GUERENABARRENA		DIRECTOR	11/5/2007	11/5/2007	VOTE AT GENERAL SHAREHOLDERS' MEETING
MR. JAVIER SÁNCHEZ-RAMADE MORENO		DIRECTOR	11/5/2007	11/5/2007	VOTE AT GENERAL SHAREHOLDERS' MEETING
MR. JOSÉ SAINZ ARMADA		DIRECTOR	11/5/2007	11/5/2007	VOTE AT GENERAL SHAREHOLDERS' MEETING
MR. ÁLVARO VIDEGAIN MURO		DIRECTOR	11/5/2007	11/5/2007	VOTE AT GENERAL SHAREHOLDERS' MEETING

<b>Total Number of Directors</b>	15
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Indicate vacancies on the Board of Directors during the period:

**B.1.3. Complete the following table about the members of the Board and each member's status:**

**EXECUTIVE DIRECTORS**

Name	Committee that has proposed the director's appointment	Position within the Company's structure
MR. XABIER VITERI SOLAUN	NOMINATING AND COMPENSATION COMMITTEE	CEO

<b>Total number of executive directors</b>	1
<b>Total % of Board members</b>	6.67%

**EXTERNAL PROPRIETARY DIRECTORS**

Name	Committee that has proposed him/her	Individual or corporate name of the significant shareholder represented by the director or that has proposed the director's appointment
MR. JOSÉ IGNACIO SÁNCHEZ GALÁN	NOMINATING AND COMPENSATION COMMITTEE	IBERDROLA, S.A.
MR. ALBERTO CORTINA KOPLOWITZ	NOMINATING AND COMPENSATION COMMITTEE	IBERDROLA, S.A.
MR. CARLOS EGEA KRAUEL	NOMINATING AND COMPENSATION COMMITTEE	IBERDROLA, S.A.
MR. JULIO FERMOSE GARCÍA	NOMINATING AND COMPENSATION COMMITTEE	IBERDROLA, S.A.

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MR. MARCOS FERNÁNDEZ FERMOSELLE	NOMINATING AND COMPENSATION COMMITTEE	IBERDROLA, S.A.
MR. JUAN PEDRO HERNÁNDEZ MOLTÓ	NOMINATING AND COMPENSATION COMMITTEE	IBERDROLA, S.A.
MR. JOSÉ LUIS SAN-PEDRO GUERENABARRENA	NOMINATING AND COMPENSATION COMMITTEE	IBERDROLA, S.A.
MR. JAVIER SÁNCHEZ-RAMADE MORENO	NOMINATING AND COMPENSATION COMMITTEE	IBERDROLA, S.A.
MR. JOSÉ SAINZ ARMADA	NOMINATING AND COMPENSATION COMMITTEE	IBERDROLA, S.A.

<b>Total number of proprietary directors</b>	9
<b>Total % of Board members</b>	60%

## EXTERNAL INDEPENDENT DIRECTORS

### Individual or corporate name of director

MS. MARÍA HELENA ANTOLÍN RAYBAUD

#### Profile

Born in Toulon, 1966. Spanish citizen. Degree in International Business & Business Administration from Eckerd College, St. Petersburg, Florida (United States) and MBA from Anglia University, Cambridge (United Kingdom) and from Escuela Politécnica de Valencia (Spain). She has held various positions within the Antolín Group, such as Total Quality manager (Antolín-Autoform Group, Germany), Organization and Methodology manager (Antolín-Loire Group, France) and Communications manager (Antolín-Irausa Group, Spain), as well as Deputy Manager (Pianfei Group, Italy). She has also served as Managing Director of the Antolín-IPV Group (Valencia), and as Manager of Human Resources Development (Antolín-Irausa Group, Burgos, Spain).

Currently serving as Member of the Board of Directors of the Antolín-Irausa Group, S.A., and as Director of Operations of VW & Porsche Group Account and Corporate Director of Strategy.

### Individual or corporate name of director

MR. LUIS CHICHARRO ORTEGA

#### Profile

Born in Madrid, 1954. Spanish citizen. Degrees in Economics from Universidad Pontificia de Comillas (ICADE) and Law from Universidad de Deusto.

Began professional career as assistant manager of Banca López Quesada. Vice-chairman at J.P. Morgan from 1979 to 1989, going on to become, from 1989 to 1993, general manager of Swiss Bank Corporation España, S.A. and Chief Executive Officer of SBS Sociedad de valores, SVB, S.A. Subsequently, held the post of Director of Omnilogic Telecomunicaciones, S.A and Chief Executive Officer of S.A. Sanpere and of Sistelcom. Vice-Chairman and Chief Executive Officer of Swiss Bank Corporation Ibersuizas, S.A. between 1994 and 1996. He was the individual representative of Ibersuizas Alfa, S.L., serving as director of Fomento de Construcciones y Contratas-FCC, from 2005 to January 31, 2008, and of Cementos Portland Valderribas from 2005 to May 28, 2008.

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One of the founding members of Inversiones Ibersuizas, S.A., where he held the position of Executive Vice-Chairman from 1996 until April 2008. Currently, Chairman of Estelar Advisers.

**Individual or corporate name of director**

MR. SANTIAGO MARTÍNEZ LAGE

**Profile**

Born in Betanzos, 1946. Spanish citizen. Degree in Law from Universidad de Madrid, academic excellence award received at graduation from the Montalbán and Blasco Ramírez Foundations. Continued his studies at Escuela de Funcionarios Internacionales de Madrid, Escuela Diplomática, Academia de Derecho Internacional de La Haya, “Europa Instituut” - Amsterdam and INSEAD - Fontainebleau.

He is a member of the Diplomatic Corps (Embassy Counselor), currently on leave.

As an attorney and business consultant, he founded the law firm Martínez Lage & Asociados in 1985 and specialized in European Union and Antitrust Law. That firm merged with the U.S. law firm Howrey LLP, and he is currently Managing Partner of Howrey Martínez Lage S.L.

He is Secretary of the Board of Directors of SKF Española and of Fujitsu Services, and has held such post in the past for other companies such as Telettra España and Empresa Nacional Elcano of the Merchant Marine.

He is a member of the Board of Directors of the Círculo de Empresarios.

**Individual or corporate name of director**

MR. MANUEL MOREU MUNAIZ

**Profile**

Born in Pontevedra, 1953. Spanish citizen. Doctor in Naval Engineering from the Escuela Técnica Superior de Ingeniería Naval - Madrid and Master of Science in Ocean Engineering from the Massachusetts Institute of Technology (MIT).

He began his professional career in 1978 as Head of the Technical Department of the Classification Association Fidenavis. Subsequently, he went on to become Technical Manager at Seaplace, S.L. where he has developed a number of important projects until the present, combining his duties with work as a professor at the Escuela Técnica Superior de Ingenieros de Madrid and in various graduate courses at the Instituto Superior de la Energía (ISE) and CSIC, on issues related to Offshore Engineering. He is Dean of the College of Naval Oceanic Engineering and a member of the Technical Committee of Germanischer Lloyd.

He is currently Chairman of Seaplace, S.L., Tierra Dentro, S.L., HI Ingeniería y Proyectos and Howard Engineering and Development.

**Individual or corporate name of director**

MR. ÁLVARO VIDEGAIN MURO

**Profile**

Born in Bilbao, 1951. Spanish citizen. Degrees in Economics and Law from Universidad de Deusto.

He started working in 1981 at Tubacex, S.A., company in which he held the position of Manager of Exports and, then, Assistant General Manager in charge of the Commercial and Marketing areas. He was appointed Chief Executive Officer of Tubacex, S.A. in 1992.

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Currently, Chairman and Chief Executive Officer of Tubacex, S.A., Director of SENER S.A., and of IMQ S.A., member of the Advisory Council of Mercapital, S.L. as well as of the Board of Trustees of APD Norte and of the Board of Trustees of Deusto Business School.

President of the Círculo de Empresarios Vascos and Vice President of Innovasque.

<b>Total number of independent directors</b>	5
<b>Total % of Board members</b>	33.33%

#### **OTHER EXTERNAL DIRECTORS**

**Describe the reasons why they cannot be considered proprietary or independent directors as well as their ties, whether with the company or its management or with its shareholders.**

**Indicate the changes, if any, in the type of director during the period:**

- B.1.4. Describe, if applicable, the reasons why proprietary directors have been appointed at the proposal of shareholders whose shareholding interest is less than 5% of share capital.**

**State whether formal petitions for presence on the Board have been received from shareholders whose shareholding interest is equal to or greater than that of others at whose proposal proprietary directors have been appointed. If so, describe the reasons why such petitions have not been satisfied.**

NO

- B.1.5. State whether any director has withdrawn from his/her position before the expiration of his/her term of office, whether the director has given reasons to the Board and by what means, and in the event that he/she gave reasons in writing to the full Board, describe at least the reasons given by the director:**

NO

- B.1.6. Indicate the powers delegated to the CEO(s), if any:**

**Individual or corporate name of director**

MR. XABIER VITERI SOLAUN

**Brief Description**

The Chief Executive Officer has all the powers of the Board of Directors that may be delegated under the laws and By-Laws.

- B.1.7. Identify the members of the Board, if any, who are managers or directors of other companies within the listed company's group:**

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Individual or corporate name of director	Listed company	Position
MR. XABIER VITERI SOLAUN	IBERDROLA RENEWABLES HOLDINGS INC.	CHAIRMAN
MR. XABIER VITERI SOLAUN	IBERDROLA RENEWABLES INC.	DIRECTOR
MR. CARLOS EGEA KRAUEL	ENERGÍAS RENOVABLES DE LA REGIÓN DE MURCIA, S.A.	CHAIRMAN

**B.1.8. Identify the directors of your company, if any, who are members of the Board of Directors of other companies listed on official stock exchanges in Spain other than those of your Group, that have been reported to your company:**

Individual or corporate name of director	Corporate name of listed company	Position
MR. JOSÉ IGNACIO SÁNCHEZ GALÁN	IBERDROLA, S.A.	CHAIRMAN & CEO
MR. CARLOS EGEA KRAUEL	ENAGÁS, S.A.	DIRECTOR
MR. ÁLVARO VIDEGAIN MURO	TUBACEX, S.A.	CHAIRMAN & CEO

**B.1.9. Indicate and, if applicable, explain whether the Company has established rules regarding the number of boards of which its directors may be members:**

YES

Description of rules
Article 12.b) of the Regulations of the Board of Directors prohibits the appointment as Directors of persons who act as directors in more than four companies with shares trading on domestic or foreign securities exchanges.

**B.1.10. In connection with recommendation number 8 of the Unified Code, indicate the Company's general policies and strategies reserved for approval by the full Board:**

<b>The investment and financing policy</b>	<b>YES</b>
<b>The definition of the structure of the group of companies</b>	<b>YES</b>
<b>The corporate governance policy</b>	<b>YES</b>
<b>The corporate social responsibility policy</b>	<b>YES</b>
<b>The strategic or business plan, as well as management objectives and annual budgets</b>	<b>YES</b>
<b>The policy regarding compensation and evaluation of performance of senior management</b>	<b>YES</b>

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The risk control and management policy, as well as the periodic monitoring of the internal information and control systems	YES
The dividend policy, as well the treasury stock policy and, especially, the limits thereto	YES

**B.1.11. Complete the following tables with respect to the aggregate compensation of directors accrued during the fiscal year:**

**a) At the Company covered by this report:**

Compensation item	Data in thousands of Euros
Fixed compensation	380
Variable compensation	224
Daily fees	619
Token payments	1,380
Share options and/or other financial instruments	0
Other	15

<b>Total:</b>	<b>2,618</b>
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Other benefits	Data in thousands of Euros
Advances	0
Loans granted	0
Pension funds and plans: Contributions	0
Pension funds and plans: Obligations incurred	0
Life insurance premiums	3
Guarantees given by the company for the benefit of directors	481

**b) On account of membership by the Company's directors on other boards of directors and/or in the senior management of Group companies:**

Compensation item	Data in thousands of Euros
Fixed compensation	0
Variable compensation	0
Daily fees	0
Token payments	0
Share options and/or other financial instruments	0
Other	0

<b>Total:</b>	<b>0</b>
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Other benefits	Data in thousands of Euros
Advances	0
Loans granted	0
Pension funds and plans: Contributions	0
Pension funds and plans: Obligations incurred	0
Life insurance premiums	0
Guarantees given by the company for the benefit of directors	0

**c) Total compensation by type of director:**

Type of director	Per company (thousands of Euros)	Per group (thousands of Euros)
Executive	790	0
External Proprietary	1,071	0
External Independent	757	0
Other External	0	0
<b>Total:</b>	<b>2,618</b>	<b>0</b>

**d) As a percentage of the profits attributable to the controlling company:**

<b>Total director compensation (in thousands of euros)</b>	2,618
<b>Total director compensation / profits attributable to the controlling company (as a %)</b>	0.7

**B.1.12. Identify the members of senior management who are not also executive directors, and state the total compensation accruing to them during the fiscal year:**

Name	Position
ANA ISABEL BUITRAGO MONTORO	GENERAL SECRETARY & SECRETARY OF THE BOARD OF DIRECTORS
RALPH CURREY	BUSINESS DIRECTOR – U.S.
RAFAEL DE ICAZA DE LA SOTA	DIRECTOR OF ADMINISTRATION AND CONTROL
ÁLVARO DELGADO PIERA	CHIEF CORPORATE RESOURCES OFFICER
JOSÉ ÁNGEL MARRA RODRÍGUEZ	DIRECTOR OF ECONOMIC AND FINANCIAL DIVISION
ESTANISLAO REY- BALTAR BOOGEN	DEPUTY TO CHIEF EXECUTIVE OFFICER

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VÍCTOR MANUEL RODRÍGUEZ RUIZ	BUSINESS DIRECTOR – SPAIN
SONSOLES RUBIO REINOSO	DIRECTOR OF INTERNAL AUDIT
MARÍA DE LOS ÁNGELES SANTAMARÍA MARTÍN	DIRECTOR OF MARKETS AND PROSPECTS
JOSÉ JOAQUÍN SANTAMARÍA TAMAYO	DIRECTOR OF OPERATIONS
KEITH STUART ANDERSON	BUSINESS DIRECTOR – UNITED KINGDOM
JAMIE WILSON	BUSINESS DIRECTOR – REST OF WORLD

<b>Total compensation of senior management (thousands of Euros)</b>	<b>5,786</b>
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**B.1.13. Identify, on an aggregate basis, if there are indemnity or “golden parachute” provisions for the benefit of senior management, including executive directors, of the Company or its Group in the event of dismissals or changes of control. Indicate whether such agreements must be reported to and/or approved by the decision-making bodies of the Company or its Group:**

<b>Number of beneficiaries</b>	5
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	<b>Board of Directors</b>	<b>Shareholders (at the General Shareholders’ Meeting)</b>
<b>Decision-making body approving the provisions</b>	YES	NO

<b>Is information about these provisions given to the shareholders at the General Shareholders’ Meeting?</b>	YES
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**B.1.14. Describe the process to set the compensation of the members of the Board of Directors and the relevant provisions of the By-Laws with regard thereto.**

<b>Process to set the compensation of the members of the Board of Directors and by-law provisions</b>
<p>The process to set the compensation of the members of the Board of Directors is established in the By-Laws (Article 44) and in the Regulations of the Board of Directors (Articles 7.4 and 36).</p> <p>Article 44 of the By-Laws of IBERDROLA RENOVABLES provides that the Directors, in their capacity as members of the Board of Directors, shall have the right to receive compensation from the Company consisting of (a) a fixed payment; and (b) fees for attending meetings of the Board and the Committees thereof.</p> <p>The total amount of compensation that the Company may pay to the members of the Board for the items set forth in the preceding paragraph shall not exceed the amount to be determined by the shareholders at the General Shareholders’ Meeting for such purposes. That total amount includes fixed</p>

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and variable compensation and indemnification of Directors who perform executive duties.

The setting of the exact amount to pay within the limit set by the shareholders at the General Shareholders' Meeting, the distribution thereof among the various Directors, the standards to take into account for distribution among them, the frequency of payment, and, in general, all that is not provided for by the shareholders acting at the General Shareholders Meeting, shall be established by the Board of Directors, following a proposal from the Nominating and Compensation Committee.

Additionally, Article 44 of the By-Laws provides that Director compensation may consist of shares or options thereon, or of compensation that is linked to the value of the Company's shares. The application of these systems of compensation must be approved by the shareholders at the General Shareholders' Meeting.

**State whether the full Board has reserved the right to approve the following decisions:**

<b>At the proposal of the Company's chief executive, the appointment and, if applicable, the removal of senior managers, as well as their indemnity provisions.</b>	<b>YES</b>
<b>The compensation of directors and, in the case of executive directors, the additional compensation for their executive duties and other terms and conditions that must be included in their contracts.</b>	<b>YES</b>

**B.1.15. State whether the Board of Directors approves a detailed compensation policy and specify the matters covered thereby:**

YES

<b>Amount of fixed components, with a breakdown, if applicable, of fees payable for attendance at meetings of the Board and its Committees and estimated annual fixed compensation arising therefrom</b>	<b>YES</b>
<b>Variable compensation items</b>	<b>YES</b>
<b>Main characteristics of the social security systems, with an estimate of the amount thereof or equivalent annual cost.</b>	<b>YES</b>
<b>Terms and conditions that must be included in the contracts with executive directors performing senior management duties</b>	<b>YES</b>

**B.1.16. State whether the Board submits a report on director compensation policy to the vote of the shareholders at a General Shareholders' Meeting for consultative purposes. If so, describe the relevant portions of the report regarding the compensation policy approved by the Board for the following years and the most significant changes experienced by such policies vis-à-vis the policy applied during the fiscal year, and provide an outline of the manner in which the compensation policy was applied during the fiscal year. Describe the role of the Compensation Committee and, if external advice has been provided, state the name of the external advisors that have given such advice:**

NO

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<b>Role of the Nominating and Compensation Committee</b>
<p>As prescribed by Article 28 of the Regulations of the Board of Directors, the Nominating and Compensation Committee has performed the following consultative and proposal-making tasks with respect to the director compensation policy for the aforementioned period:</p> <ul style="list-style-type: none"> <li>- Has issued a favorable report on the proposed Director compensation policy prior to the approval thereof by the Board of Directors.</li> <li>- Has submitted to the Board of Directors a draft annual report on the director compensation policy that was approved by the Board of Directors at its May 20, 2008 meeting and made available to shareholders as provided in Article 36.3 of the Regulations of the Board of Directors.</li> </ul>

<b>Has external advice been utilized?</b>	NO
<b>Name of external advisors</b>	

**B.1.17. Indicate the identity of the members of the Board of Directors, if any, who are also members of the board of directors, managers or employees of companies that hold a significant interest in the listed company and/or in companies within its Group:**

Individual or corporate name of director	Individual or corporate name of significant shareholder	Position
MR. JOSÉ IGNACIO SÁNCHEZ GALÁN	IBERDROLA, S.A.	CHAIRMAN & CEO
MR. JOSÉ LUIS SAN-PEDRO GUERENABARRENA	IBERDROLA, S.A.	DIRECTOR OF OPERATIONS
MR. JOSÉ SAINZ ARMADA	IBERDROLA, S.A.	DIRECTOR OF ECONOMIC AND FINANCIAL DIVISION

**Describe, if applicable, any significant relationships other than the ones contemplated in the prior item, of the members of the Board of Directors linking them to significant shareholders and/or at companies within the Group:**

**B.1.18. State whether the Regulations of the Board of Directors have been amended during the fiscal year:**

NO

Description of amendments

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**B.1.19. Indicate the procedures for the appointment, re-election, evaluation and removal of Directors. List the competent bodies, the procedures to be followed and the criteria applied in each of such procedures.**

1. APPOINTMENT OF DIRECTORS

The power to appoint and remove Directors is governed by the By-Laws (Articles 13.1.a, 30.1 and 43.3) and the Regulations of the Board of Directors (Article 11 *et seq.*).

Generally, the appointment and removal of Directors is within the purview of the shareholders acting at a General Shareholders' Meeting, and the Board of Directors may fill any vacancies that might occur by means of interim appointment among the shareholders, pursuant to the provisions of the Law, until the first General Shareholders' Meeting held thereafter, whereat the shareholders shall approve the appointments, shall elect the persons who should replace the Directors that have not been ratified or shall withdraw the vacant positions (Article 43.3 of the By-Laws).

The Board of Directors shall endeavor to ensure that the candidates proposed to the shareholders at the General Shareholders' Meeting for their appointment as Directors, and the appointments directly made by the Board in the exercise of its power to make interim appointments, will be persons of recognized character, competence and experience, and shall be particularly rigorous in connection with the selection of those persons who are to hold office as independent Directors.

The Nominating and Compensation Committee is responsible for (i) submitting to the Board of Directors the proposals for appointment of Independent Directors to fill a vacancy or, as the case may be, for submission thereof to a decision by the shareholders at the General Shareholders' Meeting; and (ii) reporting to the Board of Directors on the proposals for appointment of the other Directors who are not independent for their appointment by the Board of Directors or, as the case may be, for submission thereof to a decision by the shareholders at the General Shareholders' Meeting.

In connection with the aforementioned duty, at its meeting of April 11, 2008, the Nominating and Compensation Committee approved a specific procedure for the selection of directors, in conformity with recommendations 15 and 55 of the Unified Good Governance Code, according to which the Nominating and Compensation Committee:

- (i) shall review the criteria for selection of directors and shall assist the Board in determining the standards that candidates must meet, taking into consideration the needs of the Board of Directors and according to the areas within the Board that must be strengthened;
- (ii) shall verify that all candidates meet the general requirements provided by the By-Laws, the Regulations of the Board of Directors and the Laws;
- (iii) shall ensure that, in the event of new vacancies, the selection procedures are free from any implied bias entailing any kind of discrimination;
- (iv) in the case of candidates for the position of independent Director, shall verify compliance with the specific requirements for this class of director provided in the By-Laws and in the

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Regulations of the Board of Directors of the Company, and shall gather adequate information regarding the personal qualities, experience, knowledge and effective availability of the candidates;

- (v) in the case of the other candidates for Director, shall select, at the request of the Board of Director, the potential candidates and submit to the Board of Directors through the Chairman of that body the candidates who have been selected. With respect to the non-independent directors, the Board may make a well-reasoned selection different from the one made by the Committee.

Upon completion of the procedure described in the preceding paragraphs, the Committee must submit to the Board of Directors a duly substantiated document setting forth its proposals for appointment of independent Directors and its mandatory report regarding the proposals made by the Board in connection with the rest of the Directors, for appointment thereof by the shareholders at a General Shareholders' Meeting or, if applicable, by the Board of Directors itself in exercise of its power to make interim appointments to fill vacancies.

The proposals or reports submitted by the Committee to the Board of Directors must assess the background and qualifications of the various candidates and place them in one of the categories established in the By-Laws of the Company.

In addition, the Regulations of the Board of Directors establish the instances of incompatibility to be appointed as director (Article 12 of the Regulations of the Board of Directors), as well as the specific instances of incompatibility to be classified as an independent director (Article 10.2 of the Regulations of the Board of Directors).

## 2. RE-ELECTION OF DIRECTORS

As provided in Article 15.1 of the Regulations of the Board of Directors, the proposals for re-election of Directors that the Board of Directors resolves to submit to the decision of the shareholders at the General Shareholders' Meeting shall be subject to a formal process of preparation, which shall include a proposal issued by the Nominating and Compensation Committee, in the case of independent Directors, or a prior report of such Committee, in the case of the other Directors, containing an analysis of the quality of the work performed and the dedication to the position shown by the proposed Directors during the preceding term of office.

## 3. EVALUATION OF DIRECTORS

Pursuant to Article 33.1 of the Regulations of the Board of Directors, the Board must evaluate, on an annual basis, (i) its operation and the quality of its work, (ii) the performance of his duties by the Chairman of the Board and, if applicable, by the Chief Executive Officer of the Company, based on the report submitted thereto by the Nominating and Compensation Committee, and (iii) the operation of its Committees, based on the report submitted thereto by such Committees. For such purpose, the Chairman of the Board of Directors shall organize and coordinate with the Chairmen of the Committees the evaluation by the Board.

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The process of evaluation of the Board of Directors and its Committees for fiscal year 2008 was commenced by virtue of a resolution of the Company's Board of Directors on October 22, 2008.

In order to carry out this evaluation, the Chairman has coordinated and supervised the assessment of the performance of the Board of Directors as well as the efficiency of its actions and the contribution of its members to the execution of the duties of the Board of Directors.

Once these actions had been completed, at a meeting held on February 24, 2009, the Board of Directors completed the aforementioned evaluation process for fiscal year 2008 by means of the adoption of the corresponding resolution, concluding, in broad outline, that the Board of Directors is organized and operates correctly and, specifically, that:

- As regards its composition, the Board of Directors fully complies with the provisions of the By-Laws and its Regulations, which, in turn, include the recommendations of the Unified Good Governance Code in this field. In this regard, the external proprietary Directors and the independent Directors account for a large majority on the Board, as only one of its members is an executive Director. In addition, the ratio between the number of proprietary Directors and of independent Directors reflects the existing ratio between the Company's capital represented by proprietary Directors and the rest of the capital.
- As regards its operation, the Board has met as frequently as has been appropriate and in compliance with the provisions of the Regulations of the Board of Directors of Iberdrola Renovables. Specifically, it has complied with the duty to meet at least once a month, excepting only the month of August. As far as the conduct of its meetings is concerned, the requirements relating to call to meetings and attendance have been satisfied in all cases, and the Board members have participated in the deliberations with all the required information having been made available to them.
- The Board has efficiently and satisfactorily discharged the duties assigned thereto by the By-Laws and the Regulations of the Board of Directors of the Company.

Furthermore, the Board has set for itself as an objective for fiscal year 2009 to continue with training actions and to maintain an information program whereby the Directors may gain deeper knowledge of the business, the regulatory and corporate governance framework and the economic and financial conditions in which the Company does business, as well as to encourage and increase the attendance of the Company's Senior Managers at meetings of the Board of Directors in order for them to report to the Board on matters within their area of responsibility.

In addition, without prejudice to the consultative Committees (Audit and Compliance, Related-Party Transactions and Nominating and Compensation) continuing to report, through their respective Chairmen and at the first meeting of the Board following their own meetings, on the resolutions approved and the significant events that have occurred at such meetings, the Board has resolved to obtain from the three Committees, through their Chairmen, a periodic report setting forth the actions and working plans proposed by each of them.

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In the same manner, at the aforementioned meeting of February 24, 2009, the Board of Directors completed its evaluation process for: (i) the Chairman of the Board of Directors and the Chief Executive Officer, based, in both such cases, on the respective reports submitted to it for such purpose by the Nominating and Compensation Committee; and (ii) each of the Committees, based on the self-evaluation reports issued by each of them.

#### 4. REMOVAL OF DIRECTORS

Article 43.1 of the Company's By-Laws provides that the Directors "shall serve in their position for a term of five (5) years, so long as the shareholders acting at the General Shareholders' Meeting do not resolve to remove or dismiss them and they do not resign from their position."

For its part, the Nominating and Compensation Committee is responsible for submitting to the Board of Directors proposals for the removal of independent Directors by the shareholders acting at a General Shareholders' Meeting, and for reporting to the Board of Directors regarding proposals for removal of the other Directors by the shareholders at such General Shareholders' Meeting (Article 28.2 of the Regulations of the Board).

The Board of Directors may only propose the removal of an independent Director before the passage of the period provided for in the By-Laws upon sufficient grounds, evaluated by the Board and after a report of the Nominating and Compensation Committee. In particular, it shall be deemed that there are sufficient grounds to propose the removal when an independent Director fails to perform the duties inherent in his position or when an independent Director is affected, at any time following his appointment as such, by any of the prohibitions to hold office provided for in the Regulations of the Board of Directors. Such removal may also be proposed as a consequence of a public tender offer, merger or other similar corporate transactions that entail a significant change in the equity structure of the Company (Article 16.4 of the Regulations of the Board of Directors), as recommended by the Unified Corporate Governance Code.

#### **B.1.20. Indicate the circumstances under which the resignation of Directors is mandatory.**

Pursuant to the provisions of Article 43.1 of the By-Laws, the Directors must submit their resignation from the position and formalize their withdrawal upon the occurrence of any of the instances of incompatibility or prohibition against performing the duties of Director provided by Law, as well as upon the occurrence of the events, if any, established by the Regulations of the Board of Directors.

By way of further development of the above-mentioned provision, Article 16.2 of the Regulations of the Board of Directors sets forth that the Directors shall tender their resignation to the Board of Directors and formally resign from their position in the following cases:

- (viii) When they reach the age of seventy (70). The resignation of the Director and resulting withdrawal from office shall occur at the first meeting of the Board of Directors that is held following the General Shareholders' Meeting at which the shareholders approve the financial statements for the fiscal year during which the Director reaches the above-mentioned age.

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- (ix) When they are involved in any circumstance of incompatibility or prohibition governed by provisions of a general nature or set forth in the Regulations of the Board of Directors.
- (x) When, as a result of any acts attributable to the Director in his capacity as such, serious damage is caused to the value of the Company or the Director ceases to deserve the commercial and professional respect required to be a Director of the Company.
- (xi) When they are seriously reprimanded by the Board of Directors because they have breached their duties as Directors and such reprimand is approved by a two-thirds majority of the Directors at the proposal of the Audit and Compliance Committee.
- (xii) When their continuance in office on the Board of Directors may jeopardize the interests of the Company or when the reasons why the Director was appointed cease to exist and, in any case, when a proprietary Director transfers his shareholding in the Company or when the shareholder which proposed his appointment to the Company sells its entire shareholding interest or reduces it to a level that requires the reduction or removal of its proprietary Directors.
- (xiii) When an independent Director is affected, at any time following his appointment as such, by any of the prohibitions to hold office provided for in paragraph 2 of Article 10 of the Regulations of the Board of Directors.
- (xiv) When a proprietary Director severs his relationship with the shareholder that proposed his appointment.

The cases of resignation described under items (v) and (vi) above shall not apply when the Board of Directors considers there are reasons that justify the Director continuing to hold office, without prejudice to the effect that the new circumstances may have on his classification.

**B.1.21. Explain whether the powers of the top executive of the Company are vested in the Chairman of the Board. If so, indicate the measures that have been taken to mitigate the risks of accumulation of powers in a single person:**

NO

<b>Measures to mitigate risks</b>
Although the Regulations of the Board of Directors provide for the possibility of the positions of Chairman and Chief Executive Officer being held by the same person and establish, if such is the case, methods to limit the possible risk of accumulation of powers in the same person, in a meeting held on November 5, 2007, the Board of Directors appointed two different persons to hold such positions, with the Chairman having the status of proprietary (non-executive) director.

**Indicate and, if applicable, explain whether rules have been established whereby one of the independent directors is authorized to request that a meeting of the Board be called or that**

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other items be included on the agenda, to coordinate and hear the concerns of external directors and to direct the evaluation by the Board of Directors.

YES

Description of rules
<p>In the event that the same person serves as Chairman and Chief Executive Officer, the Board of Directors must authorize one of the independent directors to coordinate and express the concerns of the external Directors and to request that the Chairman call a meeting of the Board of Directors when he deems it appropriate (Article 18.3 of the Regulations of the Board of Directors).</p> <p>Article 33.3 of the Regulations of the Board of Directors establishes the obligation to call a meeting of the Board of Directors if so requested by one-fourth of the Directors and the possibility for any Director to submit to the Chairman a proposal for inclusion of new items on the Agenda, which inclusion is mandatory when the proposal has been made not less than 5 days in advance of the date set for the meeting.</p> <p>Moreover, as provided by Article 33.1 of the Regulations of the Board of Directors, the Chairman must organize and coordinate the evaluation of the Board of Directors with the Chairmen of the Committees, which, except for the Executive Committee, are chaired by independent Directors.</p>

**B.1.22. Are qualified majorities, different from the statutory majorities, required to adopt any type of decision?**

YES

**Describe the method used by the Board of Directors to adopt resolutions, including at least the minimum quorum required to hold a valid meeting and the majorities required to adopt resolutions:**

**Description of resolution:**

The amendment of the Regulations of the Board of Directors (Art. 5.3 of the Regulations of the Board of Directors).

Quorum	%
Shall require the attendance, in person or by proxy, of one-half plus one of the Directors.	50.01

Type of Majority	%
Favorable vote of two-thirds of the Directors present in person and by proxy.	66.67

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**B.1.23. Explain whether there are specific requirements, other than the requirements relating to Directors, to be appointed Chairman.**

NO

**B.1.24. Does the Chairman have a tie-breaking vote?**

YES

<b>Matters on which a tie-breaking vote may be cast</b>
Pursuant to Article 35.6 of the Regulations of the Board of Directors, the Chairman shall, in the event of a tie, have the tie-breaking vote on any matter unless he becomes subject to a conflict of interest, in which case he must abstain from participating in the deliberation and voting stages, as provided in Article 42.2 of the above-mentioned Regulations.

**B.1.25. Indicate whether the By-Laws or the Regulations of the Board of Directors set forth any age limit for directors:**

YES

Age limit for the Chairman	Age limit for the CEO	Age limit for Directors
70	70	70

**B.1.26. Indicate whether the By-Laws or the Regulations of the Board of Directors establish any limit on the term of office for independent directors:**

NO

<b>Maximum term of office</b>	0
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**B.1.27. If the number of women directors is scant or nil, describe the reasons therefor as well as the initiatives adopted to correct such situation.**

<b>Description of reasons and initiatives</b>
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The Board has entrusted the Nominating and Compensation Committee with responsibility for ensuring that when new vacancies are filled or new Directors are appointed, the selection procedures are free from any implied bias entailing any kind of discrimination. It is so expressly provided by Article 28.2.m) of the Regulations of the Board of Directors.

Under the provisions of such Article, the Nominating and Compensation Committee has adopted, as described in section B.1.19 above, a specific procedure for the selection of Directors whereby the Committee is expressly entrusted with the task of ensuring that such procedure is free from any implied bias that may entail any kind of discrimination.

In any event, the selection procedure used for the appointment of Directors on November 5, 2007 and which led to the appointment of a woman director, Ms. María Helena Antolín Raybaud, was free from any bias preventing the appointment of more women.

**In particular, state whether the Nominating and Compensation Committee has established procedures which ensure that selection processes are free from any implied bias hindering the selection of women directors and which allow for the free search for women candidates that meet the required profile:**

YES

<b>Describe the main procedures</b>
Following the procedures established by the Nominating and Compensation Committee described in section B.1.19 above, this Committee, upon the request of the Board of Directors, shall request the potential candidates to be, if such is the case, appointed Directors of the Company and shall submit their proposals (in the case of independent directors) and reports (in the case of other directors) to the Board of Directors through the Chairman of the Board of Directors.

**B.1.28. Indicate whether there are formal procedures for proxy-voting at meetings of the Board of Directors. If so, briefly describe them.**

Article 35.2 of the Regulations of the Board of Directors provides that Directors shall use their best efforts to attend the meetings of the Board of Directors and, when unable to attend in person, they shall endeavor to give a proxy to another Director, to whom they shall give any appropriate instructions.

The proxy shall be a special proxy for the Board meeting in question, and may be communicated by any of the means provided for sending the calls to meeting, i.e., letter, fax, telegram, e-mail or any other means.

**B.1.29. Indicate the number of meetings that the Board of Directors has held during the fiscal year. In addition, specify the number of meetings, if any, at which the Chairman was not in attendance:**

<b>Number of meetings of the Board</b>	11
<b>Number of meetings of the Board at which the Chairman was not in attendance</b>	0

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Indicate the number of meetings held by the different committees of the Board of Directors during the fiscal year:

Number of meetings of the Executive Committee	21
Number of meetings of the Audit Committee	10
Number of meetings of the Nominating and Compensation Committee	9
Number of meetings of the nominating Committee	0
Number of meetings of the compensation Committee	0

**B.1.30. Indicate the number of meetings held by the Board of Directors during the fiscal year at which not all of its members have been in attendance. Proxies granted without specific instructions must be counted as absences:**

Number of absences of directors during the fiscal year	0
% of absences over total votes during the fiscal year	0

**B.1.31. Indicate whether the annual individual financial statements and the annual consolidated financial statements that are submitted to the Board for approval have been previously certified:**

YES

**Identify, if applicable, the person/persons that has/have certified the annual individual and consolidated financial statements of the Company for their approval by the Board:**

Name	Position
MR. XABIER VITERI SOLAUN	CHIEF EXECUTIVE OFFICER
MR. RAFAEL DE ICAZA DE LA SOTA	DIRECTOR OF ADMINISTRATION AND CONTROL

**B.1.32. Explain the mechanisms, if any, adopted by the Board of Directors to avoid any qualifications in the audit report on the annual individual and consolidated financial statements approved by the Board of Directors and submitted to the shareholders at the General Shareholders' Meeting.**

Articles 38 of the By-Laws and 25.2 of the Regulations of the Board of Directors establish the powers of the Audit and Compliance Committee, which include the following, among others:

- Know the process for gathering financial information and associated internal systems for monitoring risks relevant to the Company.
- Receive information from the Auditors regarding matters that might risk the independence thereof which are related to the auditing procedure and generally regarding any other information provided for in legislation regarding the auditing of financial statements and in the technical auditing regulations in effect at any time.
- Review the content of the Audit Reports prior to issuance thereof, in order to prevent the making of comments and qualifications, the content and scope of which, if any, shall be clearly explained to the shareholders by the Chairman of the Committee.
- Act as a channel of communication between the Board of Directors and the Auditors.

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In addition, Article 53.5 of the Regulations of the Board of Directors provides that the Board of Directors shall use its best efforts to definitively prepare the financial statements such that there is no room for reservations or qualifications by the Auditor. However, when the Board of Directors believes that its opinion must prevail, it shall provide a public explanation of the content and scope of the discrepancy.

The Audit and Compliance Committee is the body that, in practice, ensures fulfillment of this duty, primarily by means of reports submitted to the Board of Directors on the interim economic and financial information that the Company must periodically present to the National Securities Market Commission (CNMV).

Thus, the Audit and Compliance Committee has submitted the following reports to the Board of Directors, relating to the periodic economic and financial information for fiscal year 2008 presented to the National Securities Market Commission:

- Report dated April 14, 2008 on the economic and financial information for the first quarter of 2008.
- Report dated July 21, 2008 on the economic and financial information for the first half of 2008.
- Report dated October 22, 2008 on the economic and financial information for the third quarter of 2008.
- Report dated February 24, 2009 on the annual financial statements of IBERDROLA RENOVABLES and its consolidated Group for fiscal year 2008.

Additionally, on February 10, 2009, the Audit and Compliance Committee submitted a report on the economic and financial information for fiscal year 2008, in connection with a preview of results for fiscal year 2008 submitted on February 13, 2009.

As set forth in the information about IBERDROLA RENOVABLES posted on the website of the CNMV ([www.cnmv.es](http://www.cnmv.es)) and of the Company ([www.iberdrolarenovables.es](http://www.iberdrolarenovables.es)), the individual and consolidated annual financial statements for the three fiscal years immediately preceding the fiscal year covered by this report have been issued without qualifications.

**B.1.33. Is the Secretary of the Board of Directors a Director?**

NO

**B.1.34. Explain the procedures for appointment and removal of the Secretary of the Board, stating whether the appointment and removal thereof have been reported upon by the Nominating Committee and approved by the full Board.**

<b>Procedure for appointment and removal</b>
Pursuant to Article 21.1 of the Regulations of the Board of Directors, the Board of Directors shall appoint the Secretary at the proposal of the Chairman and after a report of the Nominating and Compensation Committee. The same procedure must be followed in order to approve the removal of the Secretary.

<b>Does the Nominating Committee report on the appointment?</b>	YES
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Does the Nominating Committee report on the removal?	YES
Does the full Board approve the appointment?	YES
Does the full Board approve the removal?	YES

**Is the Secretary of the Board responsible for specially ensuring compliance with good governance recommendations?**

YES

Comments
Under Article 21.3.b) of the Regulations of the Board of Directors, the Secretary has, among others, the duty to “ensure the formal and substantive legality of all actions taken by the Board of Directors and compliance with regulations and by-law provisions, and to ensure observance of the principles or standards of corporate governance of the Company and the provisions of the Regulations of the Board of Directors.”

**B.1.35. Indicate the mechanisms, if any, used by the Company to preserve the independence of the auditor, the financial analysts, the investment banks and the rating agencies.**

#### 1. MECHANISMS TO PRESERVE THE INDEPENDENCE OF THE AUDITOR

Articles 38.2 of the By-Laws and 25.2 e) of the Regulations of the Board of Directors include among the powers and duties of the Audit and Compliance Committee that of receiving information from the Auditors regarding those matters that might risk the independence thereof which are related to the auditing procedure and generally regarding any other information provided for in legislation regarding the auditing of financial statements and in the technical auditing regulations in effect at any time.

Article 53.3 of the Regulations of the Board of Directors reads as follows: “*The Audit and Compliance Committee shall not submit a proposal to the Board of Directors, and the Board of Directors shall not submit a proposal to the shareholders at the General Shareholders’ Meeting, for appointment as the Company’s Auditor of an audit firm when it has evidence that (i) such firm is affected by any circumstance of incompatibility pursuant to the legal provisions governing audits, or (ii) the fees that the Company intends to pay it for any and all services are greater than five (5%) percent of its total income in the domestic field during the last fiscal year.*”

Article 25.5.c) of the Regulations of the Board of Directors includes among the duties of the Audit and Compliance Committee, with regard to Auditing, that of ensuring the independence of Auditors. For such purpose, the Committee shall ensure that:

- i) the Company reports a change of Auditor to the CNMV as a significant event; and
- ii) the Company and the Auditor adhere to current regulations on the provision of non-audit services, the limits on the concentration of the Auditor’s business and, in general, all other regulations established to safeguard the independence of the auditors.

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Furthermore, in the case of resignation of the Auditor, the Committee shall examine the reason for such resignation.

The Audit and Compliance Committee shall request of the Auditor of the IBERDROLA RENOVABLES Group, on an annual basis, a certificate of independence of the firm as a whole and of the team members participating in the audit process. In addition, the Committee shall monitor the quality assurance and independence safeguarding internal procedures implemented by the Auditor.

The Audit and Compliance Committee shall also ensure the “de facto” and “apparent” independence of the auditors through the authorization of any contract with the Auditor by any company of the IBERDROLA RENOVABLES Group for services other than auditing, prior to the formalization of any such contract.

Finally, the Audit and Compliance Committee has approved the “Policy for the Hiring of Auditors of IBERDROLA RENOVABLES, S.A. and its Subsidiaries,” which includes auditor hiring mechanisms, establishes the standards governing the relationship between the Company and the Auditor, and reiterates the principles of independence and transparency already provided for in the By-Laws and the Regulations of the Board of Directors upon the terms set forth therein.

## 2. MECHANISMS TO PRESERVE THE INDEPENDENCE OF FINANCIAL ANALYSTS, INVESTMENT BANKS AND RATING AGENCIES

The independence of financial analysts is protected by the existence of a specific division, called the Investor Relations Division, which is attached to the Economic and Financial Division and guarantees an objective, fair and non-discriminatory treatment of analysts.

The Economic and Financial Division coordinates the relationship with financial analysts, investment banks and rating agencies, dealing with the information requests thereof as well as of institutional and retail investors, based on the principles of transparency, non-discrimination, truthfulness and trustworthiness of the information supplied. The Economic and Financial Division grants the mandates to Investment Banks.

To actualize the aforementioned principles of transparency and non-discrimination, always in strict compliance with regulations regarding the Securities Markets, the Company has a number of communication channels:

- Personalized assistance to analysts, investors and rating agencies, through the investor relations unit.
- Publication of the information relating to quarterly, semi-annual and annual results, as well as other specific events, such as those relating to the Strategic Plan or to corporate transactions.
- E-mail through the website ([accionistas@iberdrolarenovables.com](mailto:accionistas@iberdrolarenovables.com) and [relacion.inversores@iberdrolarenovables.com](mailto:relacion.inversores@iberdrolarenovables.com)) and a toll-free line for shareholders (900 123 133).

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- Presentations either in person or re-transmitted over the telephone and the Internet.
- Release of announcements and news.
- Visits to Company facilities.

All this information is also available on the company's website ([www.iberdrolarenovables.es](http://www.iberdrolarenovables.es)). There is also a document delivery system available for the shareholders and investors registered in the databases for such purpose.

**B.1.36. Indicate whether the Company has changed the external auditor during the fiscal year. If so, identify the incoming and the outgoing auditor:**

NO

Outgoing auditor	Incoming auditor

**If there has been any disagreement with the outgoing auditor, describe the content thereof:**

NO

**B.1.37. Indicate whether the audit firm performs other non-audit work for the Company and/or its Group. If so, state the amount of the fees paid for such work and the percentage they represent of the aggregate fees charged to the Company and/or its Group.**

YES

	Company	Group	Total
<b>Amount of other non-audit work (thousands of Euros)</b>	0	245	245
<b>Amount of non-audit work / Aggregate amount billed by the audit firm (%)</b>	0	6.444	6.444

**B.1.38. State whether the audit report on the Annual Financial Statements for the prior fiscal year has observations or qualifications. If so, state the reasons given by the Chairman of the Audit Committee to explain the content and scope of such observations or qualifications.**

NO

**B.1.39. Indicate the consecutive number of years for which the current audit firm has been auditing the annual financial statements of the Company and/or its Group. In addition, state the percentage represented by such number of years with respect to the total number of years in which the annual financial statements have been audited:**

	Company	Group
<b>Number of consecutive years</b>	4	4

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	Company	Group
Number of years audited by the current audit firm / Number of years in which the company has been audited (%)	100.0	100.0

**B.1.40. Indicate the interests of members of the Board of Directors in the share capital of companies that engage in the same, similar or complementary activities, both with respect to the Company and its Group, and which have been reported to the company. In addition, state the position or duties of such Directors in such companies:**

Individual or corporate name of director	Name of company in which shares are held	% interest	Position or duties
MR. JOSÉ IGNACIO SÁNCHEZ GALÁN	IBERDROLA, S.A.	0.051	CHAIRMAN / CHIEF EXECUTIVE OFFICER
MR. ALBERTO CORTINA KOPLOWITZ	SICA DESARROLLOS, S.L.	45.000	NONE
MR. JOSÉ SAINZ ARMADA	IBERDROLA, S.A.	0.000	CHIEF FINANCIAL OFFICER
MR. JAVIER SÁNCHEZ-RAMADE	IBERDROLA, S.A.	0.950	NONE
MR. JOSÉ LUIS SAN-PEDRO GUERENABARRENA	IBERDROLA, S.A.	0.000	CHIEF OPERATING OFFICER
MR. XABIER VITERI SOLAUN	IBERDROLA, S.A.	0.000	NONE
MR. CARLOS EGEA KRAUEL	IBERDROLA, S.A.	0.000	NONE
MR. MANUEL MOREU MUNAIZ	SEAPLACE, S.L.	85.00	CHAIRMAN

**B.1.41. Indicate whether there is any procedure for Directors to hire external advisory services, and if so, describe it:**

YES

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Description of procedure
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<p>Article 38 of the Regulations of the Board of Directors provides that any Director may, in order to be assisted in the performance of his duties, request the hiring of legal, accounting, technical, financial, commercial or other expert advisors, whose services shall be paid for by the Company. The assignment must deal with specific issues of certain significance and complexity arising during the performance of the Director's duties. The request for an expert to be hired must be channeled through the Chairman or the Secretary of the Board of Directors, who may subject it to the prior approval of the Board of Directors; such approval may be denied in well-founded instances, including the following circumstances:</p>
--

- |   |
|---|
| <ul style="list-style-type: none"><li>a) That it is not necessary for the proper performance of the duties entrusted to the Directors.</li><li>b) That the cost thereof is not reasonable in light of the significance of the issues and the assets and income of the Company.</li><li>c) That the technical assistance sought may be adequately provided by the Company's own experts and technical personnel.</li><li>d) That it may entail a risk to the confidentiality of the information that must be made available to the expert.</li></ul> |
|---|

**B.1.42. Indicate whether there is any procedure for Directors to obtain sufficiently in advance the information required to prepare for meetings of management-level decision-making bodies and, if so, describe it:**

YES

Description of procedure
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Article 33.4 of the Regulations of the Board of Directors, further developing the provisions of Article 33.2 of the By-Laws, provides that the call to meeting of the Board of Directors shall be carried out by means of letter, fax, telegram, e-mail or any other means, and must be authorized under the signature of the Chairman, or under the signature of the Secretary or Vice-Secretary, by order of the Chairman. Notice of the call must be given as much in advance as is necessary for the Directors to receive it not later than the third day prior to the date of the meeting, except in the case of emergency meetings. Excepted from the foregoing provision shall be those instances in which the Regulations prescribe that greater notice be given. The call shall always include the place, date and time of the meeting, the agenda for the meeting and, if appropriate, an attachment containing any information deemed necessary.

In addition, Article 39.2(a) of the Regulations of the Board of Directors provides that, among the obligations of every Director, is that of properly preparing the meetings of the Board and, if applicable, the meetings of the Executive Committee or of the Committees of which the Director is a member, for which purposes the Director must diligently inform himself of the running of the Company and the matters to be discussed at such meeting.

In order to facilitate the Directors' discharge of their duties, the following initiatives have been set up during fiscal year 2008: (i) the website for the Directors of Iberdrola Renovables, an electronic application that provides a new means of information and communication with the Company and which includes, among other content, a Director's agenda with information and documentation relating to Board meetings; and (ii) a training and continuing education program, implemented through presentations and the delivery of briefing notes to the Directors at meetings of the Board.

**B.1.43. State whether the Company has established any rules requiring Directors to inform the Company—and, if applicable, resign from their position—in cases in which the credit and reputation of the Company may be damaged. If so, describe such rules:**

YES

**Describe the rules**

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As specifically provided by Article 47.2.c) of the Regulations of the Board of Directors, Directors must disclose to the Company “any judicial, administrative or other proceedings instituted against the Director which, because of their significance or characteristics, may seriously reflect upon the reputation of the Company. In particular, in the event that a Director becomes subject to an order for further criminal prosecution upon indictment [resultar procesado] or an order for the commencement of an oral trial is issued against him for the commission of any of the crimes contemplated in Section 124 of the Companies Law, such Director shall give notice thereof to the Company, in the person of its Chairman. In such instance, the Board of Directors shall review the case as soon as practicable and shall adopt the decisions it deems fit taking into account the interests of the Company.”

Furthermore, the Directors shall submit their resignation from their position and formalize their withdrawal in the following events established in Article 16.2 of the Regulations of the Board of Directors:

- when they become subject to any incompatibility or prohibition governed by provisions of a general nature or by Article Twelve of the Regulations of the Board of Directors;
- when, as a result of any acts attributable to the Director in his capacity as such, serious damage is caused to the value of the Company or the Director ceases to deserve the commercial and professional respect required to be a Director of the Company;
- when they are seriously reprimanded by the Board of Directors because they have breached their duties as Directors and such reprimand is approved by a two-thirds majority of the Directors at the proposal of the Audit and Compliance Committee; and
- when their continuance in office on the Board may jeopardize the interests of the Company.

**B.1.44. State whether any member of the Board of Directors has informed the Company that he has become subject to an order for further criminal prosecution upon indictment or that an order for the commencement of an oral trial has been issued against him for the commission of any of the crimes contemplated in Section 124 of the Companies Law:**

NO

**Indicate whether the Board of Directors has analyzed the case. If so, provide a duly substantiated explanation of the decision adopted regarding whether or not the Director should remain in office.**

NO

**B.2. Committees of the Board of Directors**

**B.2.1. List all the committees of the Board of Directors and the members thereof:**

**AUDIT AND COMPLIANCE COMMITTEE**

Name	Position	Class
MR. ÁLVARO VIDEGAIN MURO	CHAIRMAN	INDEPENDENT
MR. JAVIER SÁNCHEZ-RAMADE MORENO	MEMBER	PROPRIETARY
MR. JOSÉ LUIS SAN-PEDRO GUERENABARRENA	MEMBER / SECRETARY	PROPRIETARY

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**NOMINATING AND COMPENSATION COMMITTEE**

Name	Position	Class
MR. SANTIAGO MARTÍNEZ LAGE	CHAIRMAN	INDEPENDENT
MR. LUIS CHICHARRO ORTEGA	MEMBER	INDEPENDENT
MR. JOSÉ SAINZ ARMADA	MEMBER / SECRETARY	PROPRIETARY

**RELATED-PARTY TRANSACTIONS COMMITTEE**

Name	Position	Class
MR. ÁLVARO VIDEGAIN MURO	CHAIRMAN	INDEPENDENT
MS. MARÍA HELENA ANTOLÍN RAYBAUD	MEMBER	INDEPENDENT
MR. XABIER VITERI SOLAUN	MEMBER	EXECUTIVE

**EXECUTIVE COMMITTEE**

Name	Position	Class
MR. JOSÉ IGNACIO SÁNCHEZ GALÁN	CHAIRMAN	PROPRIETARY
MR. SANTIAGO MARTÍNEZ LAGE	MEMBER	INDEPENDENT
MR. JOSÉ SAINZ ARMADA	MEMBER	PROPRIETARY
MR. XABIER VITERI SOLAUN	MEMBER	EXECUTIVE

**B.2.2. State whether the Audit Committee has the following duties:**

Supervise the process of preparation and the integrity of the financial information relating to the Company and, if applicable, to the Group, monitoring compliance with legal requirements, the proper delimitation of the scope of consolidation, and the correct application of accounting principles	YES
Periodically review the internal control and risk management systems, in order for the main risks to be properly identified, managed and made known	YES
Ensure the independence and effectiveness of the internal audit area; make proposals regarding the selection, appointment, re-election and withdrawal of the head of the internal audit area; propose the budget for such area; receive periodic information regarding its activities; and verify that senior management takes into account the conclusions and recommendations contained in its reports	YES
Establish and supervise a mechanism whereby the employees may give notice, on a confidential basis and, if deemed appropriate, anonymously, of any potentially significant irregularities, especially of a financial and accounting nature, that they notice at the Company	YES
Submit to the Board proposals for the selection, appointment, re-election and replacement of the external auditor, as well as the contractual terms under which it should be hired	YES

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Regularly receive from the external auditor information regarding the audit plan and the results of the implementation thereof, and verify that senior management takes its recommendations into account	YES
Ensure the independence of the external auditor	YES
In the case of groups of companies, favor the auditor of the Group as the auditor responsible for audit work at the companies that form part thereof	YES

**B.2.3. Describe the rules of organization and operation of, and the duties assigned to, each of the Board committees.**

**Name of the Committee:**

AUDIT AND COMPLIANCE COMMITTEE

**Brief Description:**

As provided in Article 38 of the By-Laws, the Board of Directors shall create a permanent Audit and Compliance Committee, which shall be composed of a minimum of three (3) and a maximum of five (5) Directors appointed by the Board of Directors from among the external Directors who are not members of the Executive Committee. The basic provisions applicable to the Audit and Compliance Committee are set forth in Articles 24, 25 and 26 of the Regulations of the Board of Directors.

The Audit and Compliance Committee shall have a Chairman (who must be one of the independent Directors of the Board) and a Secretary (who need not be a Director) appointed by the Board of Directors.

Unless otherwise decided by the Board of Directors, the Directors sitting on the Audit and Compliance Committee shall hold their positions for so long as they remain Directors of the Company. Renewal and re-election to and removal from office of the Directors sitting on the Committee shall be governed by resolution of the Board of Directors. The position of Chairman shall be held for a maximum period of (4) years, after which period such person may not be re-elected until the passage of one year from ceasing to act as such, without prejudice to such person continuing or being re-elected as a member of the Committee.

As regards the operation of the Committee, it shall meet as many times as its Chairman deems necessary for the fulfillment of its obligations, and at least once each quarter, or when requested by at least one-half of its members.

Meetings of the Committee shall be validly held when one-half plus one of its members are present in person or by proxy, and shall adopt resolutions by majority of the members present in person or by proxy. In the event of a tie, the Chairman shall have the tie-breaking vote.

The provisions of the Regulations of the Board of Directors regarding the operation of the Board of Directors and, especially, those regarding notice of meetings, the granting of a proxy to another Director, plenary meetings, voting in writing without a meeting, the chairman of and the secretary for the meetings, and approval shall apply to the Audit and Compliance Committee, to the extent that they are not incompatible with the nature thereof.

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This Committee shall submit for approval of the Board of Directors a Report of its activities during the fiscal year, which shall thereafter be made available to shareholders and investors on occasion of the call of the General Shareholders' Meeting. Section B.2.4 below contains a description of the main powers of the Audit and Compliance Committee.

**Name of the Committee:**

NOMINATING AND COMPENSATION COMMITTEE

**Brief Description:**

Pursuant to Article 39 of the By-Laws, the Board of Directors shall create a permanent Nominating and Compensation Committee, which shall be an internal informational and consultative body without executive powers, and which shall have information, advisory and proposal-making powers within its scope of action. The basic provisions applicable to the Nominating and Compensation Committee are set forth in Articles 27, 28 and 29 of the Regulations of the Board of Directors.

The Nominating and Compensation Committee shall be composed of a minimum of three (3) and a maximum of five (5) Directors, appointed by the Board of Directors from among the external Directors. A majority of the Directors serving on the Committee shall be independent Directors. The Board of Directors shall also appoint the Chairman thereof from among the Directors sitting on such Committee, which Chairman must be an independent Director, as well as its Secretary, who need not be a Director.

Unless otherwise decided by the Board of Directors, the members of the Nominating and Compensation Committee shall hold their positions for so long as they remain Directors of the Company and for so long as they retain the status of external Directors. Renewal and re-election to and removal from office of the Directors sitting on the Committee shall be governed by resolution of the Board of Directors.

The powers of the Nominating and Compensation Committee include the power to supervise the procedure for selecting members of the Board of Directors and senior managers of the Company (the latter at the proposal of the Chief Executive Officer, if any), as well as to assist the Board of Directors in the determination and supervision of the compensation policy for such persons.

The provisions of the Regulations of the Board of Directors regarding the operation of the Board of Directors and, especially, those regarding notice of meetings, the granting of a proxy to another Director, plenary meetings, voting in writing without a meeting, the chairman of and the secretary for the meetings, and approval of minutes of meetings shall apply to the Nominating and Compensation Committee, to the extent that they are not incompatible with the nature thereof.

As regards the operation of the Committee, it shall meet as many times as needed, in the opinion of its Chairman, to fulfill its obligations, and at a minimum once each quarter or when so requested by at least one-half of the Directors sitting on the Committee. A valid quorum shall exist when one-half plus one of the Directors sitting on the Committee are present in person or by proxy, and resolutions thereof shall be adopted by a majority of votes. In the case of a tie, the Chairman shall have the tie-breaking vote.

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Section B.2.4 below contains a description of the main powers of the Nominating and Compensation Committee.

**Name of the Committee:**

RELATED-PARTY TRANSACTIONS COMMITTEE

**Brief Description:**

Article 36.2 of the By-Laws provides that *“the Board of Directors may also create other Committees or Commissions with such powers as are determined by the Board of Directors.”*

Therefore, under the provisions of the above-cited article and in compliance with the Framework Agreement signed by the Company and IBERDROLA, S.A. on November 5, 2007, the Board of Directors has created a Related-Party Transactions Committee as an informational and consultative body without executive powers, which has information, advisory and proposal-making powers within its scope of action. The basic provisions governing the Committee are set forth in Articles 30, 31 and 32 of the Regulations of the Board.

The Related-Party Transactions Committee shall be composed of a minimum of three (3) Directors and a maximum of five (5), appointed by the Board of Directors from among the non-proprietary Directors, and the majority of the Directors sitting on the Committee shall be independent Directors. The Board of Directors shall also appoint from among its members the Chairman thereof, who shall necessarily be one of the independent Directors, as well as its Secretary, who need not be a Director.

The members of the Related-Party Transactions Committee shall continue to hold office for so long as they remain Directors of the Company and for so long as they retain the status of non-proprietary Directors, unless the Board of Directors resolves otherwise. Renewal and re-election to and withdrawal from office of the Directors sitting on the Committee shall be governed by resolution of the Board of Directors.

Directors sitting on the Committee who are re-elected as Directors of the Company by resolution of the shareholders adopted at a General Shareholders’ Meeting shall continue to hold their positions within the Committee, without the need for a new election, unless the Board of Directors resolves otherwise.

The reports issued and recommendations made by the Related-Party Transactions Committee shall not be binding upon the management decision-making bodies that are to adopt the resolutions or decisions to which such reports or recommendations refer, but the above-mentioned bodies shall, in every case, state the reasons why they did not follow the opinion expressed in the reports or the recommendations of the Related-Party Transactions Committee.

The Related-Party Transactions Committee shall meet with the frequency required for the performance of its duties, and at least semi-annually. The Chairman of the Board of Directors and the Chief Executive Officer, if any, may request exceptional meetings with the Committee for the provision of information.

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Meetings of the Related-Party Transactions Committee shall be validly held with the attendance, in person or by proxy, of one-half plus one of its members, and its resolutions shall be adopted by majority of its members present at the meeting in person or by proxy. In the event of a tie in voting, the Chairman shall have the tie-breaking vote.

The provisions of the Regulations of the Board of Directors regarding the operation of the Board of Directors, and especially those regarding notice of meetings, the granting of a proxy to another Director, plenary meetings, voting in writing without a meeting, chairman and secretary of the meetings and approval of minutes thereof shall apply to the Related-Party Transactions Committee to the extent that they are not incompatible with the nature thereof.

Section B.2.4 below contains a description of the main powers of the Related-Party Transactions Committee.

**Name of the Committee:**

EXECUTIVE COMMITTEE

**Brief Description:**

Article 36 of the By-Laws provides that *“the Board of Directors must create and maintain an Executive Committee(...)”*

Pursuant to Articles 37 of the By-Laws and 23 of the Regulations of the Board of Directors, the Executive Committee shall be composed of the number of Directors decided by the Board of Directors, with a minimum of three (3) Directors and a maximum of six (6). The Chairman of the Board of Directors or, in the absence thereof, the Director that the Board of Directors designates from among the members of the Executive Committee, shall act as the Chairman of the Executive Committee. The Secretary of the Board of Directors or, in the absence thereof, the Vice-Secretary of the Board of Directors or, in the absence of both, the Director appointed by the Executive Committee among those who sit thereon and are in attendance at the meeting in question shall act as Secretary of the Committee.

The Executive Committee shall meet at least one (1) time per month and as many other times as deemed appropriate by the Chairman, who may also suspend one or more of the ordinary meetings when deemed appropriate in his sole judgment. In addition, the Executive Committee shall meet when so requested by two (2) Directors who are members thereof.

The Executive Committee has, by delegation, all the powers of the Board of Directors that may be delegated under the law and the By-Laws. Thus, it shall deal with all matters within the power of the Board of Directors which, in the sole judgment of the Committee, should be resolved without further delay, excepting only the preparation of the financial statements, the presentation of the balance sheets at the General Shareholders' Meeting, the powers which are given by the shareholders to the Board of Directors without the power of delegation and the powers of the Board of Directors that may not be delegated pursuant to legal or by-law restrictions. Resolutions adopted by the Executive Committee shall be reported to the Board of Directors at the next meeting of the Board following the meetings of the Committee.

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Meetings of the Executive Committee shall be validly held with the attendance, in person or by proxy, of one-half plus one of its members, and its resolutions shall be adopted by majority of its members present at the meeting in person or by proxy. In the event of a tie in voting, the Chairman shall have the tie-breaking vote.

The provisions of the By-Laws and the Regulations of the Board regarding the operation of the Board of Directors and, in particular, those governing the call to meetings, the grant of a proxy to another Director, plenary meetings, casting of votes in writing and without a meeting and approval of the minutes of the meetings, shall apply to the Executive Committee, to the extent they are not incompatible with the nature thereof.

**B.2.4. Indicate the advisory and consultative powers as well as the delegated powers, if any, of each of the committees:**

**Name of the Committee:**

AUDIT AND COMPLIANCE COMMITTEE

**Brief Description:**

- (a) Report to the General Shareholders' Meeting with respect to matters raised therein by shareholders regarding its powers.
- (b) Propose appointments of the Company's Auditors to the Board of Directors for submission to the shareholders at the General Shareholders' Meeting.
- (c) Supervise the management of the Internal Audit Area, which shall be functionally controlled by the Chairman of the Audit and Compliance Committee.
- (d) Know the process for gathering financial information and associated systems for monitoring risks relevant to the Company.
- (e) Receive information from the Auditors regarding matters that might jeopardize the independence thereof which are related to the auditing procedure and generally regarding any other information provided for in legislation regarding the auditing of financial statements and in the technical auditing regulations in effect at any time.
- (f) Report in advance on the Company's annual corporate governance report and ensure compliance with legal requirements and with the Codes of Professional Conduct and Good Governance adopted by the Board of Directors.
- (g) Inform the Board of Directors in advance regarding (i) all matters within its area of authority provided for in the Regulations of the Board of Directors and (ii) the financial information that the Company must periodically make public due to its status as listed company. In this regard, the Committee shall make sure that the interim financial statements have been prepared in accordance with the same accounting standards as the annual financial statements and, for such purpose, it shall consider the suitability of limited review by the external Auditor.
- (h) Report to the Board of Directors, prior to the adoption by it of the corresponding decision, regarding the creation or acquisition of interests in special purpose entities or entities registered in countries or territories regarded as tax havens, as well as any other transactions or operations of a similar nature that, due to the complexity thereof, might detract from the transparency of the IBERDROLA RENOVABLES Group.
- (i) Report on the proposed amendments to the Regulations of the Board of Directors.
- (j) Exercise such other powers, if any, as may be assigned to it by the By-Laws, the Regulations of the Board of Directors or the Board of Directors.

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**Name of the Committee:**

NOMINATING AND COMPENSATION COMMITTEE

**Brief Description:**

- (a) Report on and review the criteria that should be followed in composing the Board of Directors and in selecting candidates, defining their duties and required qualifications and assessing the time and dedication required for the proper performance of their duties. In the exercise of this power, the Committee shall take into account, regarding external Directors, the relation between the number of proprietary Directors and the number of independent Directors, such that this relation reflects, as far as possible, the ratio of the Company's capital represented by proprietary Directors to the rest of the capital.
- (b) Bring independent Director designation proposals to the Board of Directors for the interim appointment thereof to fill a vacancy or, as the case may be, for submission of such proposals to a decision of the shareholders at the General Shareholders' Meeting, as well as proposals for the re-election or removal of such Directors by the shareholders at the General Shareholders' Meeting.  
Report to the Board of Directors on the proposals for the appointment of non-independent Directors on an interim basis to fill a vacancy or, if appropriate, for submission to the decision of the shareholders at the General Shareholders' Meeting, as well as on the proposals for the re-election or removal of such Directors by the shareholders at the General Shareholders' Meeting.
- (c) Propose to the Board of Directors the members who should make up each of the Committees.
- (d) Examine or organize, in such manner as is deemed appropriate, the succession of the Chairman and of the Chief Executive Officer, if any, of the Company and, if applicable, make proposals to the Board for such succession to occur in an orderly and well-planned fashion.
- (e) Propose to the Board of Directors the system and amount of the annual compensation of members of the Board, as well as the individual compensation of executive Directors and other terms and conditions of their contracts, in all cases pursuant to the provisions of the By-Laws.
- (f) Report to the Board of Directors, prior to the adoption thereby of the corresponding decision at the proposal of the Chairman, regarding the appointment and/or removal of the Vice-Chairman or Vice-Chairmen, if any, of the Board of Directors.
- (g) Report to the Board of Directors, prior to the adoption thereby of the corresponding decision at the proposal of the Chairman, regarding the appointment and/or removal of the Secretary and of the Vice-Secretary, if any, of the Board of Directors.
- (h) Provide information to the Board of Directors regarding the appointment and/or removal of Senior Managers of the Company, as well as regarding the compensation or indemnification, if any, that may be established in the event of removal of such Senior Managers, all at the proposal of the Chief Executive Officer, if any.
- (i) Submit to the Board of Directors, together with the corresponding reports, the proposals brought to it by the Chief Executive Officer, if any, regarding the compensation policy applicable to Senior Managers and the basic terms and conditions of their contracts.
- (j) Provide information regarding incentive plans and pension supplements.
- (k) Periodically review the compensation programs, evaluating the adequacy and results thereof.

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- (l) Ensure compliance with the compensation policy of the Company.
- (m) Ensure that in the event of new vacancies, the selection procedures are free from any implied bias entailing any kind of discrimination.
- (n) Exercise such other powers, if any, as are assigned to it by the By-Laws, the Regulations of the Board of Directors or the Board of Directors.

**Name of the Committee:**

RELATED-PARTY TRANSACTIONS COMMITTEE

**Brief Description:**

- (a) Report in advance on the essential elements (price, term and purpose) of related-party transactions between the Company and IBERDROLA, S.A. or among any of the companies of their respective Groups that require the approval of the Board of Directors or, in urgent cases, of the Executive Committee, pursuant to the Framework Agreement. As regards transactions within the ordinary course of business that are of a customary or recurring nature, it shall be sufficient for the report to refer to generic authorization by the Board of Directors of the line of transactions and of the conditions for performance thereof.
- (b) Report in advance on semi-annual information and information included in the Company's annual corporate governance report with respect to the Framework Agreement and related-party transactions between IBERDROLA, S.A. and the Company, or among any of the companies of their respective Groups.
- (c) Report in advance on the decision of the Company and the companies belonging to its Group to relinquish the business opportunities mentioned in the Framework Agreement.
- (d) Report periodically on compliance with the Framework Agreement.
- (e) Report in advance on any proposed amendment to the Framework Agreement, as well as possible proposed settlements intended to resolve disputes that may arise between the parties under the Framework Agreement.
- (f) Make recommendations and proposals for improvement on the matters within its purview.

**Name of the Committee:**

EXECUTIVE COMMITTEE

**Brief Description:**

There are delegated to it all matters within the power of the Board of Directors that may be delegated under the law and the By-Laws and which, in the sole judgment of the Committee, should be resolved without further delay, excepting only the preparation of the financial statements, the presentation of the balance sheets at the General Shareholders' Meeting, those powers which are given by the shareholders to the Board of Directors without the power of delegation and the powers of the Board of Directors that may not be delegated under the law or the By-Laws.

**B.2.5. Indicate, if applicable, the existence of regulations of the Board committees, where such regulations may be consulted and the amendments made during the fiscal year. Also indicate if any annual report of the activities performed by each committee has been voluntarily prepared.**

**Name of the Committee:**

AUDIT AND COMPLIANCE COMMITTEE

**Brief Description:**

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There are no specific regulations governing the Audit and Compliance Committee, as such regulations are contained in the By-Laws and the Regulations of the Board of Directors. These documents are available on the website of the Company ([www.iberdrolarenovables.es](http://www.iberdrolarenovables.es)), on the CNMV website ([www.cnmv.es](http://www.cnmv.es)) and at the Commercial Registry of Valencia.

Articles 38.4 of the By-Laws and 26.5 of the Regulations of the Board of Directors provide that the Audit and Compliance Committee shall, within three months of the close of each fiscal year, prepare a Report detailing its activities during the prior fiscal year, which shall be submitted to the Board of Directors for its approval.

At its meeting of February 24, 2009, the Board of Directors approved the Annual Report of the Audit and Compliance Committee regarding its activities during fiscal year 2008.

**Name of the Committee:**

NOMINATING AND COMPENSATION COMMITTEE

**Brief Description:**

As with the Audit and Compliance Committee, there is no specific regulation governing the Nominating and Compensation Committee, its regulation being included in the By-Laws and in the Regulations of the Board of Directors. These documents are available on the Company's website ([www.iberdrolarenovables.es](http://www.iberdrolarenovables.es)), on the website of the CNMV ([www.cnmv.es](http://www.cnmv.es)) and at the Commercial Registry of Valencia.

As Article 29.5 of the Regulations of the Board of Directors provides, the Nominating and Compensation Committee shall, within three months following the close of each fiscal year, prepare a Report detailing its activities during the prior fiscal year, which shall be submitted to the Board of Directors for its approval.

At its meeting of February 24, 2009, the Board of Directors approved the Annual Report of the Nominating and Compensation Committee regarding its activities during fiscal year 2008.

**Name of the Committee:**

RELATED-PARTY TRANSACTIONS COMMITTEE

**Brief Description:**

The Related-Party Transactions Committee is governed by the By-Laws, the Regulations of the Board of Directors and the Framework Agreement.

These documents are available on the website of the Company ([www.iberdrolarenovables.es](http://www.iberdrolarenovables.es)) and on the CNMV website ([www.cnmv.es](http://www.cnmv.es)). The By-Laws and the Regulations of the Board of Directors are also available at the Commercial Registry of Valencia.

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**B.2.6. Indicate whether the composition of the Executive Committee reflects the participation of the different directors in the Board of Directors based on their category:**

YES

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## C RELATED-PARTY TRANSACTIONS

C.1. State whether the Board as a full body has reserved for itself the power to approve, after a favorable report of the Audit Committee or any other committee entrusted with such duty, transactions carried out by the Company with Directors, with significant shareholders or shareholders represented on the Board, or with persons related thereto:

YES

Yes  No

C.2. Describe the relevant transactions that involve a transfer of funds or obligations between the Company or entities within its Group and the Company's significant shareholders:

Individual or corporate name of significant shareholder	Corporate name of the Company or entity within its Group	Nature of the relationship	Type of transaction	Amount (in thousands of Euros)
IBERDROLA, S.A.	IBERDROLA RENOVABLES, S.A.	CONTRACTUAL	FINANCIAL EXPENSES	84,424
IBERDROLA, S.A.	IBERDROLA RENOVABLES, S.A.	CONTRACTUAL	RECEIPT OF SERVICES	43,837
IBERDROLA, S.A.	IBERDROLA RENOVABLES, S.A.	CONTRACTUAL	SALE OF GOODS (FINISHED OR IN PROGRESS)	288,310
IBERDROLA, S.A.	IBERDROLA RENOVABLES, S.A.	CONTRACTUAL	FINANCIAL REVENUES	16,029
IBERDROLA, S.A.	IBERDROLA RENOVABLES, S.A.	CONTRACTUAL	PURCHASE OF TANGIBLE, INTANGIBLE OR OTHER ASSETS	104,146

C.3. Describe the relevant transactions that involve a transfer of funds or obligations between the Company or entities within its Group and the directors or managers of the Company:

C.4. Describe the relevant transactions made by the Company with other companies belonging to the same group, provided they are not eliminated in the preparation of the consolidated financial statements and they are not part of the ordinary course of business of the Company as to their purpose and conditions:

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**C.5. State whether the members of the Board of Directors have been subject to any conflict of interest situation during the fiscal year pursuant to the provisions of Article 127 ter of the Companies Law.**

Yes  No

**Individual or corporate name of the director**

Mr. José Ignacio Sánchez Galán

**Description of the conflict of interest situation**

1. Due to his status as proprietary director appointed by IBERDROLA, S.A.: (i) approval of transactions with IBERDROLA, S.A. or companies belonging to the Group; and (ii) approval of transactions with Gamesa Energía, S.A. Unipersonal and Gamesa Eólica, S.L. Unipersonal.
2. Evaluation of his performance during fiscal year 2007.

**Individual or corporate name of the director**

Mr. Alberto Cortina Koplowitz

**Description of the conflict of interest situation**

Due to his status as proprietary director appointed by IBERDROLA, S.A.: (i) approval of transactions with IBERDROLA, S.A. or companies belonging to the Group; and (ii) approval of transactions with Gamesa Energía, S.A. Unipersonal and Gamesa Eólica, S.L. Unipersonal.

**Individual or corporate name of the director**

Mr. Carlos Egea Krauel

**Description of the conflict of interest situation**

1. Due to his status as proprietary director appointed by IBERDROLA, S.A.: (i) approval of transactions with IBERDROLA, S.A. or companies belonging to the Group; and (ii) approval of transactions with Gamesa Energía, S.A. Unipersonal and Gamesa Eólica, S.L. Unipersonal.
2. Authorization to serve on the Board of Directors of Enagás, S.A.
3. Grant of guarantees in favor of Energías Renovables de la región de Murcia, S.A., a company of whose Board of Directors he is Chairman.

**Individual or corporate name of the director**

Mr. Julio Feroso García

**Description of the conflict of interest situation**

Due to his status as proprietary director appointed by IBERDROLA, S.A.: (i) approval of transactions with IBERDROLA, S.A. or companies belonging to the Group; and (ii) approval of transactions with Gamesa Energía, S.A. Unipersonal and Gamesa Eólica, S.L. Unipersonal.

**Individual or corporate name of the director**

Mr. Marcos Fernández Feroselle

**Description of the conflict of interest situation**

Due to his status as proprietary director appointed by IBERDROLA, S.A.: (i) approval of transactions with IBERDROLA, S.A. or companies belonging to the Group; and (ii) approval of transactions with Gamesa Energía, S.A. Unipersonal and Gamesa Eólica, S.L. Unipersonal.

**Individual or corporate name of the director**

Mr. Juan Pedro Hernández Moltó

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**Description of the conflict of interest situation**

Due to his status as proprietary director appointed by IBERDROLA, S.A.: (i) approval of transactions with IBERDROLA, S.A. or companies belonging to the Group; and (ii) approval of transactions with Gamesa Energía, S.A. Unipersonal and Gamesa Eólica, S.L. Unipersonal.

**Individual or corporate name of the director**

Mr. José Luis San-Pedro Guerenabarrena

**Description of the conflict of interest situation**

Due to his status as proprietary director appointed by IBERDROLA, S.A.: (i) approval of transactions with IBERDROLA, S.A. or companies belonging to the Group; and (ii) approval of transactions with Gamesa Energía, S.A. Unipersonal and Gamesa Eólica, S.L. Unipersonal.

**Individual or corporate name of the director**

Mr. Javier Sánchez-Ramade Moreno

**Description of the conflict of interest situation**

Due to his status as proprietary director appointed by IBERDROLA, S.A.: (i) approval of transactions with IBERDROLA, S.A. or companies belonging to the Group; and (ii) approval of transactions with Gamesa Energía, S.A. Unipersonal and Gamesa Eólica, S.L. Unipersonal.

**Individual or corporate name of the director**

Mr. José Sainz Armada

**Description of the conflict of interest situation**

Due to his status as proprietary director appointed by IBERDROLA, S.A.: (i) approval of transactions with IBERDROLA, S.A. or companies belonging to the Group; and (ii) approval of transactions with Gamesa Energía, S.A. Unipersonal and Gamesa Eólica, S.L. Unipersonal.

**Individual or corporate name of the director**

Mr. Álvaro Videgain Muro

**Description of the conflict of interest situation**

Authorization to act as individual representative of a Director of Sener Grupo de Ingeniería, S.L.

**Individual or corporate name of the director**

Mr. Manuel Moreu Munaiz

**Description of the conflict of interest situation**

Authorization for the provision of certain services to third parties.

**Individual or corporate name of the director**

Mr. Xabier Viteri Solaun

**Description of the conflict of interest situation**

1. Approval of the terms and conditions of his contract and those governing his compensation.
2. Approval of his inclusion as beneficiary of certain compensation systems.
3. Evaluation of his performance during fiscal year 2007.

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**C.6. Describe the mechanisms used to detect, determine and resolve potential conflicts of interest between the company and/or its Group, and its directors, managers or significant shareholders.**

The mechanisms for detecting, determining and resolving potential conflicts of interest between the Company and/or its Group, and its directors, managers or significant shareholders are provided for in the By-Laws, in the Regulations of the Board of Directors, in the Company's Internal Regulations for Conduct in the Securities Markets and in the Procedure for Conflicts of Interest and Related-Party Transactions with Directors, Significant Shareholders and Senior Management and, as regards relations between Iberdrola, S.A. and the companies of its Group, in the Framework Agreement, upon the terms set forth below:

**1. RULES APPLICABLE TO POSSIBLE CONFLICTS OF INTEREST BETWEEN THE COMPANY AND THE DIRECTORS**

As a starting point, Article 42.1 of the Regulations of the Board of Directors defines as conflicts of interest situations to which the directors may be subject, those cases in which there is a conflict, whether direct or indirect, between the interests of the Company or of the companies forming part of the IBERDROLA RENOVABLES Group and the personal interest of the Director. For these purposes, a personal interest of the Director shall be deemed to exist when a matter affects the Director or a Person Related to him, as such concept is defined in the Regulations of the Board of Directors, which list the persons who shall be deemed Persons Related to a Director.

The rules applicable to these situations are set out in sub-section 2 of Article 42 of the above-mentioned Regulations:

- a) Communication: the Director must give notice to the Board of Directors, in the person of the Chairman or the Secretary, of any conflict of interest in which the Director is involved.
- b) Abstention: the Director shall not attend or participate in the deliberation and voting on those matters in which the Director is affected by a conflict of interest, and such Director shall not be counted as an attendee at the meeting for purposes of determining the number of Directors to be used to calculate the majority required for approval of the resolution in respect of which the Director is in a situation of conflict. Proprietary Directors must abstain from voting on matters that may entail a conflict of interest between the shareholders who have proposed their appointment and the Company. The provisions of this paragraph shall apply to meetings of the Board of Directors and of all Committees created within the Board.
- c) Transparency: in the annual corporate governance report, the Company shall report any cases of conflict of interest involving the Directors and of which the Company is aware by reason of notice given thereto by the Director affected by such conflict or by any other means.

Article 46 of the Regulations of the Board of Directors supplements the foregoing rules by providing that any transaction between the Company (or companies forming part of the IBERDROLA RENOVABLES Group) and its Directors *"shall be subject to the approval of the Board of Directors, or in urgent cases, of the Executive Committee, upon a prior report of the Audit and Compliance Committee. In the event that*

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*authorization is granted by the Executive Committee on an emergency basis, it shall be submitted for subsequent ratification by the Board of Directors.”* The Board of Directors, through the Audit and Compliance Committee, shall ensure that the transaction is carried out under arm’s length conditions and with due observance of the principle of equal treatment of shareholders.

Without prejudice to the foregoing, sub-section 3 of the above-mentioned Article 46 of the Regulations of the Board of Directors provides that *“in the case of transactions within the ordinary course of business that are customary or recurring, it shall be sufficient to give a generic approval of the line of transactions and of the conditions for performance thereof.”*

As the sole exception to the foregoing, sub-section 4 of the above-mentioned Article 46 of the Regulations of the Board of Directors provides as follows: *“However, no authorization of the Board of Directors shall be required in connection with transactions that simultaneously satisfy the following three conditions: (i) that they are conducted under contracts whose terms and conditions are standardized and apply en masse to a large number of clients; (ii) that they are conducted at prices or rates established generally by the party acting as supplier of the goods or services in question, and (iii) that the amount thereof does not exceed one (1%) percent of the consolidated annual income of the Company, based on the audited annual financial statements for the last fiscal year ending prior to the date of the transaction in question.”*

In addition, Article 11 of the Company’s Internal Regulations for Conduct in the Securities Markets provides that the members of the Board of Directors, the Senior Managers and such other persons, if any, as may be designated by the Regulatory Compliance Unit must refrain from participating in or influencing the taking of decisions that might entail a conflict between their own interests and those of the Company and/or its Group, this being without prejudice to the duty to report such situation to the Secretary of the Board of Directors. In the event that any of such persons believes that he/she may be subject to a conflict of interest, he/she shall consult with the Unit before participating in or influencing the taking of such decisions.

The Board of Directors has further developed these regulations by means of the Procedure for Conflicts of Interest and Related-Party Transactions with Directors, Significant Shareholders and Senior Management. Like the aforementioned regulations, this Procedure is available on the corporate website ([www.iberdrolarenovables.es](http://www.iberdrolarenovables.es)).

## 2.- RULES APPLICABLE TO POSSIBLE CONFLICTS OF INTEREST BETWEEN THE COMPANY AND THE MANAGERS

The above-mentioned Procedure for Conflicts of Interest and Related-Party Transactions with Directors, Significant Shareholders and Senior Management subjects the Managers that report directly to the Board of Directors or the Chief Executive Officer and, in all cases, the Director of the Internal Audit Area to the same rules of communication, abstention and authorization that apply to the Directors.

If a conflict of interest situation occurs, the Manager in question shall disclose such situation in writing by means of a notice addressed to the Secretary of the Board of Directors of the Company. In addition, such Manager shall refrain from participating in or influencing the making of decisions by any decision-making body, committee or division participating in the transaction or decision in question, when such

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decisions may affect the persons or entities with which a conflict exists, and shall also refrain from accessing confidential information affecting such conflict.

The Secretary of the Board of Directors shall prepare a Conflicts of Interest Register of Persons Subject to Conflict of Interest Rules (other than the Directors), which shall be continuously updated and shall be published in the instances and with the scope required by applicable legal provisions.

Transactions that may be regarded as related-party transactions carried out by Senior Managers of the Company shall be subject to the authorization of the Secretary of the Board of Directors, who shall ensure that they are conducted under arm's length conditions and with due observance of the principle of equal treatment of all the shareholders.

The Senior Managers of the Company shall send a semi-annual report to the Secretary of the Board of Directors regarding the transactions which they and persons related to them have made. For this purpose, the Secretary of the Board of Directors shall prepare a Register of these transactions that shall be available for consultation by the Regulatory Compliance Unit when such Unit deems it appropriate.

As regards the other managers and employees, the Code of Professional Conduct of the Iberdrola Group, which applies to all of the group employees, contains a specific section on conflicts of interest.

### 3. RULES APPLICABLE TO POSSIBLE CONFLICTS OF INTEREST BETWEEN THE COMPANY AND SIGNIFICANT SHAREHOLDERS

The Procedure for Conflicts of Interest and Related-Party Transactions with Directors, Significant Shareholders and Senior Management approved by the Board of Directors under Article 46 of the Regulations of the Board of Directors governs transactions between companies forming part of the IBERDROLA RENOVABLES Group and shareholders who hold a shareholding interest greater than or equal to that legally regarded as significant or that are represented on the Board of Directors or their respective Related Persons.

In order to ensure that such transactions are carried out under arm's length conditions and with due observance of the principle of equal treatment of shareholders, the aforementioned procedure establishes that such operations shall be subject to the approval of the Board of Directors, or in urgent cases, of the Executive Committee, upon a prior favorable report of the Audit and Compliance Committee.

In addition, as provided by sub-section 4 of Article 46 of the Regulations of the Board of Directors, *"no approval of the Board shall be deemed required in connection with transactions that simultaneously satisfy the following three conditions: (i) they are conducted under contracts whose terms and conditions are standardized and apply en masse to a large number of clients; (ii) they are conducted at prices or rates established generally by the party acting as supplier of the goods or services in question, and (iii) the amount thereof does not exceed one (1%) percent of the annual income of the Company."*

Notwithstanding all of the foregoing, related-party transactions between the Company and IBERDROLA, S.A., or between any of the companies of their respective Groups, shall be governed by the Framework

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Agreement. The body competent to report on such transactions shall be the Related-Party Transactions Committee.

The periodical semi-annual financial information that the Company sends to the CNMV and publishes on its website shall disclose the transactions mentioned in Article 46 of the Regulations of the Board of Directors, all to the extent provided for by Law. Likewise, the notes accompanying the annual financial statements shall include information regarding the transactions by the Company or by the companies that form part of its Group with the Directors and those persons who act for the account of the latter when such transactions are conducted other than in the ordinary course of the Company's business or other than under arm's length conditions.

**C.7. Is more than one company of the Group listed in Spain?**

NO

**Identify the subsidiaries listed in Spain:**

**State whether they have publicly and accurately defined their respective areas of activity and any possible business relationships among them, as well as those between the listed dependent company and the other companies within the Group:**

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## **D RISK CONTROL SYSTEMS**

### **D.1. General description of the risk control policy adopted by the Company and/or its Group, describing and assessing the risks covered by the system and providing a justification for the adjustment of such system to the profile of each kind of risk.**

The Company is subject to various risks inherent in the different countries, industries and markets in which it does business and in the activities it carries out, which may prevent it from achieving its objectives and successfully implementing its strategies.

Aware of the significance of this issue, the Board of Directors of the Company has established, through the General Risk Control and Management Policy approved at its meeting of April 14, 2008 and updated at its meeting of February 24, 2009, the mechanisms and basic principles for appropriate management of the risk-opportunity combination, at a risk level that makes it possible to:

- attain the objectives formulated in the Strategic Plan with controlled volatility;
- provide the maximum level of assurance to the shareholders;
- protect the results and the reputation of the Company;
- defend the interests of shareholders, customers and other groups interested in the Company's performance and of society in general; and
- ensure corporate stability and financial strength in the short and medium terms.

In order to actualize such commitment, the Board of Directors and its Executive Committee have the cooperation of the Audit and Compliance Committee, which, as a consultative body, monitors and reports upon the appropriateness of the system for assessment and internal control of significant risks.

Every action aimed at risk control and mitigation must comply with the following Basic Action Principles:

- INTEGRATE the risk-opportunity vision into the Company's management, through a definition of the strategy and the risk profile and the incorporation of this variable into strategic and operating decisions.
- SEGREGATE functions, at the operating level, between risk-taking areas and areas responsible for the analysis, control and monitoring of such risks, ensuring an appropriate level of independence.
- ENSURE the proper use of risk hedging instruments and the maintenance of records thereof as required by applicable law.
- INFORM regulatory agencies and the principal external players, in a transparent fashion, regarding the risks facing the Company and the operation of the systems developed to monitor such risks, maintaining suitable channels that favor communication.
- ALIGN to this general policy all the specific policies that may need to be developed in the area of risks in the various businesses and companies controlled by the Iberdrola Renovables Group.

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- ADOPT, in furtherance of continual improvement, the benchmark of the best international practices as to transparency and “good governance” relating to the control, management and monitoring of risks (in particular, the Enterprise Risk Management (ERM) framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO)).
- ACT, at all times, in compliance with applicable regulations and legal provisions and with due observance of the values established in the Code of Professional Conduct of the Group.

The General Risk Control and Management Policy and the basic principles underpinning it are implemented by means of a Comprehensive Risk Control and Management System, based upon a proper definition and allocation of functions and responsibilities at the operating level and upon supporting procedures, methodologies and tools, suitable for the various stages and activities within the system, including:

- The identification of significant risks, including market, credit, business, regulatory, operational, environmental, reputational and other risks, by taking into account their possible impact on the key management objectives set out in the Strategic Plan, new investments and financial statements (including contingent liabilities and other off-balance sheet risks).
- The analysis of such risks, both at each corporate business division or function and taking into account their combined effect on the Company as a whole and, in particular, the analysis of risks associated with new investments, as an essential element of decision-making based upon profitability-risk.
- The establishment of a structure of policies, guidelines and limits, as well as of the corresponding mechanisms for the approval and implementation thereof, which effectively contribute to risk management being performed in accordance with the Company’s risk profile.
- The implementation of and monitoring of compliance with the policies, guidelines and limits, by means of appropriate procedures and systems, including the contingency plans needed to mitigate the impact of the materialization of risks.
- The measurement and monitoring of risks, by following homogeneous procedures and standards which are common to the Company as a whole, and specifically, the periodic monitoring and control of income statement risks in order to control the volatility of the annual income of the Group.
- The information and internal control systems allowing for a periodic and transparent evaluation and communication of the results of the monitoring of risk control and management activities, including the observance of policies and limits.
- The continual evaluation of the suitability and efficiency of applying the system and the best practices and recommendations in the area of risks for eventual incorporation thereof into the model.
- The supervision of the System by the Internal Audit Division, in accordance with the Basic Internal Audit Regulations.

The General Risk Control and Management Policy is developed and supplemented by the following risk policies, which are also approved by the Company’s Board of Directors and are listed below:

Corporate policies:

- Financing and financial risks policy

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- Corporate Credit Risk policy
- Treasury stock policy
- Risk policy for listed affiliated companies
- Insurance policy
- Reputational risk framework policy

Business-specific policies:

- Investment policy
- Facilities operations risk policy
- Energy management risk policy

These policies are associated with several numerical values for limitation of the stated risks whose compliance is the subject of periodic monitoring.

Finally, there are specific procedures at each Business or corporate function, with which risks in the daily operations are managed. These procedures are aligned with the guidelines and limits provided in the aforementioned risk policies.

The system contemplates any type of risk facing deregulated and regulated activities, both at the domestic and the international level, such as:

- Market risk: exposure of the Group's results of operations to fluctuations in prices and market variables, such as prices of raw materials (electricity and gas), interest rate, exchange rate, prices of financial assets, and others.
- Credit risk: possibility that the counterparty fails to perform its contractual obligations, thus causing an economic or financial loss to the Group. Counterparties may be final customers, counterparties in financial markets or in energy markets, partners, suppliers or contractors.
- Regulatory risk: associated with regulations or the possibility of regulatory changes that may have an impact on the business or the market in the short or the long term.
- Operational risk: possible direct or indirect losses caused by inadequate internal processes, technological failures, human error, or as a consequence of external events, including the economic, social, environmental and reputational impact thereof, as well as legal risk.
- Business risk: any risks other than those mentioned above, associated with variations in the key operational and valuation aspects of each business, including, for instance: demand, solar, wind and water resources, or competitors' strategies.
- Reputational risk: potential adverse impact on the Company's value caused by the Company performing below the expectations created among various stakeholders: shareholders, customers, media, analysts, Government, employees, and society at large.

Owing to its universal and dynamic nature, the system allows for the consideration of new risks that may affect the Iberdrola Renovables Group as a result of changes in its operating environment or revisions of objectives and strategies, as well as adjustments resulting from ongoing monitoring, verification, review and supervision activities.

**D.2. Indicate whether any of the various types of risks (operational, technological, financial, legal, reputational, tax-related, etc.) affecting the Company and/or its Group materialized during the fiscal year.**

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YES

**If so, indicate the circumstances giving rise to them and whether the established control systems have worked:**

**Risk that occurred during the fiscal year**

Risks relating to scope: market, credit, business, regulatory, operational and reputational.

**Circumstances giving rise thereto**

Those inherent in the conduct of the business.

**Performance of control systems**

The control systems worked properly for the risks that occurred in 2008.

**D.3. Indicate whether there is any committee or other decision-making body in charge of establishing and supervising these control mechanisms.**

YES

**If so, describe its duties:**

**Name of Committee or Other Body**

AUDIT AND COMPLIANCE COMMITTEE

**Description of duties**

Among other powers and duties, it supervises compliance with risk policies, procedures and limits and reports on the adequacy of the system for assessment and internal control of risks relevant to the Company.

To this end, it has the support of the Internal Audit Division, which, functionally reporting to the Chairman of the Audit and Compliance Committee and being a governance function, is responsible for supervising the management and control of significant risks facing the Company and its Strategic Plan, pursuant to the Basic Internal Audit Regulations, approved by the Audit and Compliance Committee itself.

**Name of Committee or Other Body**

MANAGEMENT COMMITTEE / RISK COMMITTEE

**Description of duties**

Manages and controls the Company's balance of risks following approved risk policies and limits. The Management Committee periodically meets with the Head of the Risks Unit at the Risk Committee where, among other activities, compliance with the risk policies is monitored and the map of key risks for the Group is approved.

**Name of Committee or Other Body**

BOARD OF DIRECTORS AND EXECUTIVE COMMITTEE

**Description of duties**

Within their respective areas of authority, they are in charge of ensuring the proper identification, measurement, management and control of all significant risks, defining the company's risk strategy and profile, and approving the Company's risk policies, their limits and indicators, and the information to be provided externally regarding risks.

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For the proper discharge of its duties, the Executive Committee has the support of the Management Committee, the corporate and Business divisions, and the Investments unit.

**Name of Committee or Other Body**

CORPORATE AND BUSINESS DIVISIONS

**Description of duties**

They identify and manage the risks of their areas of business or authority (financial, legal, regulatory, etc.) according to the policies established at corporate level and within the approved limits.

**Name of Committee or Other Body**

ECONOMIC AND FINANCIAL DIVISION

**Description of duties**

Through the Risk Unit, it performs integrated analyses of risk, assesses in an integrated manner market risk and credit risk, conducts credit ratings of principal counterparties, supports business units and management in matters relating to risk, coordinates and promotes the preparation and implementation of risk policies and limits and prepares risk information for management (weekly report on energy management in the United States and quarterly report on the monitoring of policies and limits), for the parent company and various external agents.

Additionally, it controls the risks and opportunities related to the annual profit and loss statement and new investments, quantifying the effect of the Group's risks at the individual and consolidated level.

**Name of Committee or Other Body**

INVESTMENT UNIT

**Description of duties**

Performs a global review, as well as a proper assessment of any issue relating to the management of capital (investments, divestitures and any type of business operations), complying with the objective of creating shareholder value and verifying consistency with the Strategic Plan and the Budget.

**D.4. Identification and description of the procedures for compliance with the various regulations that affect the Company and/or its Group.**

IBERDROLA RENOVABLES is present in different countries where it is subject to compliance with different regulations. The power industry is subject to strict regulations in Spain as in the other countries in which IBERDROLA RENOVABLES carries out its activities (principally the United States, the United Kingdom and the other European Union countries). In particular, the Spanish market has undergone significant changes in recent years.

Each of the IBERDROLA RENOVABLES Group's principal business units has specific Control, Legal Services and Human Resources divisions that report to the corresponding corporate divisions and are responsible for ensuring compliance with applicable laws in each case. At those territorial units which do not have a specific division, this role is filled directly by the corporate divisions.

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Additionally, as established in the By-Laws of IBERDROLA RENOVABLES, the Audit and Compliance Committee ensures compliance with legal requirements and with the Codes of Professional Conduct and Good Governance adopted by the Board of Directors.

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## E GENERAL SHAREHOLDERS' MEETING

- E.1. Indicate and, if applicable, explain whether there are differences with the minimum requirements set out in the Companies Law in connection with the quorum needed to hold a valid General Shareholders' Meeting.

NO

	% of quorum different from that established as a general rule in Section 102 of the Companies Law	% of quorum different from that established in Section 103 of the Companies Law for the special cases set forth in such Section 103
Required quorum upon first call	0	0
Required quorum upon second call	0	0

- E.2. Indicate and, if applicable, explain whether there are differences with the rules provided by the Companies Law for the adoption of corporate resolutions:

NO

Describe the difference from the rules provided by the Companies Law.

- E.3. Explain the rights of the shareholders regarding general shareholders' meetings which are different from the rights provided for in the Companies Law.

IBERDROLA RENOVABLES' shareholders have broader rights than those required under the Law. Among such rights, regulated in the By-Laws and in the Regulations for the General Shareholders' Meeting and specifically developed in the Corporate Governance Policy approved by the Board of Directors of the Company in its meeting of February 19, 2008, the following are notable:

### 1. RIGHT TO RECEIVE INFORMATION

The internal regulations of IBERDROLA RENOVABLES develop the provisions of Section 112 of the Companies Law and Section 117 of the Securities Market Law regarding the means that the Company must make available to the shareholders for them to exercise their right to receive information prior to and during the course of the General Shareholders' Meeting.

In compliance with such Section 117 of the Securities Market Law, Article 10.1 of the Regulations for the General Shareholders' Meeting provides for the right of shareholders to request information prior to the meeting "via mail or other means of electronic or long-distance data communication," such as the Company's website ([www.iberdrolarenovables.es](http://www.iberdrolarenovables.es)), which permits access to documentation relating to the General Shareholders' Meeting, and the exercise of the right of representation and the right to vote.

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Furthermore, IBERDROLA RENOVABLES has fulfilled its commitment to use its best efforts to provide on its website, from the moment of the notice of the call, English versions of the information and principal documents related to the General Shareholders' Meeting in order to facilitate the attendance and participation of shareholders who do not speak Spanish. Such information was made available within 48 hours following the notice of the call to the meeting.

As far as the right to receive information during the General Shareholders' Meeting is concerned, Article 18 of the Regulations for the General Shareholders' Meeting provides for the Office of the Shareholder [*Oficina del Accionista*], which must be set up at each meeting *"for the purpose of (i) answering questions regarding the proceedings raised by the shareholders prior to the commencement of the session, without prejudice to shareholders' legal and by-laws rights to take the floor, make proposals and vote, and (ii) assisting and informing attendees and shareholders who wish to take the floor, preparing for such purpose a list of those who previously state their desire to participate, as well as collecting the text of their statements, if such statements are available in writing."*

## 2. RIGHT TO ATTEND

Pursuant to Article 18 of the By-Laws, every shareholder entitled to vote is granted the possibility of attending the General Shareholders' Meeting because no minimum number of shares is required for such purpose.

However, as provided in such Article 18, in order to exercise the right to attend, shareholders must cause the shares to be registered in their name in the corresponding book-entry registry at least five (5) days prior to the day on which the General Shareholders' Meeting is to be held.

In addition, the By-Laws contemplate measures to facilitate the attendance of shareholders at the General Shareholders' Meeting, and admit the possibility of such meeting being held at different places that are interconnected through video conference systems.

Thus, Article 19.3 of the By-Laws provides that *"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 video conference 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 municipal area of the Company's registered office, 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."*

IBERDROLA RENOVABLES' Corporate Governance Policy states that a paramount objective is that all persons, regardless of any disability, their age, or the technology used, be able to surf the Company's website without encountering any access difficulties.

## 3. RIGHTS TO BE REPRESENTED AND TO VOTE FROM A DISTANCE

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Pursuant to Article 18.5 of the By-Laws, all shareholders having the right to attend may be represented at the General Shareholders' Meeting by proxy through another person, even though such person is not a shareholder.

In addition to traditional means, IBERDROLA RENOVABLES' regulations grant shareholders the power to appoint proxies and to vote by mail or electronic communication at any General Shareholders' Meeting held, regardless of the resolutions that may be adopted by the Board of Directors in each case.

In this regard, Article 18.6 of the By-Laws provides that "*...proxies shall be given in writing or by postal or electronic correspondence, in which case the provisions of the Regulations for the General Shareholders' Meeting shall apply.*"

Furthermore, Article 23 of the By-Laws gives shareholders the possibility to "*cast their vote regarding proposals relating to the items included in the agenda by mail or by electronic communication,*" with the rules relating to distance voting being further developed in Article 33 of the Regulations for the General Shareholders' Meeting.

**E.4. Indicate, if applicable, the measures adopted to encourage the participation of shareholders at General Shareholders' Meetings.**

Pursuant to Article 18.1 of the By-Laws, all shareholders may attend the General Shareholders' Meeting and take part in deliberations thereof, with the right to be heard and to vote.

In addition to the rights to request that a meeting be called, to receive information, to be present at meetings, to be represented by proxy and to cast votes from a distance mentioned above, IBERDROLA RENOVABLES develops a policy encouraging the participation of shareholders at the General Shareholders' Meeting by means of the following measures:

- Holding the General Shareholders' Meeting at premises having the equipment needed for the meeting to be appropriately conducted and followed.
- If necessary, the use is contemplated of accessory locations for attendance at the General Shareholders' Meeting which are connected to the primary location by videoconference systems permitting recognition and identification of those in attendance, permanent communication among attendees regardless of the place where they are, and participation and voting.
- In addition to the publication of the call to meeting by the means established in applicable regulations, financial agencies or brokers are hired for a better distribution of the information among the Company's wide base of institutional and international investors.
- Personalized assistance and guidance to shareholders who wish to participate, provided through the Office of the Shareholder, which shall have a specific place for such purposes at the premises where the Meeting is held in order to deal with any issues raised by attendees prior to the commencement of the meeting and to provide assistance and information to the shareholders who wish to use the floor.
- Making available to the shareholders means for translating the various presentations.

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- The possibility of accessing the live broadcast of the meeting through the Company's website ([www.iberdrolarenovables.es](http://www.iberdrolarenovables.es)).

**E.5. Indicate whether the chairman of the General Shareholders' Meeting is also the chairman of the Board of Directors. Describe, if applicable, the measures adopted to ensure the independence and proper operation of the General Shareholders' Meeting:**

YES

**Description of measures**

- Pursuant to Article 9.10 of the Regulations for the General Shareholders' Meeting, the Board of Directors may require that a Notary Public attend the General Shareholders' Meeting and prepare the minutes thereof. When this is the case, the Chairman of and the Secretary for the General Shareholders' Meeting shall not prepare the minutes, which task is entrusted to a notary public, thereby guaranteeing neutrality to the shareholders.

- The Company has the necessary means to control and electronically compute the proxies and votes from a distance (by mail or electronic communication), to prepare the list of shareholders present in person or by proxy at the General Shareholders' Meeting, which list shall be electronically recorded and attached to the minutes of the meeting, and to compute the quorum to hold meetings and to adopt resolutions (as provided by Article 17.2 of the Regulations for the General Shareholders' Meeting). This allows for verification of the existence of a quorum to hold a valid meeting.

To this end, the Company prepares and proposes to the entities participating in the *Sociedad de Gestión de Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U.* (Iberclear) the format of the attendance card to be issued to the shareholders, such that the cards issued are uniform and include a bar code or other system which allows for the electronic reading thereof in order to facilitate the computerized calculation of attendees (Article 13.2 of the Regulations for the General Shareholders' Meeting).

These computerized systems are also useful to resolve or clarify doubts or claims in connection with the list of attendees.

- In addition, from the moment they enter the premises, shareholders are assisted by the staff of the Office of the Shareholder (Articles 18 and 19.1 of the Regulations for the General Shareholders' Meeting), which staff is permanently available to resolve any issues and to facilitate shareholders' participation in the General Shareholders' Meeting, as indicated in section E.3 of this report.

- Regarding the powers of the Chairman with respect to the shareholder participation period at the General Shareholders' Meeting, pursuant to Article 28.3 of the Regulations for the General Shareholders' Meeting, the Chairman, in the exercise of his ordering powers:

- a) may extend the time initially allocated to each shareholder, when the Chairman deems it appropriate;
- b) may decide the order in which answers will be provided to the shareholders and whether such answers will be given following each presentation period or as a collective response after the last presentation;
- c) may request the presenting parties to clarify issues that have not been understood or which have not been sufficiently explained during the presentation;
- d) may call the presenting shareholders to order so that they limit their presentation to business properly before the General Shareholders' Meeting and refrain from making improper statements or exercising their right in an abusive or obstructionist manner;
- e) may announce to the presenting parties that the time for their presentations will soon be ending, so that they may adjust their discourse and, when the time granted for their

presentation has ended, or if they persist in the conduct described in the preceding paragraph, may withdraw the floor from them; and, if the Chairman believes that their presentation might alter the proper order and normal conduct of the meeting, the Chairman may cause the presenting parties to leave the premises and, if applicable, may adopt appropriate measures in order to comply with this provision; and

f) may deny the floor when the Chairman believes that a particular matter has been sufficiently debated, is not included in the agenda, or hinders the progress of the meeting.

The above-cited provision also requires the Chairman to maintain order in the room *“in order to allow the presenting parties to make their presentations without undue interruption.”*

- Article 31.1 of the aforementioned Regulations authorizes the Chairman of the General Shareholders’ Meeting, in contemplation of the possibility that extraordinary circumstances occur during the course of the meeting which temporarily prevent the normal progress thereof, *“to suspend the session for the time the Chairman deems appropriate (but not for more than two (2) hours) in order to reestablish the conditions needed for the continuation thereof.”*

- In addition, Article 32.1 of the Regulations for the General Shareholders’ Meeting grants those attending the meeting the power to decide a continuation of their sessions over one or more consecutive days, at the proposal of the Directors or at the request of shareholders representing at least one-fourth of the capital present.

**E.6. Indicate the amendments, if any, made to the Regulations for the General Shareholders’ Meeting during the fiscal year.**

No amendments were made to the Regulations for the General Shareholders’ Meeting during fiscal year 2008.

**E.7. Indicate the data on attendance at the general shareholders’ meetings held during the fiscal year referred to in this report:**

Date of General Shareholders’ Meeting	Attendance data				Total
	% of shareholders present in person	% of shareholders represented by proxy	% distance voting		
			Electronic voting	Other	
06/26/2008	80.05	8.62	0.001	0	88.67

**E.8. Briefly describe the resolutions adopted by the shareholders acting at the general shareholders’ meetings held during the fiscal year to which this report refers and the percentage of votes by which each resolution was passed.**

During fiscal year 2008, IBERDROLA RENOVABLES held one General Shareholders’ Meeting, which took place on June 26, 2008, upon first call, and at which the shareholders adopted the following resolutions, all

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of which were approved by a majority in excess of 99% of the capital present at the Meeting in person and by proxy:

**ITEMS RELATING TO THE ANNUAL FINANCIAL STATEMENTS AND THE MANAGEMENT OF THE COMPANY:**

1. Examination and approval, if applicable, of the individual Annual Financial Statements of IBERDROLA RENOVABLES, S.A. (Balance Sheet, Profit and Loss Statement and Notes) and of the consolidated financial statements of IBERDROLA RENOVABLES, 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 December 31, 2007.
2. Examination and approval, if applicable, of the proposal for the allocation of profits/losses for the fiscal year ended on December 31, 2007.
3. Examination and approval, if applicable, of the individual management report of IBERDROLA RENOVABLES, S.A. and of the consolidated management report of IBERDROLA RENOVABLES, S.A. and its subsidiaries for the fiscal year ended on December 31, 2007.
4. Examination and approval, if applicable, of the management and actions of the Board of Directors during the fiscal year ended on December 31, 2007.

**ITEMS RELATING TO THE AUTHORIZATIONS AND THE EXPRESS DELEGATION OF POWERS REQUESTED FOR THE BOARD OF DIRECTORS, TO THE RE-ELECTION OF THE AUDITOR AND TO COMPENSATION THROUGH DELIVERY OF SHARES OF THE COMPANY:**

5. Authorization to the Board of Directors, with the express power of delegation, for the derivative acquisition of the Company's own shares by the Company itself and/or by its subsidiaries, up to a maximum of five (5%) percent of the share capital, pursuant to applicable law, for which purpose the authorization granted by the shareholders at the General Shareholders' Meeting of November 5, 2007 is hereby deprived of effect to the extent of the unused amount.
6. Re-election or, if this is not possible, appointment of the Auditor of the Company and of the IBERDROLA RENOVABLES Group.
7. Examination and approval, if applicable, of the delivery of shares of the Company to the Chief Executive Officer, as beneficiary of the compensation plans of IBERDROLA RENOVABLES, S.A. (Annual variable compensation in shares, share delivery plan and Strategic Bonus 2008-2010).
8. Examination and approval, if applicable, of an action plan for employees (including managers), and delegation to the Board of Directors of the power to implement, develop, formalize and execute such plan.
9. Authorization to the Board of Directors, with the express power of delegation, to create and fund Associations and Foundations, pursuant to applicable legal provisions.

**ITEMS RELATING TO AMENDMENT OF BY-LAWS:**

10. Amendment of By-Laws.

10.a) Amendment of Section 1 of Article 4 ("Registered and branch offices").

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10.b) Amendment of Section 2 of Article 48 (“Company fiscal year and preparation of the annual financial statements”).

**ITEMS RELATING TO GENERAL MATTERS:**

11. Delegation of powers to formalize and execute 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 or further elaboration thereon until the required registrations are made.

Below is a breakdown of the vote on each of the preceding proposals:

Items on the agenda	In favor	In favor (%)	Against	Against (%)	Blank	Blank (%)	Abstentions	Abstentions (%)
Item 1	3,743,921,655	99.96	415,230	0.01	0	0.00	1,009,035	0.03
Item 2	3,744,920,986	99.99	418,156	0.01	0	0.00	6,778	0.00
Item 3	3,744,909,921	99.99	425,453	0.01	0	0.00	10,546	0.00
Item 4	3,717,889,527	99.27	101,425	0.00	0	0.00	27,354,968	0.73
Item 5	3,744,916,750	99.99	38,015	0.00	0	0.00	391,155	0.01
Item 6	3,744,890,568	99.99	416,335	0.01	0	0.00	39,017	0.00
Item 7	3,739,247,883	99.84	5,294,955	0.14	0	0.00	803,082	0.02
Item 8	3,736,610,714	99.77	8,700,328	0.23	0	0.00	34,878	0.00
Item 9	3,743,887,301	99.96	1,409,714	0.04	0	0.00	48,905	0.00
Item 10.A	3,745,253,433	100.00	38,038	0.00	0	0.00	54,449	0.00
Item 10.B	3,745,287,425	100.00	9,988	0.00	200	0.00	48,307	0.00
Item 11	3,733,158,671	99.67	6,646	0.00	0	0.00	12,180,603	0.33

**E.9. Indicate whether there are any by-law restrictions requiring a minimum number of shares to attend the General Shareholders’ Meeting.**

NO

<b>Number of shares required to attend the General Shareholders’ Meeting</b>	<b>1</b>
--	----------

**E.10. Indicate and justify the policies followed by the company with respect to proxy-voting at the General Shareholders’ Meeting.**

The Company’s policy is to encourage shareholders’ attendance at General Shareholders’ Meetings.

As regards proxy-voting, Article 13.2 of the Regulations for the General Shareholders’ Meeting provides that the Company may propose to the entities participating in the *Sociedad de Gestión de Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U.* (Iberclear) the format of the attendance card to be issued to the shareholders, as well as “the formula to be recited in such document in order to delegate proxy representation at the meeting in favor of another person, which should also set forth the way in which the proxy-holder will vote on each of the resolutions proposed by the Board of Directors for each item on the agenda in the absence of specific instructions of the shareholder being represented.”

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The Board of Directors, upon calling a General Shareholders' Meeting, prepares a form of proxy card in accordance with Article 13.2 of the Regulations of the General Shareholders' Meeting, ensuring the uniformity of the card and including in each case (without prejudice to the possibility of drafting more detailed instructions) a space in the attendance card for the voting instructions that permits the shareholders to check the appropriate box to vote in the affirmative, in the negative, in blank or to abstain in order to provide the indications that the represented shareholder desires to give to the proxy-holder. In this way, the voting instructions may be recorded easily in the corresponding computerized system.

Pursuant to Article 18 of the By-Laws and Article 12 of the Regulations for the General Shareholders' Meeting, shareholders have the following alternatives to prove the validity of the proxy granted:

- a) By submission of the attendance card or a validation certificate at the shareholders' registration desks at the place and on the date set for the General Shareholders' Meeting.
- b) By mail addressed to the Company including the duly signed proxy and by signing the corresponding attendance card for such purpose.
- c) By e-mail sent with the recognized electronic signature of the shareholder, by means of a communication to the Company through the Company's website ([www.iberdrolarenovables.es](http://www.iberdrolarenovables.es)), which must state both the proxy granted and the name of the shareholder to whom the proxy is given.

Regardless of the manner in which they are received, all proxies are recorded in a computerized application, which is also used to control and compute proxies and voting instructions, prepare the list of attendees and verify the quorum required to hold valid meetings and the majority required to adopt resolutions, pursuant to Article 17.2 of the Regulations for the General Shareholders' Meeting.

**E.11. Indicate whether the Company is aware of any policy of institutional investors as to participating or not in the decisions of the Company:**

NO

**E.12. Indicate the address and manner for accessing corporate governance content on your website.**

[www.iberdrolarenovables.es/accionistas e inversores/gobierno corporativo](http://www.iberdrolarenovables.es/accionistas_e_inversores/gobierno_corporativo)



## **F DEGREE TO WHICH CORPORATE GOVERNANCE RECOMMENDATIONS ARE FOLLOWED**

Indicate the company's degree of compliance with the recommendations of the Unified Good Governance Code.

If the company does not comply with any of such recommendations, please explain the recommendations, standards, practices or criteria applied by the company.

**1. The by-laws of listed companies do not limit the maximum number of votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of the acquisition of its shares on the market.**

*See sections: A.9, B.1.22, B.1.23 and E.1, E.2*

Complies

**2. When both the parent company and a company controlled by it are listed companies, they both provide detailed public disclosure on:**

- a) Their respective areas of activity, and any business dealings between them, as well as between the controlled listed company and other companies belonging to the group;
- b) the mechanisms in place to resolve any conflicts of interest that may arise.

*See sections: C.4 and C.7*

Complies

**3. Even if not expressly required under applicable commercial Laws, transactions involving a structural change of the company and, in particular, the following, are submitted to the shareholders at the General Shareholders' Meeting for approval:**

- a) The transformation of listed companies into holding companies through "subsidiarization," i.e., reallocating core activities to controlled entities that were previously carried out by the company itself, even if the latter retains full ownership of the former;
- b) The acquisition or disposal of key operating assets, when it involves an actual change in the corporate purpose;
- c) Transactions whose effect is tantamount to the liquidation of the company.

Complies

**4. Detailed proposals of the resolutions to be adopted at the General Shareholders' Meeting, including the information to which recommendation 28 refers, are made public at the time of publication of the notice of call to the General Shareholders' Meeting.**

Complies

**5. Matters that are substantially independent are voted on separately at the General Shareholders' Meeting, in order to allow the shareholders to express their voting preferences separately. This rule applies, in particular:**

- a) To the appointment or ratification of directors, which shall be voted on individually;

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b) In the event of amendments of the By-Laws, to each article or group of articles that are substantially independent of one another.

Complies

6. Companies allow split votes so financial intermediaries who are recorded as having shareholder status but act for the account of different clients can divide their votes in accordance with the instructions given by such clients.

Complies

7. The Board performs its duties with a unity of purpose and independent judgment, affording equal treatment to all shareholders in furtherance of the corporate interests, which shall be understood to mean the optimization, in a sustained fashion, of the financial value of the Company.

It likewise ensures that in its dealings with stakeholders, the Company abides by the laws and regulations, fulfills its obligations and contracts in good faith, respects the customs and good practices of the industries and territories in which it carries on its business, and upholds any other social responsibility standards to which it has voluntarily adhered.

Complies

8. The Board assumes responsibility, as its core mission, for approving the company's strategy and the organization required to put it into practice, and to ensure that Management meets the objectives set while pursuing the company's interest and corporate purpose. As such, the full Board reserves for itself the right to approve:

a) The company's policies and general lines of strategy, and in particular:

- i. The strategic or business Plan as well as the management objectives and annual budgets;
- ii. The investment and financing policy;
- iii. The design of the structure of the corporate group;
- iv. The corporate governance policy;
- v. The corporate social responsibility policy;
- vi. The policy for compensation and assessment of the performance of senior managers;
- vii. The risk control and management policy, as well as the periodic monitoring of internal information and control systems;
- viii. The dividend policy and the policy regarding treasury stock and, especially, the limits thereto.

*See sections: B.1.10, B.1.13, B.1.14 and D.3*

b) The following decisions:

- i. At the proposal of the chief executive of the Company, the appointment and, if applicable, removal of senior managers, as well as their severance packages.

*See section: B.1.14*

- ii. The compensation of directors and, in the case of executive directors, the additional compensation to be paid for their executive duties and other terms of their contracts.

*See section: B.1.14*

- iii. The financial information that the Company must periodically make public due to its status as listed company.

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- iv. Investments or transactions of all kinds which are strategic in nature due to the large amount or special characteristics thereof, unless approval thereof falls upon the shareholders at the General Shareholders' Meeting.
- v. The creation or acquisition of interests in special-purpose entities or entities registered in countries or territories regarded as tax havens, as well as any other transactions or operations of a similar nature whose complexity might impair the transparency of the group.

c) Transactions made by the company with directors, with significant shareholders or shareholders with Board representation, or with other persons related thereto ("related-party transactions").

However, Board authorization need not be required in connection with related-party transactions that simultaneously meet the following three conditions:

1. They are governed by standard-form agreements applied on an across-the-board basis to a large number of clients;
2. They are conducted at prices or rates generally set by the party acting as supplier of the goods or services in question;
3. The amount thereof is not more than 1% of the Company's annual revenues.

It is recommended that related-party transactions only be approved by the Board upon the prior favorable report of the Audit Committee or such other committee handling the same function; and that the directors affected thereby should neither exercise nor delegate their votes, and should withdraw from the meeting room while the Board deliberates and votes on the transaction.

It is recommended that the powers granted herein to the Board are conferred without the power of delegation, except for those mentioned under b) and c) above, which may, for urgent reasons, be adopted by the Executive Committee subject to subsequent ratification by the full Board.

*See sections: C.1 and C.6*

Complies

9. In order to operate effectively and in a participatory manner, the Board ideally is comprised of no fewer than five and no more than fifteen members.

*See section: B.1.1*

Complies

10. External directors, proprietary and independent, occupy an ample majority of the Board and the number of executive directors is the minimum necessary number, bearing in mind the complexity of the corporate group and the percentage interest held by the executive directors in the Company's share capital.

*See sections: A.2, A.3 and B.1.3*

Complies

11. If there is an external director who cannot be deemed either proprietary or independent, the company explains such circumstance and the links such director maintains with the company or its managers or with its shareholders.

*See section: B.1.3*

Does not apply

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**12. Among external directors, the relation between the number of proprietary directors and independent directors reflects the proportion existing between the share capital of the company represented by proprietary directors and the rest of its capital.**

**This strict proportionality standard can be relaxed so that the weight of proprietary directors is greater than would correspond to the total percentage of the share capital that they represent:**

- 1. In large cap companies where few or no equity stakes attain the legal threshold as significant, but there are shareholders holding interests with a high absolute value.**
- 2. In companies with a plurality of shareholders represented on the Board but not otherwise related.**

*See sections: A.2, A.3 and B.1.3*

Complies

**13. The number of independent directors represents at least one-third of the total number of directors.**

*See section: B.1.3*

Complies

**14. The status of each director is explained by the Board at the General Shareholders' Meeting at which the shareholders are to make or ratify their appointment and that such status is confirmed or reviewed, as the case may be, annually in the Annual Corporate Governance Report, after verification by the Nominating Committee. Said report also discloses the reasons for the appointment of proprietary directors at the proposal of shareholders controlling less than 5% of the share capital, as well as the reasons for not having accommodated formal petitions, if any, for presence on the Board from shareholders whose equity stake is equal to or greater than that of others at whose proposal proprietary directors have been appointed.**

*See sections: B.1.3 and B.1.4*

Complies

**15. When women directors are few or non-existent, the Board explains the reasons for this situation and the measures taken to correct it; and in particular, the Nominating Committee takes steps to ensure that, when new vacancies are filled:**

- a) Selection procedures do not have an implied bias that hinders the selection of women directors;**
- b) The company deliberately looks for women with the target professional profile and includes them among the potential candidates.**

*See sections: B.1.2, B.1.27 and B.2.3*

Complies

**16. The Chairman, as the person responsible for the effective operation of the Board, ensures that directors receive adequate information in advance of Board meetings; promotes debate and the active involvement of directors during Board meetings; safeguards their rights to freely take a position and express their opinion; and, working with the chairmen of the appropriate committees, organizes and coordinates regular evaluations of the Board and, where appropriate, the Chief Executive Officer.**

*See sections: B.1.19 and B.1.42*

Complies

**17. When the Chairman of the Board is also the chief executive of the company, one of the independent directors is authorized to request the calling of a Board meeting or the inclusion of new business on the**

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agenda; to coordinate and hear the concerns of external directors; and to lead the Board's evaluation of the Chairman.

*See section: B.1.21*

Does not apply

**18. The Secretary of the Board takes particular care to ensure that the Board's actions:**

- a) Adhere to the letter and the spirit of laws and their implementing regulations, including those approved by the regulatory authorities;
- b) Comply with the company's By-Laws and the Regulations for the General Shareholders' Meeting, the Regulations of the Board and other regulations of the company;
- c) Are informed by those good governance recommendations included in this Unified Code as the company has subscribed to.

And, in order to safeguard the independence, impartiality and professionalism of the Secretary, his appointment and removal are reported by the Nominating Committee and approved by the full Board; and that such appointment and removal procedures are set forth in the Regulations of the Board.

*See section: B.1.34*

Complies

**19. The Board meets with the frequency required to perform its duties efficiently, in accordance with the calendar and agendas set at the beginning of the fiscal year, and that each Director is entitled to propose items of the agenda that were not originally included therein.**

*See section: B.1.29*

Complies

**20. Directors' absences are limited to unavoidable cases and quantified in the Annual Corporate Governance Report. And when there is no choice but to grant a proxy, it is granted with instructions.**

*See sections: B.1.28 and B.1.30*

Complies

**21. When directors or the Secretary express concerns about a proposal or, in the case of the directors, regarding the running of the company, and such concerns have not been resolved at a Board meeting, such concerns are recorded in the minutes at the request of the person expressing them.**

Complies

**22. The full Board evaluates the following on a yearly basis:**

- a) The quality and efficiency of the Board's operation;
- b) On the basis of a report submitted to it by the Nominating Committee, how well the Chairman and chief executive of the company have carried out their duties;
- c) The performance of its Committees, on the basis of the reports furnished by them.

*See section: B.1.19*

Complies

**23. All directors are able to exercise the right to request any additional information they require on matters within the Board's competence. Unless the By-laws or the Regulations of the Board provide otherwise, such requests are addressed to the Chairman or the Secretary of the Board.**

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See sections: B.1.4 and B.1.42

Complies

**24. All directors are entitled to call on the company for the advice they need to carry out their duties. The company provides suitable channels for the exercise of this right, which, in special circumstances, may include external advice at the company's expense.**

See section: B.1.41

Complies

**25. Companies organize induction programs for new Directors to rapidly and adequately acquaint them with the Company and its corporate governance rules. Directors are also offered refresher training programs when circumstances so advise.**

Complies

**26. Companies require that directors devote sufficient time and effort to perform their duties efficiently, and, as such:**

- a) Directors apprise the Nominating Committee of their other professional duties, in case they might detract from the necessary dedication;**
- b) Companies lay down rules about the number of boards on which their directors may sit.**

See sections: B.1.8, B.1.9 and B.1.19

Complies

**27. The proposal for the appointment or re-election of directors that the Board submits to the shareholders at the General Shareholders' Meeting, as well as the interim appointment of directors to fill vacancies, are approved by the Board:**

- a) On the proposal of the Nominating Committee, in the case of independent directors;**
- b) Subject to a prior report from the Nominating Committee, in the case of other directors.**

See sections: B.1.2, B.1.19 and B.2.4

Complies

**28. Companies post the following director information on their websites, and keep such information updated:**

- a) Professional and biographical profile;**
- b) Other Boards of Directors of listed or unlisted companies on which they sit;**
- c) Indication of the director's classification, specifying, for proprietary directors, the shareholder they represent or to whom they are related;**
- d) Date of their first and subsequent appointments as a company director; and**
- e) Shares held in the company and options thereon held by them.**

Complies

**29. Independent directors do not hold office as such for a continuous period of more than 12 years.**

See section: B.1.2

Complies

**30. Proprietary directors tender their resignation when the shareholder they represent sells its entire shareholding interest. The appropriate number of them do likewise when such shareholder reduces its interest to a level that requires the reduction of the number of its proprietary directors.**

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See sections: A.2 and B.1.20

Complies

**31. The Board of Directors does not propose the removal of any independent director prior to the expiration of the term, set by the by-laws, for which he was appointed, except for good cause is found by the Board upon a prior report of the Nominating Committee. In particular, good cause shall be deemed to exist whenever the director has failed to perform the duties inherent in his position or comes under any of the circumstances described in section III.5 (Definitions) of this Code.**

The removal of independent directors may also be proposed as a result of Tender Offers, mergers or other similar corporate transactions that entail a change in the equity structure of the Company, when such changes in the structure of the Board follow from the proportionality standard mentioned in Recommendation 12.

See sections: B.1.2, B.1.5, B.1.19 and B.1.26

Complies

**32. Companies establish rules obliging directors to report and, if appropriate, to resign in those instances as a result of which the credit and reputation of the company might be damaged and, in particular, they require that such directors report to the Board any criminal charges brought against them, and the progress of any subsequent proceedings.**

If a director is indicted or tried for any of the crimes described in Section 124 of the Companies Law, the Board examines the matter as soon as practicable and, in view of the particular circumstances thereof, decides whether or not it is appropriate for the director to continue to hold office. And the Board provides a substantiated account thereof in the Annual Corporate Governance Report.

See sections: B.1.43, B.1.44

Complies

**33. All directors clearly express their opposition when they feel that any proposed resolution submitted to the Board might be contrary to the best interests of the company. And in particular, independent directors and the other directors not affected by the potential conflict of interest do likewise in the case of decisions that could be detrimental to the shareholders lacking Board representation.**

When the Board adopts material or reiterated resolutions about which a director has expressed serious reservations, such director draws the pertinent conclusions and, if he chooses to resign, sets out the reasons in the letter referred to in the next recommendation.

This recommendation also applies to the Secretary of the Board, even if he is not a director.

Complies

**34. Directors who give up their place before their tenure expires, through resignation or otherwise, explain the reasons in a letter sent to all members of the Board. Without prejudice to such withdrawal being communicated as a significant event, the reason for the withdrawal is explained in the Annual Corporate Governance Report.**

See section: B.1.5

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Does not apply

**35. The compensation policy approved by the Board specifies at least the following points:**

**a) The amount of the fixed components, with a breakdown showing the fees, if any, for attending the meetings of the Board and its Committees and an estimate of the fixed annual fixed compensation they give rise to;**

**b) Variable compensation items, including, in particular:**

**i) The classes of directors to which they apply, as well as an explanation of the relative weight of variable to fixed compensation items;**

**ii) Performance evaluation criteria used to calculate entitlement to compensation in shares, share options or any other variable component;**

**iii) Main parameters and grounds for any system of annual bonuses or other non-cash benefits; and**

**iv) An estimate of the absolute amount of variable compensation arising from the proposed compensation plan, as a function of the degree of compliance with benchmark assumptions or targets.**

**c) The main characteristics of pension systems (for example, supplementary pensions, life insurance and similar systems), with an estimate of the amount thereof or the equivalent annual cost;**

**d) Terms and conditions that must be included in the contracts of executive directors performing senior management duties, which will include:**

**i) Duration;**

**ii) Notice periods; and**

**iii) Any other provisions relating to hiring bonuses, as well as indemnity or “golden parachute” provisions in the event of early or other termination of the contractual relationship between the company and the executive director.**

*See section: B.1.15*

Complies

**36. Compensation paid by means of delivery of shares in the company or companies that are members of the group, share options or instruments indexed to the price of the shares, and variable compensation linked to the company’s performance or pension schemes is confined to executive directors.**

**This recommendation shall not apply to the delivery of shares when such delivery is subjected to the condition that the directors hold the shares until they cease to hold office as directors.**

*See section: A.3*

Complies

**37. The compensation of external directors is such as is necessary to compensate them for the dedication, qualifications and responsibility required by their position, but is not so high as to compromise their independence.**

Complies

**38. The compensation linked to company earnings takes into account any qualifications included in the external auditor’s report that reduce such earnings.**

Complies

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**39. In the case of variable compensation, compensation policies include technical safeguards to ensure that such compensation reflects the professional performance of the beneficiaries thereof and not simply the general performance of the markets or of the industry in which the company does business or circumstances of this kind.**

Complies

**40. The Board submits a report on director compensation policy to the vote of the shareholders at a General Shareholders' Meeting, as a separate item on the agenda and for advisory purposes. This report is made available to the shareholders separately or in any other manner that the Company deems appropriate.**

Such report shall focus especially on the compensation policy the Board has approved for the current year, as well as on the policy, if any, established for future years. It will address all the points referred to in Recommendation 35, except those potentially entailing the disclosure of commercially sensitive information. It will emphasize the most significant changes in such policies with respect to the policy applied during the fiscal year prior to that to which the General Shareholders' Meeting refers. It shall also include an outline of the manner in which the compensation policy was applied in such prior fiscal year.

The Board also reports on the role played by the Compensation Committee in the preparation of the compensation policy and, if external advice was provided, it states the name of the external advisors that have given such advice.

*See section: B.1.16*

Complies in part

Pursuant to Article 36.3 of the Regulations, the Board of Directors, at the proposal of the Nominating and Compensation Committee, annually approves a report on Director compensation policy in line with this recommendation. Such report shall be available to the shareholders as from the call to the General Shareholders' Meeting. In addition, extensive information is provided in this regard in the notes to the annual financial statements and in this annual corporate governance report for fiscal year 2008 (sections B.1.11 and B.1.12, with the corresponding clarifications in section G).

**41. The Notes to the Financial Statements list the individual directors' compensation during the fiscal year, including:**

**a) A breakdown of the compensation of each director, to include where appropriate:**

- i) Attendance fees or other fixed compensation received as a director;**
- ii) The additional compensation received as chairman or member of a Board committee;**
- iii) Any compensation received under profit-sharing or bonus schemes, and the reason for the accrual thereof;**
- iv) Contributions on the director's behalf to defined-contribution pension plans; or any increase in the director's vested rights, in the case of contributions to defined-benefit plans;**
- v) Any severance package agreed or paid;**
- vi) Any compensation received as a director of other companies in the group;**

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- vii) Compensation for the performance of senior management duties by executive directors;
- viii) Any item of compensation other than those listed above, of whatever nature and provenance within the group, especially when it is deemed to be a related-party transaction or when the omission thereof detracts from a true and fair view of the total compensation received by the director.

b) A breakdown of any delivery to directors of shares, share options or any other instrument indexed to the price of the shares, specifying:

- i) Number of shares or options awarded during the year, and the terms and conditions for the exercise thereof;
- ii) Number of options exercised during the year, specifying the number of shares involved and the exercise price;
- iii) Number of options outstanding at the end of the year, specifying their price, date and other requirements for exercise;
- iv) Any change during the year in the terms for the exercise of previously-awarded options.

Information on the relationship, in such past fiscal year, between the compensation received by executive directors and the profits or other measures of performance of the company.

Complies in part

Although the notes to the annual financial statements provide detailed individual information broken down by types of director and positions held, with the scope established in this recommendation, for reasons of security and privacy, the Board has not deemed it appropriate to provide the name of each of the Directors together with the amount of his/her personal compensation.

**42. When there is an Executive Committee (hereinafter, “Executive Committee”), the breakdown of its members by director category is similar to that of the Board, and its secretary is the Secretary of the Board.**

*See sections: B.2.1 and B.2.6*

Complies

**43. The Board is always kept informed of the matters dealt with and the resolutions adopted by the Executive Committee, and all members of the Board receive a copy of the minutes of the meetings of the Executive Committee.**

Explain

The Executive Committee meets more frequently than the Board of Directors, as shown in section B.1.29 of this report. At each meeting of the Board of Directors, the Board receives specific and detailed information on all business transacted and all decisions adopted at the meetings of the Executive Committee that have been held since the last meeting of the Board. However, it is not the practice of the Company to deliver to the Directors a copy of the minutes of Executive Committee meetings.

**44. In addition to the Audit Committee mandatory under the Securities Market Law, the Board of Directors forms a single Nominating and Compensation Committee as a separate committee of the Board, or a Nominating Committee and a Compensation Committee.**

**The rules governing the make-up and operation of the Audit Committee and the Nominating and Compensation Committee or committees are set forth in the Regulations of the Board, and include the following:**

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- a) The Board appoints the members of such Committees, taking into account the background knowledge, qualifications and experience of the Directors and the responsibilities of each Committee, discusses its proposals and reports, and receives a report, at the first meeting of the full Board following the meetings of such committees, on their activities and the work performed;
- b) These Committees are formed exclusively of external directors and have a minimum of three members. The foregoing is without prejudice to the attendance of executive directors or senior managers, when expressly resolved by the members of the Committee;
- c) Committee Chairmen are independent directors;
- d) They may receive external advice, whenever they feel this is necessary for the discharge of their duties;
- e) Minutes are prepared of their meetings, and a copy is sent to all Board members.

Complies in part

The recommendations of the Unified Code regarding the rules governing the composition and proceedings of both the Audit and Compliance Committee and the Nominating and Compensation Committee have been fully adopted by IBERDROLA RENOVABLES and included in the Regulations of the Board of Directors.

The respective Chairmen of such Committees report to the Board of Directors the resolutions adopted at each of their meetings, and submit to the Board the respective proposals which, if approved, are included, together with the relevant documents, in the minutes of the meeting of the Board of Directors. The Company therefore does not deem it necessary to send all Directors a copy of the minutes of the meetings of the Audit and Compliance Committee or of the Nominating and Compensation Committee.

**45. Supervising compliance with internal codes of conduct and corporate governance rules is entrusted to the Audit Committee, the Nominating Committee or, if they exist separately, to the Compliance or Corporate Governance Committee.**

Complies

**46. The members of the Audit Committee and, particularly, the Chairman thereof, are appointed taking into account their background knowledge and experience in accounting, auditing and risk management matters.**

Complies

**47. Listed companies have an internal audit function which, under the supervision of the Audit Committee, ensures the smooth operation of the information and internal control systems.**

Complies

**48. The head of internal audit presents an annual work plan to the Audit Committee; reports to it directly on any issues arising in the execution of such plan; and submits an activities report to it at the end of each fiscal year.**

Complies

**49. The risk control and management policy specifies at least:**

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- a) The different types of risk (operational, technological, financial, legal, reputational, etc.) the company is exposed to, including contingent liabilities and other off-balance sheet risks among financial or economic risks;
- b) The determination of the risk level the company sees as acceptable;
- c) Measures in place designed to mitigate the impact of the risks identified, should they materialize;
- d) The internal reporting and control systems to be used to monitor and manage the above risks, including contingent liabilities and off-balance sheet risks.

*See section: D*

Complies

#### 50. The Audit Committee's role is:

##### 1. With respect to the internal control and reporting systems:

- a) To monitor the preparation and the integrity of the financial information relating to the company and, if appropriate, to the group, checking compliance with legal requirements, the appropriate demarcation of the scope of consolidation, and the correct application of accounting standards.
- b) To periodically review internal control and risk management systems so main risks are properly identified, managed and disclosed.
- c) To ensure the independence and efficacy of the internal audit function; propose the selection, appointment, reappointment and removal of the head of the internal audit service; propose the department's budget; receive regular reports on its activities; and verify that senior management takes into account the findings and recommendations of its reports.
- d) To establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate, anonymously, potentially significant irregularities within the company that they detect, in particular financial or accounting irregularities.

##### 2. With respect to the external auditor:

- a) To make recommendations to the Board for the selection, appointment, reappointment and replacement of the external auditor, and the terms of its engagement.
- b) To receive regular information from the external auditor on the audit plan and the results of the implementation thereof, and check that senior management takes its recommendations into account.
- c) To monitor the independence of the external auditor, to which end:
  - i) The company reports a change of auditor to the CNMV as a significant event, accompanied by a statement of any disagreements with the outgoing auditor and the reasons for the same;
  - ii) The Committee ensures that the company and the auditor adhere to current regulations on the provision of non-audit services, the limits on the concentration of the auditor's business and, in general, all other regulations established to safeguard the independence of the auditors;
  - iii) In the event of resignation of the external auditor, the Committee investigates the circumstances that may have given rise thereto.
- d) In the case of groups, the Committee favors the auditor of the group assuming responsibility for the audits of the companies that form part thereof.

*See sections: B.1.35, B.2.2, B.2.3 and D.3*

Complies

#### 51. The Audit Committee may cause any company employee or manager to appear before it, and even order their appearance without the presence of any other manager.

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Complies

**52. The Audit Committee reports to the Board, prior to the adoption thereby of the corresponding decisions, on the following matters specified in Recommendation 8:**

**a) The financial information that the Company must periodically make public due to its status as a listed company. The Committee should ensure that interim financial statements are prepared under the same accounting standards as the annual financial statements and, to this end, consider whether a limited review by the external auditor is appropriate.**

**b) The creation or acquisition of interests in special-purpose entities or entities registered in countries or territories considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the group.**

**c) Related-party transactions, unless such prior reporting duty has been assigned to another supervision and control committee.**

*See sections: B.2.2 and B.2.3*

Complies

**53. The Board of Directors seeks to present the financial statements to the shareholders at the General Shareholders' Meeting without reservations or qualifications in the auditor's report and, in the exceptional instances where they do exist, both the Chairman of the Audit Committee and the auditors give a clear account to the shareholders of the content and scope of such reservations or qualifications.**

*See section: B.1.38*

Complies

**54. The majority of the members of the Nominating Committee –or of the Nominating and Compensation Committee, if one and the same– are independent directors.**

*See section: B.2.1*

Complies

**55. The Nominating Committee has the following duties, in addition to those stated in the earlier Recommendations:**

**a) To assess the qualifications, background knowledge and experience necessary to sit on the Board, defining, accordingly, the duties and qualifications required of the candidates to fill each vacancy, and decide the time and dedication necessary for them to properly perform their duties.**

**b) To examine or organize, in the manner it deems appropriate, the succession of the Chairman and the chief executive and, if appropriate, make proposals to the Board for such succession to take place in an orderly and well-planned manner.**

**c) To report on senior manager appointments and removals that the chief executive proposes to the Board.**

**d) To report to the Board on the gender diversity issues discussed in Recommendation 14 of this Code.**

*See sections: B.2.3 and B.2.4*

Complies

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**56. The Nominating Committee consults with the Company's Chairman and chief executive, especially on matters relating to executive directors.**

**And that any board member may request that the Nominating Committee consider possible candidates to fill vacancies for the position of director, if it finds them suitably qualified.**

Complies

**57. The Compensation Committee is responsible for the following duties, in addition to those set forth in the earlier recommendations:**

**a) To propose to the Board of Directors:**

**i) The compensation policy for directors and senior managers;**

**ii) The individual compensation of executive directors and other terms of their contracts;**

**iii) The basic terms and conditions of the contracts with senior managers.**

*See sections: B.1.14, B.2.3 and B.2.4*

Complies

**58. The Compensation Committee consults with the Chairman and chief executive of the Company, especially on matters relating to executive directors and senior managers.**

Complies

## **G OTHER INFORMATION OF INTEREST**

**If you believe that there is any relevant principle or aspect regarding the corporate governance practices applied by your company that has not been discussed in this report, please mention it and explain it below.**

SPECIFIC CLARIFICATIONS ON DIFFERENT SECTIONS OF THE REPORT:

### **SECTION A.2**

Given that the shares are represented by book entries, accurate information about the interest of shareholders in the share capital is not available. The sources of the information provided are the notices sent by the shareholders to the National Securities Market Commission (CNMV).

Pursuant to the provisions of Section 23.1 of Royal Decree 1362/2007, of October 19, further developing Law 24/1988, of July 28, on the Securities Market, in connection with the transparency requirements relating to the information on issuers whose securities have been admitted to trading on an official secondary market or other regulated market in the European Union, it is deemed, from a general viewpoint, that significant shareholders are the holders of interests that represent 3% of the share capital.

According to available information, the approximate breakdown of the interests in the share capital (excluding the percentage held by the significant shareholder) by type of shareholder is as follows:

- Foreign entities: 13.5 %
- Domestic entities: 2 %
- Retail investors: 4.5 %

There have been no significant changes in the shareholding structure in fiscal year 2008.

### **SECTION A.3**

Taking into account the interest held by the significant shareholder that has proposed the appointment of the Proprietary Directors, the percentage of share capital held by the Board of Directors as of the date of approval of this report (February 24, 2009) is 80.045%. This information may be supplemented and continuously updated through the website of the CNMV ([www.cnmv.es](http://www.cnmv.es)).

The voting rights of the members of the Board of Directors set forth in section A.3 are consistent with the information posted on the website of the CNMV ([www.cnmv.es](http://www.cnmv.es)) as of the date of approval of this report, except for the information regarding Mr. Marcos Fernández Fermoselle, for whom the information set forth is the information available as of the date of his resignation from his position as member of the Board of Directors on January 20, 2009.

### **SECTION A.8**

On December 10, 2007, the Company executed an equity swap agreement with a credit institution on a total of 9,433,962 shares of the Company, for a notional amount of 50 million euros, in order to obtain coverage against fluctuations in the price of the Company's shares that are the subject matter of the programs for the

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delivery of shares of the Company as well as of the long-term incentives referred to in section 17.3 of the registration document that is an integral part of the prospectus for the Initial Public Offering of shares, which was approved and entered in the official record of the National Securities Market Commission on November 22, 2007. The aforementioned agreement expires on March 31, 2011, without prejudice to the events of early termination contemplated therein, and may be extended by agreement of the parties. Upon expiration of the agreement, payment thereunder will be made, at the Company's option, in cash or in shares of the Company. At the close of fiscal year 2008, the agreement remained in force in respect of 8,867,295 shares of the Company.

#### **SECTIONS B.1.2, B.1.3 and B.1.5**

On January 26, 2009, the Board of Directors took note of the resignation tendered, for personal reasons, by Mr. Marcos Fernández Fermoselle, by means of a letter dated January 20, 2009.

#### **SECTION B.1.8**

Mr. Luis Chicharro Ortega was the individual representative of Ibersuizas Alfa, S.L. on the Board of Directors of the companies Fomento de Construcciones y Contratas, S.A. and Cementos Portland Valderrivas, S.A. until January 31, 2008 and May 28, 2008, respectively. For his part, Mr. Julio Feroso García is the individual representative of Caja Duero on the Board of Directors of the company Uralita, S.A.

#### **SECTION B.1.11**

The information set forth in section B.1.11 of this report is in agreement with the information reflected in note 37 to the consolidated report on the annual financial statements for fiscal year 2008, relating to the distribution of the compensation of the Board of Directors, although the regulated nature of this report calls for the use of a different classification.

In addition to the annual variable compensation accrued during the fiscal year and set forth in section B.1.11, the members of the Board of Directors of IBERDROLA RENOVABLES who have had executive responsibilities have received 893 thousand euros, with a charge to by-law allocations from prior fiscal years, as a bonus for the achievement of objectives under multi-year strategic plans and in connection with exceptional and specific situations.

The fixed compensation accrued during fiscal year 2008 by the Chairman of the Board of Directors and by five proprietary directors appointed at the proposal of Iberdrola, S.A. is entirely paid to this Company.

#### **SECTION B.1.12**

In addition to the compensation accrued during the fiscal year which is set forth in section B.1.12, during fiscal year 2008 the members of Senior Management have received a multi-year performance bonus in the amount of 1,905 thousand euros, for which provision had been made in prior fiscal years.

The amount set forth as total compensation of Senior Management does not include the compensation of Mr. José Ángel Marra Rodríguez, because he effectively joined the Company in January 2009.

#### **SECTION B.1.13**

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The shareholders at the General Shareholders' Meeting receive information on these matters through the Annual Corporate Governance Report and the explanatory report on aspects of the equity structure and the governance and control system of Iberdrola Renovables, S.A. contemplated by Section 116 *bis* of Law 24/1988, of July 28, on the Securities Market, which shall be made available to the shareholders through the websites of the National Securities Market Commission and the Company.

#### **SECTION B.1.29**

In addition to the Committees mentioned in section B.1.29, the Related-Party Transactions Committee met 8 times in fiscal year 2008, each time with the attendance of the Chairman thereof.

#### **SECTION B.1.31**

The Company has created, at the proposal of the Audit and Compliance Committee, a process for certification of the financial information that helps to reasonably ensure the reliability of the financial information and the proper operation of the internal control. The annual financial statements constitute the overall subject-matter for verification, and therefore, the process will be completed with the certification of the Chief Executive Officer and of the Director of Control before the Board of Directors of Renovables.

During the course of this certification process, the managers responsible for the relevant financial information shall certify the correctness of the financial information corresponding to their respective areas of responsibility. There will be a dual certification of the business units, such that both the head of the business unit and the head of control will sign it. In the corporate areas, the certification will be issued by the head of the area of responsibility of each certifier in the annual financial statements.

The certifications will include, as an annex, the current version of the annual financial statements existing as of the date thereof. The certifications of the business units will also include the financial information delivered for purposes of consolidation or any equivalent information.

#### **SECTION C**

All the information regarding related-party transactions contained in this 2008 Annual Corporate Governance Report is also included in the Annual Financial Information prepared by the Board of Directors of the Company as of the date of this Report.

#### **SECTION C.2**

As this report must conform to an established regulatory framework, the information in this section solely includes the transactions carried out with IBERDROLA, S.A. or companies within the IBERDROLA Group; similarly, the counterparty in all of these transactions is IBERDROLA, S.A., the parent company of the aforementioned Group, regardless of whether the transaction was entered into with IBERDROLA, S.A. or with other companies of the Iberdrola Group. Note 19 of the notes to the individual annual financial statements as of December 31, 2008 and note 38 of the notes to the consolidated annual financial statements as of the same date include detailed information on these transactions.

Therefore, such section does not include information regarding transactions carried out with other counterparties that are not formally significant shareholders of IBERDROLA RENOVABLES, S.A. but are

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significant shareholders of IBERDROLA, S.A. For such purposes, it is noted that, in accordance with the applicable accounting standards and in the interest of the Company to comply with its commitment to transparency, at note 38 of the notes to the consolidated financial statements as of December 31, 2008, the transactions carried out with ACS, Actividades de Construcción y Servicios (ACS), Bilbao Bizkaia Kutxa (BBK) and Caja de Ahorros de Valencia, Castellón y Alicante, Bancaja (Bancaja) are also disclosed, which entities, although not shareholders of IBERDROLA RENOVABLES at December 31, 2008, were significant shareholders of IBERDROLA, S.A. These annual financial statements also include transactions with Gamesa Corporación Tecnológica, S.A. and entities within its group, as they are affiliates of IBERDROLA, S.A.

**SECTION C.3**

During fiscal year 2008, neither the Company nor entities within its group have carried out any significant transaction with the directors or managers of the Company on an individual basis, other than the transactions already described in other sections of this report, in connection with compensation.

**SECTION C.5**

In each and every one of the conflict of interest situations described, the affected Directors refrained from attending and participating in the stages of deliberation and voting on the respective resolutions. Likewise, they refrained from attending and participating in the revision of their respective classifications as executive, external proprietary, external independent and other external.

**SECTION E.7**

As regards the data on proxy-granting and distance voting at the General Shareholders’ Meeting held on June 26, 2008, the holders of a total of 25,235 shares voted and the holders of another 3,476 shares carried out the formalities for proxy-voting by electronic means, by using the procedure established for such purpose on the Company’s website ([www.iberdrolarenovables.es](http://www.iberdrolarenovables.es)). No shareholders voted by mail or used this means to carry out the formalities for proxy-voting.

**In this section, you may include any other information, clarification or comment relating to the prior sections of this report.**

**Specifically, indicate whether the company is subject to laws other than Spanish laws regarding corporate governance and, if applicable, include such information as the company is required to provide that is different from the information required in this report.**

**Binding definition of independent director:**

**Indicate whether any of the independent directors has or has had any relationship with the Company, its significant shareholders or its managers which, had it been sufficiently significant or important, would have resulted in the director not qualifying for consideration as independent pursuant to the definition set forth in sub-section 5 of the Unified Good Governance Code:**

**YES**

Name of the director	Type of relationship	Explanation
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Mr. Santiago Martínez Lage	Contractual	Mr. Santiago Martínez Lage is a founding partner of Howrey Martínez-Lage, S.L., a law firm that has provided professional advice in Antitrust Law to IBERDROLA, S.A., parent company of IBERDROLA RENOVABLES, and to IBERDROLA GENERACIÓN, S.A.U. (wholly-owned subsidiary of IBERDROLA, S.A.). Such services do not in any way affect the Company or its affiliated entities, for which neither Mr. Martínez Lage nor the law firm of which he is a partner has provided any service. In any case, it is important to note that: (i) they are the same services existing as of December 31, 2007, without new services being rendered since that time; and (ii) the compensation paid by Iberdrola, S.A. and Iberdrola Generación, S.A.U. to the aforementioned law firm for such services is not significant either with respect to the total turnover or earnings of the law firm or with respect to the interest of Mister Martínez Lage in the earnings of the law firm. Therefore, the Company deems that the rendering of such services does not endanger its position as independent director.
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**Date and signature:**

**This annual corporate governance report was approved by the Board of Directors of the Company at its meeting of**

2/24/2009

**Indicate whether any Directors voted against or abstained in connection with the approval of this Report.**

NO

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