

Consolidated  
Financial Statements  
2008







Consolidated Financial Statements 2008



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# INDEPENDENT AUDITOR'S REPORT

Ernst & Young, S.L. was appointed auditor of IBERDROLA RENOVABLES, S.A. and of IBERDROLA RENOVABLES, S.A. and its Consolidated Group pursuant to resolutions adopted at the General Shareholders' Meeting held on June 26, 2008, following a proposal of the Audit and Compliance Committee of the Board of Directors of IBERDROLA RENOVABLES, S.A. dated May 20, 2008.

The criteria for appointing and hiring the auditor, as well as the supervisory powers of the Audit and Compliance Committee, are contained in the "Annual Corporate Governance Report of IBERDROLA RENOVABLES, S.A." for fiscal year 2008.







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## AUDIT REPORT ON THE CONSOLIDATED ANNUAL ACCOUNTS

Translation of a report and consolidated annual accounts originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails (See Note 46)

To the Shareholders of Iberdrola Renovables, S.A.

We have audited the consolidated annual accounts of IBERDROLA RENOVABLES, S.A. and its subsidiaries (the IBERDROLA RENOVABLES Group), which comprise the consolidated balance sheet at December 31, 2008, the consolidated income statement, the consolidated statement of recognised income and expense, the consolidated cash flow statement and the notes thereto for the year then ended, the preparation of which is the responsibility of the Parent Company's directors. Our responsibility is to express an opinion on the aforementioned consolidated annual accounts 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 annual accounts, and the evaluation of their presentation, of the accounting principles applied, and of the estimates made.

In accordance with mercantile law, for comparative purposes the Parent Company's directors have included for each of the captions included in the consolidated balance sheet, the consolidated income statement, the consolidated statement of recognized income and expense, the consolidated cash flow statement and the notes thereto, in addition to the figures of 2008, those of 2007. Our opinion refers only to the consolidated annual accounts for 2008. On March 12, 2008 we issued our audit report on the 2007 consolidated annual accounts, in which we expressed an unqualified opinion.

In our opinion, the accompanying 2008 consolidated annual accounts give a true and fair view, in all material respects of the equity and financial position of IBERDROLA RENOVABLES, S.A. and its subsidiaries at December 31, 2008 and the consolidated results of its operations, the changes in consolidated equity contained in the consolidated statement of recognized income and expense and the consolidated cash flow for the year then ended and contain the required information necessary for their adequate interpretation and comprehension, in conformity with the international financial reporting standards adopted by the European Union which are consistent with those applied to the figures and information corresponding to the 2007 consolidated financial statements.

The accompanying consolidated management report for the year ended December 31, 2008 contains such explanations as the Parent Company's directors consider appropriate concerning the situation of IBERDROLA RENOVABLES, S.A. and its subsidiaries, the evolution of their business and other matters, and is not an integral part of the consolidated annual accounts. We have checked that the accounting information included in the consolidated management report mentioned above agrees with the consolidated annual accounts for the year ended December 31, 2008. Our work as auditors is limited to verifying the consolidated 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 accounting records of the parent company and the companies comprising its Group.

INSTITUTO DE  
CENSORES JURADOS  
DE CUENTAS DE ESPAÑA

Miembro ejerciente:  
ERNST & YOUNG, S.L.

Año 2009 Nº 03/09/00029  
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ERNST & YOUNG, S.L.  
(Registered in ROAC under N° S0530)

Francisco Rahola Carral

February 25, 2009

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# **ANNUAL CONSOLIDATED FINANCIAL STATEMENTS**

Translation of Consolidated Financial Statements originally issued in Spanish and prepared in accordance with IFRS, as adopted by the European Union (See Note 45). In the event of a discrepancy, the Spanish-language version prevails

## IBERDROLA RENOVABLES, S.A. AND SUBSIDIARIES

Consolidated Balance Sheet at December 31, 2008 and 2007

	Thousand of euros		
	Note	2008	2007
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
<b>Intangible assets</b>	8	<b>4,492,873</b>	<b>4,672,769</b>
Goodwill		1,589,761	1,646,475
Other intangible assets		2,903,112	3,026,294
<b>Property, plant and equipment</b>	9	<b>12,874,821</b>	<b>9,695,495</b>
Property, plant and equipment in use		8,956,171	7,215,721
Property, plant and equipment in progress		3,918,650	2,479,774
<b>Non current trade</b>		<b>20,269</b>	<b>-</b>
<b>Non current Financial assets</b>		<b>320,909</b>	<b>300,653</b>
Investments accounted for using the equity method	10	285	144
Non-current equity investments		1,051	9,670
Other non-current financial investments	10	249,570	208,688
Derivative financial instruments	19	70,003	82,151
<b>Deferred tax assets</b>	21	<b>363,769</b>	<b>264,690</b>
		<b>18,072,641</b>	<b>14,933,607</b>
<b>CURRENT ASSETS</b>			
<b>Inventories</b>		<b>221,044</b>	<b>200,210</b>
<b>Current trade and other receivables</b>	11	<b>614,307</b>	<b>1,617,870</b>
<b>Current financial assets</b>		<b>774,886</b>	<b>351,765</b>
Current equity investments		63	4,367
Other financial investments	10	253,055	212,516
Derivative financial instruments	19	521,768	134,882
<b>Tax receivables</b>	22	<b>246,389</b>	<b>337,771</b>
<b>Cash and cash equivalents</b>	12	<b>286,885</b>	<b>213,976</b>
		<b>2,143,511</b>	<b>2,721,592</b>
<b>TOTAL ASSETS</b>		<b>20,216,152</b>	<b>17,655,199</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
<b>Of shareholders of the parent</b>	14		
Share capital		2,112,032	2,112,032
Share premium		8,419,444	8,419,444
Unrealized assets and liabilities revaluation reserve		5,348	10,449
Other reserves		348,067	340,463
Translation differences		(160,276)	(216,071)
Net profit for the year		390,160	117,538
<b>Of minority interests</b>		<b>73,504</b>	<b>134,599</b>
		<b>11,188,279</b>	<b>10,918,454</b>
<b>Equity instruments having the substance of a financial liability</b>	15	<b>797,626</b>	<b>680,545</b>
<b>NON-CURRENT LIABILITIES</b>			
<b>Deferred income</b>	16	<b>146,157</b>	<b>143,436</b>
<b>Provisions</b>	17	<b>109,226</b>	<b>63,372</b>
Provisions for pensions and similar obligations		28,106	16,780
Other provisions		81,120	46,592
<b>Bank borrowings and other financial liabilities</b>		<b>911,754</b>	<b>746,328</b>
Bank borrowings-loans	18	784,741	627,747
Derivative financial instruments	19	127,013	118,581
<b>Other non-current liabilities</b>	20	<b>2,325,567</b>	<b>330,172</b>
<b>Deferred tax liabilities</b>	21	<b>1,955,934</b>	<b>1,866,706</b>
		<b>5,448,638</b>	<b>3,150,014</b>
<b>CURRENT LIABILITIES</b>			
<b>Provisions</b>		<b>-</b>	<b>3,396</b>
Other provisions		-	3,396
<b>Bank borrowings and other financial liabilities</b>		<b>300,262</b>	<b>296,440</b>
Bank borrowings-loans	18	119,430	217,388
Derivative financial instruments	19	180,832	79,052
<b>Trade and other payables</b>		<b>2,481,347</b>	<b>2,606,350</b>
Trade payables		420,176	317,483
Current tax liabilities and other tax payables	22	337,700	233,229
Other current liabilities	23	1,723,471	2,055,638
		<b>2,781,609</b>	<b>2,906,186</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>20,216,152</b>	<b>17,655,199</b>

Notes 1 to 45 to the accompanying Consolidated Financial Statements and the appendix are an integral part of the Consolidated Balance Sheet.

**IBERDROLA RENOVABLES, S.A. AND SUBSIDIARIES**

Consolidated Income Statement for the year ended at December 31, 2008 and 2007

	Thousand of euros		
	Note	2008	2007
Revenue	24	2,030,317	953,015
Procurements	25	(409,160)	(130,176)
		<b>1,621,157</b>	<b>822,839</b>
Staff costs	26	(188,921)	(99,000)
Capitalised staff costs	26	38,920	16,089
Outside services	27	(298,356)	(181,084)
Other operating income		34,095	15,447
		<b>(414,262)</b>	<b>(248,548)</b>
Taxes other than income tax		(21,363)	(10,344)
		<b>1,185,532</b>	<b>563,947</b>
Depreciation and amortization, charge and provisions	28	(475,883)	(217,034)
<b>PROFIT FROM OPERATIONS</b>		<b>709,649</b>	<b>346,913</b>
Result of companies accounted for using the equity method	10	77	(581)
Finance income	29	113,374	40,373
Finance costs	30	(235,197)	(192,227)
Gains on disposal of non-current assets		74	1,505
Losses on disposals of non-current assets		(5,650)	-
<b>PROFIT BEFORE TAX</b>		<b>582,327</b>	<b>195,983</b>
Income Tax	21	(184,937)	(67,231)
<b>NET PROFIT FOR THE YEAR</b>		<b>397,390</b>	<b>128,752</b>
Minority interests	14	(7,230)	(11,214)
<b>NET PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT</b>		<b>390,160</b>	<b>117,538</b>
<b>EARNINGS PER SHARE (BASIC AND DILUTED)</b>	43	<b>0.09</b>	<b>0.11</b>

Notes 1 to 45 to the accompanying Consolidated Financial Statements and the appendix are an integral part of the Consolidated Income Statement.

Translation of Consolidated Financial Statements originally issued in Spanish and prepared in accordance with IFRS, as adopted by the European Union (See Note 45). In the event of a discrepancy, the Spanish-language version prevails

### IBERDROLA RENOVABLES, S.A. AND SUBSIDIARIES

#### Consolidated Statement of Recognized Income and Expense for the years ended December 31, 2008 and 2007

	Thousand of euros					
	Year ended December 31, 2008			Year ended December 31, 2007		
	Parent company (Note 14)	Minority interests (Note 14)	Total	Parent company (Note 14)	Minority interests (Note 14)	Total
<b>Net income recognized directly in equity</b>						
<b>Other reserves</b>						
Actuarial gains and losses	(8,386)	-	(8,386)	(1,883)	-	(1,883)
Tax effect	3,186	-	3,186	720	-	720
	<b>(5,200)</b>	<b>-</b>	<b>(5,200)</b>	<b>(1,163)</b>	<b>-</b>	<b>(1,163)</b>
<b>Unrealized assets and liabilities revaluation reserves</b>						
Change in the value of cash flow hedges	(7,337)	-	(7,337)	15,167	-	15,167
Tax effect	2,236	-	2,236	(5,488)	-	(5,488)
	<b>(5,101)</b>	<b>-</b>	<b>(5,101)</b>	<b>9,679</b>	<b>-</b>	<b>9,679</b>
<b>Translation differences</b>						
Change in translation differences	55,795	1,448	57,243	(216,156)	214	(215,942)
<b>Net profit for the year</b>	<b>390,160</b>	<b>7,230</b>	<b>397,390</b>	<b>117,538</b>	<b>11,214</b>	<b>128,752</b>
	<b>435,654</b>	<b>8,678</b>	<b>444,332</b>	<b>(90,102)</b>	<b>11,428</b>	<b>(78,674)</b>

**IBERDROLA RENOVABLES, S.A. AND SUBSIDIARIES**

Consolidated Cash Flow Statements for the years ended December 31, 2008 and 2007

	Thousand of euros		
	Note	2008	2007
<b>Cash flows from operating activities</b>			
<b>Profit for the year</b>		<b>397,390</b>	<b>128,752</b>
<b>Adjustments for:</b>			
Depreciation and amortization expense and provisions of non current assets	28	481,434	261,019
Net result of associates		(77)	581
Grants credited to income	16	(7,952)	(7,610)
Finance income and expense	29-30	121,823	151,854
Provisions for pensions		2,260	3,805
Provision for contingencies and expenses		5,509	7,719
Gains on disposal of non-current assets		5,576	(1,505)
<b>Change in working capital</b>			
Change in inventories		(20,834)	(21,485)
Change in trade and other receivables		925,542	(301,751)
Change in trade and other payables		1,600,270	(639,629)
Effect of translation differences on working capital		323,183	66,428
Change in non-current trade and other payables		(76,697)	(156,168)
Provisions paid		(4,871)	(2,394)
Income tax paid		(36,792)	(26,723)
Interest received		113,233	27,640
		<b>3,828,997</b>	<b>(509,467)</b>
<b>Cash flows from investing activities</b>			
Investment in intangible assets	8	(197,336)	(115,144)
Investment in property, plant and equipment	9	(3,647,702)	(1,970,680)
Changes in consolidation method and/or scope		(730)	5,620
Equity investments		8,210	(8,540)
Other investments		-	37,068
Change for current financial assets		(401,869)	(182,067)
Proceeds on disposal of non-financial assets		89,875	-
		<b>(4,149,552)</b>	<b>(2,233,743)</b>
<b>Cash flows from financing activities</b>			
Monetary contribution		-	5,304,441
Deferred income	16	10,673	25,637
Change for current interest bearing loans and borrowings		342,188	(2,203,324)
Cash proceeds from borrowings		426,353	83,659
Repayments of borrowings		(152,278)	(91,833)
Interest paid including capitalized interests		(233,472)	(187,034)
Dividends paid		-	(97,148)
		<b>393,464</b>	<b>2,834,398</b>
<b>Net increase in cash and cash equivalents</b>		<b>72,909</b>	<b>91,188</b>
Cash and cash equivalents at January 1		213,976	122,788
<b>Cash and cash equivalents at December 31</b>		<b>286,885</b>	<b>213,976</b>

Notes 1 to 45 to the accompanying Consolidated Financial Statements and the appendix are an integral part of the Consolidated Cash Flow Statements.

Translation of Consolidated Financial Statements originally issued in Spanish and prepared in accordance with IFRS, as adopted by the European Union (See Note 45). In the event of a discrepancy, the Spanish-language version prevails

## IBERDROLA RENOVABLES, S.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements December 31, 2008

### 1. GROUP ACTIVITY

Iberdrola Renovables, S.A. (formerly Iberdrola Energías Renovables S.A.U., hereinafter IBERDROLA RENOVABLES) was incorporated on July 9, 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 a range of renewable energies, including, but not restricted to, mini-hydroelectric, wind, solar (thermal and photovoltaic), and biomass, as well as the development, construction, operation and maintenance of these kinds of energy plants.
- The start-up 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.

The IBERDROLA RENOVABLES' General Shareholders' Meeting, held on June 26, 2008, decided to change its registered office to Valencia, at Calle Menorca, 19.

The subsidiaries mainly engage in the generation of electricity from renewable energy sources, both in Spain and abroad. Details of these companies are presented in an appendix to the Consolidated Financial Statements.

As explained in Note 14, the majority shareholder of IBERDROLA RENOVABLES is Iberdrola, S.A. (hereinafter, IBERDROLA). As a result of IBERDROLA's acquisition of Scottish Power, Plc. (hereinafter SCOTTISH POWER) on April 23, 2007 and prior to the initial public offering of shares described in Note 14, IBERDROLA RENOVABLES acquired, via a capital increase with a non-monetary contribution dated on October 3 2007, SCOTTISH POWER's renewable energy branch, mainly located in the UK and the US as well as gas storage, electricity and gas supply businesses and thermal energy generation of electricity carried out in the US (see Note 33).

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

### a) Accounting standards applied

The IBERDROLA RENOVABLES Group's 2008 Consolidated Financial Statements were prepared by the Company Directors on February 24, 2009 in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, in conformity with Regulation (EC) 1606/2002 of the European Parliament and of the Council. The Directors of IBERDROLA RENOVABLES expect these Consolidated Annual Accounts to be approved at the General Shareholders' Meeting without modification.

These Consolidated Financial Statements have been prepared on a historical cost basis, except for available-for-sale financial assets and derivative financial instruments, which have been measured at fair value. The carrying amounts of assets and liabilities hedged by fair value hedges are restated to reflect variations in their fair value as a result of the risk hedged.

IBERDROLA RENOVABLES, the same as year 2007, has elected to implement the early application IFRS 8 "Operating segments" (see Note 7), which requires the IBERDROLA RENOVABLES to report financial and descriptive information about its reportable segments and the economics environments where the Group operates.

The remaining standards issued by the corresponding bodies whose application is not mandatory in 2008 would not have a material impact on these Consolidated Annual Accounts.

IFRS allow a number of alternative treatments in their regular application, including the following:

- IFRS allow an option whereby finance costs generated by external finance allocated to assets in progress can be recognized as an increase in the cost of acquisition of the assets. The Group has opted to capitalize these finance costs. In April 2007, the IASB amended IAS 23, "Borrowing costs", establishing as sole possible treatment of these finance costs the treatment that the IBERDROLA Group has been applying.
- Investments in joint ventures can be consolidated either using the proportionate consolidation method or using the equity method provided the same criteria are applied to all the stakes in joint ventures owned by the Group. The Group consolidates all companies in which it shares control with other partners using the proportionate consolidation method.
- "Intangible assets" and "Property, plant and equipment" can be measured either at fair value or at acquisition cost, adjusted for accumulated depreciation and amortization and any impairment. The Group has opted to recognize these assets at adjusted acquisition cost.



- Under IFRSs, actuarial differences exceeding the higher of 10% of the actuarial present value of guaranteed benefit or 10% of the market value of the plan assets may be allocated to income deferred over the average remaining life of the employees covered by the pension plan. Alternatively, the actuarial differences that arise in relation to its defined benefit obligations may be allocated to reserves.

The IBERDROLA Group decided to recognise the full amount of the actuarial variances when they are charged or credited, as appropriate, to reserves.

- IFRS allow two possible treatments of government grants: to deduct from the carrying amount of the asset the grant received for its acquisition or present the grants as deferred income under liabilities in the balance sheet. The Group has opted for the latter option.

The IBERDROLA RENOVBLES's Consolidated Annual Accounts corresponding to the year 2007 were approved at the General Shareholders' Meeting on 26 June 2008.

#### b) Consolidation principles

The IBERDROLA RENOVBLES Group fully consolidates subsidiaries over which it exercises control.

The IBERDROLA RENOVBLES Group considers that it exercises control over a company when it has the power to govern its financial and operating policies so as to obtain benefits from its activities.

Jointly controlled entities that the IBERDROLA RENOVBLES Group manages together with other companies have been consolidated using proportionate consolidation. There are companies in which the Group has an ownership interest of over or under 50% but in which it exercises joint control based on agreements with the remaining shareholders.

The associates over which IBERDROLA RENOVBLES Group does not exercise control but does have a significant influence were accounted for in the Consolidated Balance Sheet by the equity method. For the purposes of the preparation of the Consolidated Financial Statements, the Group has been deemed to exercise significant influence over the companies in which it holds an interest of more or less than 20% in the share capital, with the exception of specific cases in which it holds a smaller percentage interest but can clearly demonstrate significant influence.

The appendix to the Consolidated Financial Statements lists all IBERDROLA RENOVBLES' subsidiaries, jointly controlled entities and associates, together with the consolidation or measurement basis used in preparing the accompanying Consolidated Financial Statements and other related disclosures.

The closing date used for the financial statements of subsidiaries, jointly controlled entities and associates is December 31. The accounting policies applied by these companies are the same or have been conformed to those used by the IBERDROLA RENOVBLES Group to prepare these Consolidated Financial Statements.

The financial statements of each of the foreign companies have been prepared in their respective functional currencies, defined as the currency of the economy in which each company operates and in which it generates and uses cash.

The operations of IBERDROLA RENOVBLES and of its consolidated subsidiaries and jointly controlled entities are consolidated in accordance with the following basic principles:

- On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are recognized at fair value. Any excess of the cost of acquisition of the subsidiary over the company's interest in the fair value of the assets and liabilities is recognized as goodwill.

If the company's interest in the net fair value of the acquired assets and liabilities exceeds the cost of the business combination (negative goodwill), that excess is recognized immediately in the Consolidated Income Statement as a gain.

Results of subsidiaries acquired or sold in the year are included in the Consolidated Income Statement as from the effective date of acquisition or up to the effective date of sale.

- Goodwill acquired in business combinations ceases to be amortized after January 1, 2004, the IFRS transition date, but is tested for impairment each period.
- The result of measuring investments in associates using the equity method (after eliminating transactions between Group companies) is recognized under "Other reserves" and "Result of companies accounted for using the equity method" on the accompanying Consolidated Balance Sheet and Income Statement, respectively.
- The interests of minority shareholders in the equity and results of the fully consolidated subsidiaries and proportionately consolidated joint ventures are presented under "Equity – Minority interests" on the liability side of the Consolidated Balance Sheet and "Minority Interests" in the Consolidated Income Statement, respectively.
- Acquisitions from minority shareholders of interests in companies over which the Group has previously exercised control as well as sales transactions without loss of control are considered transactions among shareholders then premiums paid and the gains or losses obtained on such transactions are recognised against reserves.

- The financial statements of foreign companies have been translated into euros using the period-end exchange rate method. This method consists of translating all assets, rights and obligations into euros at the exchange rates prevailing at the annual closing date of the Consolidated Financial Statements, translating Consolidated Income Statement items at the average exchange rates for the year, and translating equity items at the exchange rates applying at their date of acquisition (or in the case of retained earnings at the average exchange rates for the year they were generated, provided there were no material transactions that would make this misleading).
- All accounts and transactions between fully and proportionately consolidated companies have been eliminated in consolidation.

### c) Comparative information

As explained in Notes 1, 14 and 33, a capital increase with a non-monetary contribution was carried out on October 3, 2007, and was fully subscribed by IBERDROLA, which was the sole shareholder of IBERDROLA RENOVABLES at the time. As a result of this operation, SCOTTISH POWER's renewable energy business became part of the IBERDROLA RENOVABLES Group.

Consequently:

- The Consolidated Income Statement, the Consolidated Statement of Recognised Income and Expense and the Consolidated Cash Flow Statement for the year ended 31 December 2008 include the contributions of these branches of SCOTTISH POWER's activities for the full year.
- The Consolidated Income Statement, the Consolidated Statement of Recognised Income and Expense and the Consolidated Cash Flow Statement for the year ended 31 December 2007 include the aforesaid contributions as of 3 October 2007 only.

These two considerations should be taken into account when comparing figures included in these 2008 Consolidated Financial Statements with those relating to 2007.

## 3. REGULATIONS GOVERNING ELECTRICITY GENERATION USING RENEWABLE ENERGY RESOURCES

Described below are the main aspects of the regulations governing the business engaged in by the IBERDROLA RENOVABLES Group in the main markets where it operates:

### Spain

Power generation under the special regime in Spain by the IBERDROLA RENOVABLES Group is regulated by Spanish Electricity Industry Law 54/1997 of November 27 and subsequent implementing regulations.

The regulatory framework to support renewable energies under 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.

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

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

Regulated tariff levels, caps and floors are updated in accordance with the annual CPI.

- Installations which would have begun operating before December 31, 2007 (but the photovoltaic installations) had until January 1, 2009 to decide whether to continue to act in accordance with the regime set by Royal Decree 436/2004 or adopt the new remuneration framework. This Royal Decree established 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.

- c) On 26 September 2008 the government published Royal Decree 1578/2008, on remuneration for electricity generation via solar photovoltaic technology for installations brought into service after the date for continued application of the remuneration system set out in Royal Decree 661/2007, of 25 May, for this technology. This Royal Decree establishes premiums of between 32 and 34 euros per kWh generated and sets a target installed capacity of 3,000 MW for 2010.

### United States

Both the Federal Government and the majority of States have implemented support measures to promote the development of electricity generation using renewable sources. In this regard, the main measures taken to support the development of wind energy in the United States are: (i) the Renewable Portfolio Standards (RPS) at state level, (ii) tax credits at federal level, such as the Production Tax Credits (PTCs) and (iii) the ability to depreciate assets related to wind energy facilities over an accelerated period (MACRS).

The "RPS" is a market policy set up by some states on their own initiative, which requires that a minimum proportion of the electricity supply is derived from renewable energies, such as wind, biomass, mini-hydroelectric, geothermal and solar power. The renewable supply percentage varies from state to state. In most states, it is set at between 10% and 20% for 2010 to 2015. Currently, 26 states and the District of Columbia have implemented the "RPS" mechanism.

It is usually put into practice by using Renewable Energy Credits (RECs), a system of tradable certificates which verify that a kWh of electricity has been generated by a renewable source. At year-end, electric power producers must have sufficient certificates to cover their annual quota of renewable energy. If they do not reach their annual quota, they are fined.

In 1992, the US implemented a PTC system which granted wind-power generated electricity an inflation-adjusted tax break of \$15/MWh, as part of the Energy Policy Act. The PTC was worth \$21/MWh in 2008 for the first ten years of operation of the wind turbine generators. The PTCs are designed to help wind power to be more competitive than fossil fuels and nuclear energy, which receive substantial government grants. The scope of the policy has been increased to include other renewable generation sources and will remain in force for wind farms running before the end of 2009, although it is currently being debated whether it should be extended to cover projects that go beyond that year. Once a project has been granted a PTC, it is kept for 10 years.

There is another tax break linked to the wind farm owner's ability to depreciate the bulk of capital assets over an accelerated period (MACRS - Modified Accelerated Cost Recovery). These assets may be transferred to a five-year period depreciation for tax purposes.

### United Kingdom

In April 2002, the Renewables Obligation went into effect in the United Kingdom. This requires suppliers to ensure that a percentage of their sales, which increases annually, is derived from renewable energies. A tradable Renewables Obligation Certificate (ROC) is issued for each MWh of power generated using renewable energies.

To meet the Renewables Obligation, suppliers may choose to acquire ROCs, paying a buy-out price, worth £34.30/MWh in 2007/2008 (the price is adjusted by the CPI each year), or a combination of ROCs and the buy-out price. If a supplier decides to pay the buy-out price, a buy-out fund is set up with the money collected. Once a year has passed, the fund is paid out among the suppliers who have presented ROCs.

From April 2009, 'handing' will be introduced to the RO such that the different technologies will obtain different levels of support.

Also, the consumption of electricity derived from certain renewable sources, such as onshore and offshore wind energy, biomass, solar, hydroelectric and tidal power is exempt from the Climate Change Levy (CCL), an environment tax which end consumers pay for using power. The CCL therefore encourages suppliers to buy electricity generated using renewable energy sources. Suppliers may increase their competitiveness in the market and pass the saving on to end consumers, or continue to pass the tax on to consumers (although it is exempt from the tax) and profit from higher gains.

Current legislation requires that by 2015, 15.4% of energy sold in the United Kingdom must be derived from renewable sources, although an extension of 20% to 2020 is expected. The framework defined by the Renewables Obligation will end in 2027. From then on, current legislation provides for renewable energy generators to operate in the wholesale electricity market.

### Rest of Europe

Throughout 2008, officials in Brussels worked to develop and agree the Energy and Climate Change package referred to as the "Green Package" - a set of legislation designed to promote renewable energy and combat climate change. A definitive agreement was reached between the European Commission, the Parliament and the Council in December, and the legislation is thus now pending only formalisation and publication in the Official Journal of the EU. The Renewables Directive introduces a binding target to have 20% of the EU's end energy consumption coming from renewable sources by 2020. The target varies by country (the requirement for Spain being the European average of 20%) and the foundations have been laid for ensuring that each country meets its target by permitting exchanges between countries with a view to minimising the associated costs.

**Other countries**

The IBERDROLA RENOVABLES Group operates in other countries where it has wind power generation facilities. These countries have a stable regulatory framework that promotes generation from renewable energy sources.

**4. ACCOUNTING POLICIES**

The principal accounting policies used in preparing the Consolidated Annual Accounts were as follows:

**a) Revenue recognition**

Revenue from sales is measured at the fair value of the assets or rights received as consideration for the goods and services provided in the ordinary operating activities of Group companies, net of discounts and applicable taxes, and is recognized at the time that ownership of the goods and services have passed to the buyer.

Sales of goods are recognised when the goods and title thereto have been transferred.

Interest income is accrued on a time proportional basis, by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the assets to that asset's carrying amount.

Dividend income is recognized when the Group companies' right to receive the payment is established.

**b) Associates**

Associates are companies over which the Group exercises significant influence but which are neither subsidiaries nor jointly controlled entities. Therefore, the Group has the power to participate in their financial and operating decisions, but not to fully or jointly control them.

Investments in associates are accounted for using the equity method of accounting. Under this method, investments are measured initially at acquisition cost, subsequently adjusted for changes to each company's equity, taking into consideration the percentage of ownership and any impairment.

Gains or losses on transactions with associates are eliminated in proportion to the percentage ownership of the companies concerned.

**c) Joint ventures**

A joint venture is a company formed by several partners to carry out an activity under their joint control. Joint control means that the financial strategy and operating decisions of the company require the consent of the venturers.

The Group companies that directly undertake jointly controlled activities include in their financial statements the proportion of the assets and liabilities managed and their share of income and expenses, using proportionate consolidation.

Goodwill arising on the acquisition of interests in joint ventures is recognized in accordance with the Group's accounting policies described below.

**d) Goodwill**

Goodwill arising on consolidation represents the difference between the price paid to acquire subsidiaries or jointly controlled entities (consolidated using either the full or the proportionate consolidation method) and the Group's percentage ownership of the fair value of the components making up the net assets of these companies at the time of acquisition. Goodwill arising from acquisitions of companies with a functional currency other than the euro is translated to euros at the exchange rates prevailing at the Consolidated Balance Sheet date.

Goodwill acquired after January 1, 2004 is measured at acquisition cost. Goodwill acquired before this date is recognized at its net carrying amount at December 31, 2003, under Spanish GAAP and in accordance with IFRS 1: "First-time Adoption of International Financial Reporting Standards." In neither instance is goodwill amortized, although at the end of each reporting period, goodwill is reviewed for impairment to its recoverable value and any impairment is written down (see Note 4.i).

**e) Other intangible assets****Concessions, patents, licenses and similar**

This heading basically comprises the rights for the use of electric lines and substations and also surface and transit rights on the Group's land holdings measured at acquisition cost. Concession periods range from 50 to 75 years, but the IBERDROLA RENOVABLES Group amortizes surface rights and easements on a straight-line basis in accordance with the life of the assets located on the concession, from the moment the particular plant comes on stream.

**Computer software**

This account comprises the acquisition and development costs for basic IT systems used in managing the Group.

Computer system maintenance costs are expensed currently in the Consolidated Income Statement.

Computer software is amortized on a straight-line basis over a period of between three and five years from the time each application is put to use.

**Other intangible assets**

This heading mainly recognizes the acquisition cost for projects to develop new wind farms which meet the 'identifiability' requirement under IAS 38, as they are separable and susceptible to individual sale and are carried at acquisition cost. The amount assigned to each farm is transferred to "Property, plant and equipment" when construction of the wind farm commences.

**Research and development expenditure**

The IBERDROLA RENOVABLES Group recognises as expenses research and development expenditure, due to its lack of relevancy and the difficulty showed in the separation of Research and Development.

**f) Property, plant and equipment**

Property, plant and equipment is stated at acquisition cost, including, where appropriate, the following items:

- External finance costs accrued in the construction period.

The Group determines the amount of capitalizable finance costs according to the following procedure:

- a) The interest on specific-purpose sources of financing used to build certain of the companies' assets are capitalized in full.
- b) Interest on general sources of finance is capitalized by applying the average effective interest rate to the average accumulated amount of capitalizable investment less investment financed with specific sources, provided this does not exceed the total finance costs accrued in the year.

The average capitalization rates used to determine the interest expense capitalized in 2008 and 2007 were 3.83% and 4.69%, respectively.

In 2008 and 2007, the Group used the process explained above to capitalize finance costs of thousand euros 62,925 and 17,704 thousand euros, respectively, under "Property, plant and equipment," recognized as "Finance income" in the accompanying Consolidated Income Statements (Note 29)

- Staff costs relating directly or indirectly to construction in progress.

In 2008 and 2007, thousand euros 38,920 and 16,089 thousand euros, respectively, were capitalized under this concept (Note 26).

- Under legislation applicable to subsidiaries in some countries the asset values include all future costs for dismantling their production plants. The amount of these costs is recognized at fair value at the time the plants come on stream under "Provisions – Other provisions" in the accompanying Consolidated Balance Sheet.

These companies review the estimates of these future costs annually and increase or reduce the carrying amounts of the assets accordingly.

The Group transfers work in progress to property, plant and equipment in use once the plant start-up is authorized.

The costs of expansion of or improvements to property, plant and equipment leading to increased productivity or capacity or to a lengthening of the useful lives of the assets are capitalized.

When the IBERDROLA RENOVABLES Group acquires a group of assets or of net assets that do not constitute a business, the cost is allocated across the group's individually identifiable assets and liabilities, using the fair values at the acquisition date. In this regard, the investment made by the IBERDROLA RENOVABLES Group in companies consisting solely of a wind farm and which did not therefore constitute a business in 2008 and 2007 amounted to 418,497 and 146,052 thousand euros, respectively.

Replacement or renewal of complete units is recognized as an addition to property, plant and equipment, and the units replaced or renewed are derecognized.

Gains or losses on the disposal of property, plant and equipment are determined as the difference between the net disposal proceeds and the asset's carrying amount.

At December 31, 2008 and 2007, the Group had no asset classified as investment property.

**g) Depreciation of property, plant and equipment in use**

Property, plant and equipment in use are depreciated by the straight-line method at annual rates based on the following years of estimated useful life:

	<b>Average years of estimated useful life</b>
Buildings	50
Wind farms	20
Combined cycle power plants	35
Gas storage facilities	40
Distribution facilities	40
Meters and measuring devices	15 – 27
Dispatching centers and other facilities	4 – 12

In the case of hydro-electric plants, as these facilities are operated under concessions (Note 4.r), 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.

**h) Leases**

The Group classifies as finance leases all arrangements under which the lessor transfers to the lessee substantially all the risks and rewards incidental to ownership of the asset. All other leases are classified as operating leases.

Assets acquired under finance leases are recognized as non-current assets in accordance with their nature and function. Each asset is depreciated over its useful life as the Group considers that ownership of the assets will be transferred at the end of the lease term. Assets are measured at the lower of the fair value of the leased asset and the present value of the future lease payments.

The expenses arising on operating leases are charged to the Consolidated Income Statement over the term of the lease on an accrual basis.

**i) Impairment of non financial assets**

The Group assesses at each balance sheet date whether there is an indication that a non-current asset may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). In the case of identifiable assets that do not themselves generate any independent cash flows, the Group estimates the recoverable value of the cash flow generating unit to which the asset belongs.

In the case of goodwill and other intangible assets with an indefinite useful life or which have not yet come into use, the Group systematically assesses their recoverable value systematically each year.

For purposes of this recoverability analysis, goodwill is allocated to the cash generating units in which it is controlled for internal management purposes. In no instance are these cash generating units bigger than the operating segments defined by the IBERDROLA RENOVABLES Group.

The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use, measured as the present value of its estimated future cash flows. In calculating value in use, the assumptions used in the estimate include discount rates, growth rates and expected changes in selling prices and direct costs. Discount rates include the time value of money and the risks specific to the cash-generating unit. Growth rates and changes in prices and direct costs are based on sector estimates and the Group's experience and forecasts, respectively. Given the predictability of the activities carried out by the IBERDROLA RENOVABLES Group, the estimates used generally cover the useful life of its installations.

The discount rates before taxes and in Euros used by the IBERDROLA RENOVABLES Group for these purposes are the following:

	<b>2008 rates</b>	<b>2007 rates</b>
National	5.64%	5.00%
United States of America	6.69%-7.92%	5.50%-7.60%
United Kingdom	5.64%	5.00%
Rest of the world	5.89%-7.90%	5.20%-7.16%

If the recoverable amount of an asset is less than its carrying amount, an impairment loss is recognized for the difference with a charge to "Depreciation and amortization charge and provisions" in the Consolidated Income Statement. Impairment losses recognised for an asset are reversed with a credit to the aforementioned heading when there is a change in the estimates concerning the recoverable amount of the asset, increasing the carrying amount of the asset. The increased carrying amount may not, however, exceed the carrying amount that would have been recognized had no impairment loss been recognised. Impairment losses recognized in relation to goodwill cannot be reversed.

The 2008 Consolidated Income Statement includes EUR 8,634 thousand for the impairment of non-financial assets, while in 2007 no significant amount was booked for this concept.

## j) Financial instruments

### Financial assets

The IBERDROLA RENOVABLES Group classifies all financial assets, current and non-current, as follows:

- Financial assets at fair value through profit or loss (assets that meet the following criteria):
  1. The asset has been classified as a held-for-trading financial asset and the Group expects to derive profits from fluctuations in its price.
  2. The asset has been included in this classification upon initial recognition.

Assets in this class are carried on the Consolidated Balance Sheet at fair value, and changes in fair value are recognized in "Finance costs" and "Finance income" on the Consolidated Income Statement, as appropriate.

The IBERDROLA RENOVABLES Group includes in this category derivative financial instruments that do not meet the criteria for hedge accounting under IAS 39: "Financial Instrument" (see Note 19).

- Loans and receivables: these are initially recognized in the balance sheet at fair value and are subsequently measured at amortized cost using the effective interest rate method.

The Group records the related provisions for the difference between the amount of the receivables considered recoverable and their carrying amount.

- Held-to-maturity investments: those that the Group has the intention and ability to hold to maturity, and which are carried at amortized cost.
- Available-for-sale financial assets: all assets that are not classified in any of the preceding categories.

The Group determines the most appropriate classification of its financial assets upon acquisition and reevaluates this designation at the end of each reporting period for those assets that may be reclassified.

The Group recognizes conventional financial asset purchases and sales on the trading date.

### Cash and cash equivalents

This heading in the Consolidated Balance Sheet includes cash, sight accounts and other highly liquid short-term investments that can be realized in cash quickly and are not subject to a risk of significant change in value.

### Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by the IBERDROLA RENOVABLES Group are classified according to issue type.

The IBERDROLA RENOVABLES Group classifies as an equity instrument any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

### Equity Instruments having the substance of a financial liability

The IBERDROLA RENOVABLES Group has undertaken several transactions in the US incorporating third parties as minority shareholders in certain wind farms in exchange for consideration, primarily cash and other financial assets.

The following are the main characteristics of these transactions:

- Regardless of the percentage of share capital acquired by the minority shareholders, the IBERDROLA RENOVABLES Group maintains control and management of the wind farms. Therefore, they are fully consolidated in these Consolidated Annual Accounts.
- The minority shareholders obtain the right to a substantial share in the profits and tax credits which these farms generate until they obtain the returns established at the start of the contract.
- The minority shareholders retain an ownership stake in the wind farms until they obtain the agreed return.
- Once this level of return has been obtained, the minority shareholders must relinquish their holdings in the wind farms, thereby losing their claim on the profits and tax credits generated by the wind farms.
- Whether or not these minority investors obtain the agreed level of return depends on the financial performance of the wind farms. Although the IBERDROLA RENOVABLES Group is obliged to operate and maintain the facilities efficiently and to insure them adequately, it is not bound to deliver any money to the minority shareholders other than the profits and tax credits mentioned above.

After analyzing the substance and financial reality of these agreements, the IBERDROLA RENOVABLES Group recognizes the balancing entry for the consideration received at the start of the transaction under the "Equity instruments having the substance of a financial liability" (Note 15) heading of the Consolidated Balance Sheet. Subsequently, this liability is measured at amortized cost. Furthermore, the IBERDROLA RENOVABLES Group recognises the tax benefits disposed of with third parties with which it has agreements according to their nature, so that Production Tax Credits are presented under "Revenue" in the Consolidated Income Statement.

#### **Debentures, bonds and borrowings from credit entities**

Loans and similar items are recorded initially at the amount received less transaction costs. After initial recognition, these financial liabilities are measured at amortized cost using the effective interest rate method, except for hedged transactions, which are measured using the method described in the paragraph on "Derivative financial instruments and hedges". Also, obligations under finance leases (see Note 4.h) are recognized at the present value of the lease payments under "Bank Borrowings-loans" (Note 18) in the Consolidated Balance Sheet.

In 2008 and 2007, the IBERDROLA RENOVABLES Group did not carry any financial liability at fair value through profit or loss.

#### **Trade and other payables**

Trade payables are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest rate method.

#### **Other non-current payables and other current liabilities**

These headings in the Consolidated Balance Sheet mainly reflect balances in favor of the majority shareholder of IBERDROLA RENOVABLES (IBERDROLA), and its subsidiaries and related parties.

Financial transactions carried out with these institutions are recognized in the same way as bank borrowings, while business transactions are recognized the same as any other trade payable.

#### **Contracts to buy or sell non-financial items**

The IBERDROLA RENOVABLES Group performs detailed analysis of all its contracts to buy or sell non-financial items to ensure they are classified correctly for accounting purposes.

As a general rule, contracts that are settled net in cash or in another financial asset are classified as derivatives and are recognised and measured as described in this note, except for contracts entered into and held for the purpose of the receipt or delivery of a non-financial item in accordance with the IBERDROLA RENOVABLES Group's purchase, sale, or usage requirements.

Contracts to buy or sell non-financial items to which the treatment described in the preceding paragraph does not apply are designated as "own-use contracts" and are recognised as the IBERDROLA RENOVABLES Group receives or delivers the rights or obligations originating thereunder.

#### **Derivative financial instruments and hedges**

Derivative financial instruments are initially recognized in the Consolidated Balance Sheet at acquisition cost and subsequently remeasured at fair value. Any gains or losses arising from such changes in value are recognized in the Consolidated Income Statement unless the derivative has been designated as a cash flow hedge or a hedge of a net investment in a foreign operation.

For accounting purposes, hedges are classified as follows:

- Fair value hedges: when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment (with the exception of exchange rate hedges in the latter instances).
- Cash flow hedges: when the risk hedged is the variation in cash flows attributable to a specific risk associated with a recorded asset or liability or a forecast transaction, or to exchange rate risk in a firm commitment.
- Hedge of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to the Group wishes to apply hedge accounting. This documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness. In addition, hedges are reviewed periodically to ensure they are highly effective (between 80% and 125%).

The accounting treatment for hedging transactions is as follows:

- In the case of fair value hedges, both changes in the fair value of financial derivatives classified as hedges and changes in the fair value of the hedged item attributable to the risk hedged are recognized as a debit or credit as appropriate, in the same heading of the Consolidated Income Statement.
- In cash flow hedges and hedges of a net investment in a foreign operation, changes in the fair value of the hedging derivative are recognized, in respect of the ineffective portion of the hedges, in the Consolidated Income Statement, while the effective portion is recognized under "Unrealized assets and liability revaluation reserve" and "Translation differences", respectively, in the accompanying Consolidated Balance Sheet. The cumulative gain or loss recognized in these headings is transferred to the relevant heading of the Consolidated Income Statement as the hedged item affects net profit or loss or in the year in which the item is disposed of.



- If a hedge of a forecasted transaction results in the recognition of a non-financial asset or liability, this balance is used to determine the initial carrying amount of the asset or liability. If the hedged transaction did not give rise to an asset or liability, the amounts debited or credited to "Unrealized assets and liability revaluation reserve" are recognized in the Consolidated Income Statement in the same year as the hedged item.
- If a hedge of a forecasted transaction results in the recognition of a financial asset or liability, this balance is recognized in "Unrealized assets and liability revaluation reserve" until the hedged item affects the Consolidated Income Statement.
- Upon derecognition of the hedge, the cumulative gain or loss recognized in "Unrealized assets and liability revaluation reserve" remains under this heading until the hedge is carried out, at which time the gain or loss is adjusted. If the forecast transaction is no longer expected to occur, the amounts previously recognized in this heading are transferred to the Consolidated Income Statement.

Derivatives embedded in other financial instruments are recognized separately when the IBERDROLA RENOVABLES Group considers that their economic characteristics and risks are not closely related to the financial instruments in which they are embedded and when a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and so long as the hybrid instrument is not already measured at fair value with changes in fair value recognized in profit or loss in the Consolidated Income Statement.

Fair value of the various financial instruments is calculated as follows:

- For derivatives quoted in organized financial markets, the price at the close of business on the balance sheet date.
- To measure derivatives not traded on an organized market, the IBERDROLA RENOVABLES Group uses assumptions based on market conditions at year-end. Specifically, the fair value of interest rate swaps is calculated as the value discounted at market interest rates of the interest rate swap contract spread; currency futures are measured by discounting the future cash flows calculated using the forward exchange rates at year-end; finally, the fair value of contracts to buy or sell non-financial items under the scope of IAS 39 "Financial instruments" is calculated on the basis of the best estimate of future price curves for the underlying non-financial items at the reporting date.

### **Derecognition of financial assets and liabilities**

A financial asset is derecognized when:

- The rights to receive cash flows from the asset have expired.
- The Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full to a third party, or has transferred substantially all the risks and rewards of the asset or has not retained them substantially.
- The Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities are derecognized when the obligation under the liability is discharged, cancelled, or expires.

### **k) Inventories**

This heading of the Consolidated Balance Sheet mainly includes energy material, which are valued at the lower of acquisition cost and net realizable value. The inventories value determined by applying either the FIFO or the weighted average price method, depending on which is regarded more appropriate for each raw material in each operating segment.

### **l) Deferred income**

"Deferred income" basically comprises any non-repayable grant to finance property, plant and equipment. The grant is taken to the Consolidated Income Statement as the assets financed with the grant are depreciated.

This heading also includes amounts received from third-parties but not taken to profit at the balance sheet date, for rights to use connection facilities to the electricity grid and other assets owned by the Group for a fixed period. These amounts are recognized on a straight-line basis under "Other operating income" in the Consolidated Income Statement over the period for which the rights are granted.

#### m) Post-employment and other employee benefits

The contributions to be made to the defined contribution post-employment benefit plans are expensed under "Staff costs" on an accrual basis.

In the case of the defined benefit plans, the IBERDROLA RENOVABLES Group recognises the expenditure relating to these obligations on an accrual basis over the working life of the employees by commissioning the appropriate independent actuarial studies (Note 6.a) using the projected unit credit method to measure the obligation accrued at year-end, and the positive or negative actuarial differences are recognised as "Other reserves" when they arise (Note 2.a). The provision recognised in this connection represents the present value of the defined benefit obligation reduced by the market value of the related plans.

If the market value of the assets exceeds the present value of the obligation, the net asset is not recognised in the Consolidated Balance Sheet unless it is practically certain that it will be recovered.

#### n) Other provisions

IBERDROLA RENOVABLES also recognizes provisions to cover present obligations (legal or constructive) when, as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. A provision is recognized when the liability or obligation arises, with a charge to the relevant heading in the Consolidated Income Statement depending upon the nature of the obligation, for the present value of the provision when the effect of discounting the value of the obligation to present value is material. The change in the provision due to its discounting each year is recognized under "Finance costs" in the Consolidated Income Statement.

#### o) Transactions in currencies other than the euro

Transactions in currencies other than the functional currencies of Group companies are recognized in the corresponding functional currency at the exchange rate prevailing at the time of the transaction. During the year, the differences arising between the exchange rates at which the transactions were recorded and those in force at the date on which the related collections or payments are made are debited or credited, as appropriate, to profit or loss.

Also, fixed-income securities and receivables and payables outstanding at December 31 denominated in currencies other than the functional currencies of Group companies are translated at the year-end exchange rate each year. The resulting differences are charged to "Finance costs" or credited to "Finance income" in the Consolidated Income Statement, as appropriate.

Transactions carried out in foreign currencies where the Group has opted to use financial derivatives or other hedging instruments to mitigate the exchange risk are described in Note 4.j.

#### p) Current/non-current classification

Payables are classified according to the outstanding time to maturity at the balance sheet date. Debts falling due in less than twelve months are classified as current and those with longer maturities as non-current.

#### q) Income Tax

Most of the Spanish companies in the IBERDROLA RENOVABLES Group file tax returns as part of the consolidated tax group headed by its sole shareholder Iberdrola, S.A. In consequence, taxable income and tax relief and credits are calculated jointly.

Income Tax expense is accounted for using the liability method based on the general balance. This determines deferred tax assets and liabilities on the basis of the carrying amounts of assets and liabilities and their tax base, using the tax rates that can objectively be expected to be in force when the assets or liabilities are realized or settled. Deferred tax assets and liabilities arising from a charge or credit directly to equity are also recognized through a charge or credit to equity.

The Group recognizes deferred tax assets whenever future taxable profits are expected against which these assets can be recovered.

Tax relief for double taxation and tax incentives, as well as tax credits earned as a result of financial events in the year, are deducted from accrued income tax expense, unless there are doubts as to whether they can be claimed.

#### r) Service concession arrangements for hydro-electric power plants

In accordance with Law 29/1985, of August 2, partially amended by Law 46/1999, of December 13, 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. (Note 4.g)

The IBERDROLA RENOVABLES Group 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.

#### s) Discontinued operations

A discontinued operation is a line of business that it has been decided to abandon and/or sell whose assets, liabilities and net profit or loss can be distinguished physically, operationally and for financial reporting purposes.

Income and expenses of discontinued operations are presented separately in the Consolidated Income Statement.

No business or segment was discontinued in either 2008 or 2007.

#### t) Environmental issues

Costs arising from corporate activities aimed at protecting and improving the environment are recognized in the year incurred.

Expenses incurred on items of property, plant and equipment aimed at minimizing their environmental impact or protecting or improving the environment are recorded as an increase in the value of the assets.

#### u) Consolidated Cash Flow Statements

The following terms are used in the Consolidated Cash Flow Statements, which were prepared using the indirect method, with the meanings indicated below:

- Cash flows: inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to an insignificant risk of changes in value.
- Operating activities: the principal revenue-producing activities of Group companies and other activities that are neither investing nor financing activities.
- Investing activities: the acquisition, sale or disposal of long-term assets and other investments not included in cash and cash equivalents.
- Financing activities: activities that result in changes in the size and composition of the equity and borrowings of the Company that are not operating activities.

#### v) Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the period attributable to the Parent Company by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on the conversion of all the potential ordinary shares into ordinary shares of IBERDROLA RENOVABLES. For these purposes, it is considered that shares are converted at the beginning of the year or at the date of issue of the potential ordinary shares, if the latter were issued during the current period.

In the Consolidated Annual Accounts at December 31, 2008 and 2007, basic earnings per share coincide with diluted earnings per share, since there were no instruments outstanding during these years convertible into ordinary shares.

#### w) Share-based employee compensation

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

In the event of cash settled share-based payments, i.e., linked to IBERDROLA RENOVABLES' share price, the payment is charged to "Staff costs" in the Consolidated Income Statement and credited to "Other non-current payables" or "Other current liabilities" in the Consolidated Balance Sheet, as appropriate. The fair value of the cash settled compensation is reestimated 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.

## 5. FINANCIAL RISK MANAGEMENT POLICY

### Interest rate risk

Several items in the balance sheet and the associated financial derivatives bear interest at fixed rates and, therefore, are exposed to fair value interest rate risk as a result of changes in market interest rates. Also, the Group is exposed to fluctuation in interest rates affecting cash flows in respect of items in the balance sheet and derivatives that bear interest at floating rates.

The Group 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.

The structure of external debt and equity financing at 31 December 2008 and 2007, after taking into account hedges via derivatives, was the following:

**External financing:**

	Thousands of euros	
	Balance at 12/31/08	Balance at 12/31/07
Floating rate	342,864	427,638
Fixed rate	467,916	391,658
Capped rate (*)	93,391	25,839
	<b>904,171</b>	<b>845,135</b>

(\*) Exposure to fluctuations in interest rates is limited to minimum and/or maximum levels.

On the other hand, the structure of financial debt at 31 December 2008 and 2007 with IBERDROLA Group, which does not contain any hedges, was the following:

**Group financing:**

	Thousands of euros	
	Balance at 12/31/08	Balance at 12/31/07
Floating rate	1,832,066	1,228,487
Fixed rate	715,751	-
	<b>2,547,817</b>	<b>1,228,487</b>

The reference interest rates for the floating rate borrowings are basically Euribor and US dollar Libor, and the most liquid local reference rates in the case of the borrowings of other countries.

The sensitivity of earnings and equity to changes in interest rates is the following:

	Increase/ decrease in interest rate (basis points)	Thousands of euros	
		Impact on profit before taxes	Impact on equity before taxes
2008	+10	(1,844)	592
	-10	1,844	(770)
2007	+10	(401)	1,061
	-10	401	(1,061)

**Foreign exchange risk**

Fluctuations in the value of the currencies in which borrowings are instrumented and sales are made with respect to the presentation currency may have an adverse effect on the finance costs and profit for the year.

The following items could be affected by foreign currency risk:

- Debt denominated in currencies other than the local or functional currency of the Group companies.
- Collections and payments for supplies, services or investments in currencies other than the functional currency.
- Income and expenses of certain foreign subsidiaries indexed to currencies other than the functional currency.
- Taxes derived from the accounting for tax purposes in local currencies other than the functional currency.
- Profit or loss on consolidation of the foreign subsidiaries.
- Consolidated carrying amount of net investments in foreign subsidiaries.

The Group 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 the US dollar and sterling. The sensitivity of earnings and consolidated equity of IBERDROLA RENOVABLES Group to changes in the exchange rate for these currencies against the euro is as follows:

	Change in the USD/EUR exchange rate	Thousands of euros	
		Impact on profit before taxes	Impact on equity before taxes
2008	+5%	(21,790)	(63,549)
	-5%	24,064	70,583
2007	+5%	(7,411)	(168,520)
	-5%	8,191	184,668

	Change in the GBP/EUR exchange rate	Thousands of euros	
		Impact on profit before taxes	Impact on equity before taxes
2008	+5%	(122)	(12,112)
	-5%	135	13,387
2007	+5%	(1,104)	(80,207)
	-5%	1,220	88,650

The sensitivity of the market value of the IBERDROLA RENOVABLES Group's financial borrowings to changes in the USD/EUR exchange rate, after taking hedges into account, is as follows (thousand of euros):

	2008		2007	
Changes in the USD/EUR exchange rate	+10%	-10%	+10%	-10%
Changes in the value of borrowings	(133,521)	163,193	(43,719)	51,527

	2008		2007	
Changes in the GBP/EUR exchange rate	+10%	-10%	+10%	-10%
Changes in the value of borrowings	(67,079)	81,985	(38,840)	47,471

#### Commodity price risk

While IBERDROLA RENOVABLES mainly uses non-pollutant technologies to generate electricity, its income could be affected by prices of certain commodities. Therefore, for example, as described in Note 3 the IBERDROLA RENOVABLES Group's facilities located in Spain can opt to sell power in the electricity generation market, thereby obtaining a premium in euro cents per kilowatt-hour. As different generation technologies exist side by side in these markets, some using fossil fuels as a source of primary energy, the final price may vary depending on the price of these fuels. Furthermore, the sale price for energy produced by the IBERDROLA RENOVABLES Group located in other countries can also be affected by fluctuations in commodity prices, that also would impact gas storage and gas and electricity trading activities in US.

The IBERDROLA RENOVABLES Group limits its exposure to this risk in several ways, the main ones being the following:

- By subscribing long-term energy sales contracts.
- By carrying out, where appropriate, hedging transactions to keep the risk within set limits.

The sensitivity of the IBERDROLA RENOVABLES Group's earnings and equity to changes in gas market prices is as follows:

	Change in gas price	Thousand of euros	
		Impact on pre-tax earnings	Impact on equity before taxes
2008	+5%	8,315	(9,730)
	-5%	(8,315)	9,730
2007	+5%	8,200	-
	-5%	(8,200)	-

#### Liquidity risk

Exposure to adverse situations in the debt or capital markets can hinder or prevent the IBERDROLA RENOVABLES Group from obtaining the financing required to properly carry on its business activities.

The liquidity policy followed by IBERDROLA RENOVABLES ensures that it can meet its payment obligations without having to obtain financing under unfavorable 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 geographical areas, and subscription to financing with its majority shareholder, IBERDROLA.

#### Credit risk

The credit risk arising from the default of a counter party (customer, shareholder or financial institution) is duly controlled at the IBERDROLA RENOVABLES Group 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 particular, in the case of financial creditor positions, the IBERDROLA RENOVABLES Group follows a prudent policy of arranging derivatives and placing cash surpluses with highly solvent counterparties based on the credit ratings of Moody's and S&P.

In addition, there is an action protocol detailing corrective measures when a counterparty's credit rating drops to below its "investment rating", 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.

At December 31, 2008 and 2007, there was no significant concentration of credit risk at the IBERDROLA RENOVABLES Group.

The age at December 31, 2008 and 2007 of financial assets that are past due but not considered impaired is the following:

	Thousands of euros	
	2008	2007
Less than 90 days	5,809	8,435
90-180 days	787	807
Over 180 days	1,384	193
	<b>7,980</b>	<b>9,435</b>

## 6. USE OF ESTIMATES AND SOURCES OF UNCERTAINTY

### a) Accounting estimates

Certain assumptions and estimates were made by the Group in the preparation of these Consolidated Financial Statements. The most significant estimates used to prepare these Consolidated Financial Statements relate to:

#### Costs of closure and dismantling of electricity generation and distribution facilities

Each year, the Group revises its estimates for any costs that it may incur for the dismantling and final closure of its power plants. As a result, at December 31, 2008, the Group companies in some countries had made a provision for such costs (see Note 17.c), either because under local legislation the operating concessions have a limited term or because of other non-renewable commitments with third parties (basically for leased premises).

#### Provisions for pension plans and similar commitments

The IBERDROLA RENOVABLES Group makes an estimate at each year-end of the required actuarial provision to meet commitments related to pensions and similar commitments with personnel. Independent actuaries provide advice to the IBERDROLA RENOVABLES Group for preparing these estimates (Note 4.m).

#### Own use contracts

As mentioned in Note 4.j, the IBERDROLA RENOVABLES Group analyses its contracts to buy and sell energy supplies to ensure they are properly classified for accounting purposes. This analysis involves estimating final customer demand and other variables. These estimates are revised at regular intervals.

#### Value in use

As indicated in Note 4.i, the IBERDROLA RENOVABLES Group calculates the value in use of its cash generating units which requires a series of estimates of future revenues and costs, and for the purposes of which the semi-regulated nature of most of its activities must be taken into account.

Although these estimates are made based on the best information available at the balance sheet date, events may occur in the future that require adjustments to be made prospectively in subsequent years. The effects of changes in estimates are recognized in the financial statements of the years in which they are made.

### b) Sources of uncertainty

#### Regulation of renewable energies in the US

As detailed in Note 3, a series of incentives for wind facilities are in place in the United States. One of the most important of these is the PTC system whereby facilities receive tax deductions calculated in US dollars per MWh during their first ten years service. Prior of the close of the year this system was extended to facilities brought into service before 31 December 2009.

As described in Note 44, on 17 February 2009 new legislation was approved extending the PTC system to 2012 and establishing another series of incentives.

Given the commitment to supporting renewable energies shown by the new US administration, the IBERDROLA RENOVABLES Group believes the PTC system will either be extended to facilities brought into service after 31 December 2012 or be replaced by other benefits equivalent to or improving on the current system.

#### Contingent liabilities

As indicated in Note 34, 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 the IBERDROLA RENOVABLES Group, none of them can be deemed to be significant in the context of these consolidated financial statements.

## 7. SEGMENT REPORTING

The IBERDROLA RENOVABLES Group opted to apply IFRS 8 "Operating segments" early (see Note 2 a). This standard provides that an operating segment is a component of an entity:

- i) that engages in business activities from which it may earn revenue and incur expense (including revenues and expenses with other components of the entity).
- ii) whose operating results are monitored regularly by the chief operating decision maker in the entity, to decide on resources that need to be assigned to the segment and to assess its performance.
- iii) for which, discrete financial information is available.

Due to the characteristics of the activities developed by the IBERDROLA RENEWABLES Group, the reported segments agree with strategic business units rather than with the delivered products and services. The segments are independently managed.

The operating segments identified by the IBERDROLA RENEWABLES Group are as follows:

- Spain: this segment includes the activities undertaken in Spain, being mainly the generation of hydraulic energy and wind power.
- US: where it engages in wind powered generation, fossil fuel generation and the supply of gas and electricity.
- United Kingdom: where it fundamentally produces energy from wind.
- Rest of the world: wind generation in all countries for which it was not deemed necessary to define a specific operating segment.

The IBERDROLA Group manages jointly financing activities and the effects on income tax.

Consequently, financial income and expense and income tax have not been allocated to operating segments.

## SEGMENT REPORTING FOR 2008

	Thousand of euros				Total
	National	United States of America	United Kingdom	Rest of the world	
<b>REVENUE</b>					
<b>Total external revenue</b>					
External revenue	889,818	896,208	138,475	105,816	2,030,317
Inter-segment revenue	-	-	-	-	-
<b>INCOME STATEMENT</b>					
Amortisations, depreciations and provisions	(228,977)	(147,468)	(57,312)	(42,126)	(475,883)
<b>Segment operating profit/(loss)</b>	<b>469,351</b>	<b>182,878</b>	<b>38,977</b>	<b>18,443</b>	<b>709,649</b>
Share in net profit of companies accounted for using the equity method	77	-	-	-	77
Financial income	-	-	-	-	113,374
Financial costs	-	-	-	-	(235,197)
Gains on disposals of non-current assets	-	-	-	-	74
Loss on disposals of non-current assets	-	-	-	-	(5,650)
<b>Profit before tax</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>582,327</b>
Income tax	-	-	-	-	(184,937)
<b>Net profit for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>397,390</b>
Minority interests	-	-	-	-	(7,230)
<b>Net profit for the year attributable to the equity holders of the parent</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>390,160</b>
<b>ASSETS</b>					
Segment assets	5,073,153	8,978,607	2,296,297	1,589,292	17,937,349
Investments accounted for using the equity method	285	-	-	-	285
Other non-current financial assets	-	-	-	-	319,573
Current financial investments and cash	-	-	-	-	1,061,771
Deferred tax assets	-	-	-	-	363,769
Other unallocated assets	-	-	-	-	533,405
<b>Total assets</b>	<b>5,073,438</b>	<b>8,978,607</b>	<b>2,296,297</b>	<b>1,589,292</b>	<b>20,216,152</b>
<b>LIABILITIES</b>					
Segment liabilities	395,727	1,076,715	61,204	163,725	1,697,371
Capital instruments with debt-like characteristics	-	797,626	-	-	797,626
Bank borrowings – Loans	-	-	-	-	904,171
Derivative financial instruments	-	-	-	-	307,845
Deferred tax liabilities	-	-	-	-	1,955,934
Other unallocated liabilities	-	-	-	-	3,364,926
<b>Total liabilities</b>	<b>395,727</b>	<b>1,874,341</b>	<b>61,204</b>	<b>163,725</b>	<b>9,027,873</b>
<b>OTHER INFORMATION</b>					
Total cost incurred during the year in the acquisition of property, plant, equipment and intangibles assets.	<b>1,070,759</b>	<b>1,970,344</b>	<b>306,771</b>	<b>546,420</b>	<b>3,894,294</b>
Expenses for the year other than amortisation, depreciation and provisions that did not result in cash outflows	-	-	-	-	-



## SEGMENT REPORTING FOR 2007

	Thousand of euros				
	National	United States of America	United Kingdom	Rest of the world	Total
<b>REVENUE</b>					
<b>Total external revenue</b>					
External revenue	598,890	245,533	27,237	81,355	953,015
Inter-segment revenue	-	-	-	-	-
<b>INCOME STATEMENT</b>					
Amortisations, depreciations and provisions	(181,274)	20,512	(27,945)	(28,327)	(217,034)
<b>Segment operating profit/(loss)</b>	<b>258,004</b>	<b>88,151</b>	<b>(12,371)</b>	<b>13,129</b>	<b>346,913</b>
Share in net profit of companies accounted for using the equity method	-	-	-	(581)	(581)
Financial income	-	-	-	-	40,373
Financial costs	-	-	-	-	(192,227)
Gains on disposals of non-current assets	-	-	-	-	1,505
Loss on disposals of non-current assets	-	-	-	-	-
<b>Profit before tax</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>195,983</b>
Income tax	-	-	-	-	(67,231)
<b>Net profit for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>128,752</b>
Minority interests	-	-	-	-	(11,214)
<b>Net profit for the year attributable to the equity holders of the parent</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>117,538</b>
<b>ASSETS</b>					
Segment assets	4,297,159	6,960,950	2,597,370	1,085,139	14,940,618
Investments accounted for using the equity method	144	-	-	-	144
Other non-current financial assets	-	-	-	-	290,839
Current financial investments and cash	-	-	-	-	565,741
Deferred tax assets	-	-	-	-	264,690
Other unallocated assets	-	-	-	-	1,593,167
<b>Total assets</b>	<b>4,297,303</b>	<b>6,960,950</b>	<b>2,597,370</b>	<b>1,085,139</b>	<b>17,655,199</b>
<b>LIABILITIES</b>					
Segment liabilities	240,419	621,509	42,545	207,242	1,111,715
Capital instruments with debt-like characteristics	-	680,545	-	-	680,545
Bank borrowings – Loans	-	-	-	-	845,135
Derivative financial instruments	-	-	-	-	197,633
Deferred tax liabilities	-	-	-	-	1,866,706
Other unallocated liabilities	-	-	-	-	2,035,011
<b>Total liabilities</b>	<b>240,419</b>	<b>1,302,054</b>	<b>42,545</b>	<b>207,242</b>	<b>6,736,745</b>
<b>OTHER INFORMATION</b>					
Total cost incurred during the year in the acquisition of property, plant, equipment and intangibles assets.	<b>883,033</b>	<b>604,718</b>	<b>152,235</b>	<b>481,280</b>	<b>2,121,266</b>
Expenses for the year other than amortisation, depreciation and provisions that did not result in cash outflows	-	-	-	-	-

## 8. INTANGIBLE ASSETS

The detail of the movement in the cost and accumulated amortization in 2008 and 2007 in the various items under this heading is as follows:

	Thousands of euros				
	Goodwill	Concessions, patents, licenses, trademarks and other	Computer software	Other intangible assets	Total
<b>Cost at January 1, 2008</b>	<b>1,646,475</b>	<b>12,408</b>	<b>30,715</b>	<b>3,013,294</b>	<b>4,702,892</b>
Translation differences	(55,136)	(1)	1,198	(107,226)	(161,165)
Additions	-	806	3,871	195,424	200,101
Disposals	(1,578)	(7)	(1,175)	(19,792)	(22,552)
Transfers	-	(3,526)	3,558	(195,264)	(195,232)
<b>At December 31, 2008</b>	<b>1,589,761</b>	<b>9,680</b>	<b>38,167</b>	<b>2,886,436</b>	<b>4,524,044</b>
<b>Accumulated amortization at January 1, 2008</b>	<b>-</b>	<b>(6,259)</b>	<b>(9,379)</b>	<b>(14,484)</b>	<b>(30,122)</b>
Translation differences	-	-	(507)	(529)	(1,036)
Additions	-	-	(1,675)	(24)	(1,699)
Transfers	-	3,526	-	19,180	22,706
Charge for the period	-	-	(5,212)	(15,808)	(21,020)
<b>At December 31, 2008</b>	<b>-</b>	<b>(2,733)</b>	<b>(16,773)</b>	<b>(11,665)</b>	<b>(31,171)</b>
<b>Net carrying amount</b>	<b>1,589,761</b>	<b>6,947</b>	<b>21,394</b>	<b>2,874,771</b>	<b>4,492,873</b>
	Thousands of euros				
	Goodwill	Concessions, patents, licenses, trademarks and other	Computer software	Other intangible assets	Total
<b>Cost at January 1, 2007</b>	<b>30,963</b>	<b>11,672</b>	<b>8,334</b>	<b>-</b>	<b>50,969</b>
Non-monetary contribution (Note 33)	1,686,807	-	18,685	2,955,123	4,660,615
Translation differences	(71,295)	1	(688)	(111,545)	(183,527)
Additions	-	735	4,384	110,025	115,144
Transfers	-	-	-	59,691	59,691
<b>At December 31, 2007</b>	<b>1,646,475</b>	<b>12,408</b>	<b>30,715</b>	<b>3,013,294</b>	<b>4,702,892</b>
<b>Accumulated amortization at January 1, 2007</b>	<b>-</b>	<b>(4,293)</b>	<b>(2,360)</b>	<b>-</b>	<b>(6,653)</b>
Non-monetary contribution (Note 33)	-	-	(5,027)	(5,526)	(10,553)
Translation differences	-	-	186	990	1,176
Charge for the period	-	(1,966)	(2,178)	(9,949)	(14,093)
<b>At December 31, 2007</b>	<b>-</b>	<b>(6,259)</b>	<b>(9,379)</b>	<b>(14,485)</b>	<b>(30,123)</b>
<b>Net carrying amount</b>	<b>1,646,475</b>	<b>6,149</b>	<b>21,336</b>	<b>2,998,809</b>	<b>4,672,769</b>

The amount of fully amortized intangible assets in use at December 31, 2008 and 2007 is not significant with regard to these Consolidated Financial Statements.

Intangible assets in progress were assigned to the following cash-generating units at 31 December 2008:

	Thousands of euros	
	2008	2007
Renewable energies in Spain	111,478	19,673
Renewable energies in the United States	1,640,675	1,523,674
Renewable energies in the United Kingdom	751,351	973,342
Renewable energies in the rest of the world	40,865	40,019
Rest of activities in the United States	349,802	417,091
	<b>2,894,171</b>	<b>2,973,799</b>

The allocation of goodwill to the various cash generating units at 31 December, 2008 is as follows:

	Thousands of euros	
	2008	2007
Renewable energies in Spain	3,160	3,296
United States	1,185,518	1,179,220
Renewable energies in the United Kingdom	375,189	439,808
Renewable energies in the rest of the world	25,894	24,151
	<b>1,589,761</b>	<b>1,646,475</b>

Apart from goodwill, the IBERDROLA RENOVABLES Group does not own any intangible assets with indefinite useful lives.

At December 31, 2008 and 2007, there were no significant restrictions on the ownership of intangible assets.

Research and development costs recognized with a charge to the Consolidated Income Statement by the Group in 2008 and 2007 were not significant.

## 9. PROPERTY, PLANT AND EQUIPMENT

The detail of movements in 2008 and 2007 in the various items under this heading, both in terms of costs and accumulated depreciation and provisions, is as follows:

December 31, 2008	Thousands of euros					Balance at 12/31/08
	Balance at 01/01/08	Translation differences	Additions and charges to provisions	Disposals, write-offs and write-downs	Transfers	
<b>Property, plant and equipment in use</b>						
<b>Cost</b>						
<b>Land and buildings</b>	<b>90,180</b>	<b>374</b>	<b>7,013</b>	<b>(141)</b>	<b>(15,256)</b>	<b>82,170</b>
<b>Electricity technical plant in use</b>	<b>8,351,733</b>	<b>(109,549)</b>	<b>438,174</b>	<b>(124,447)</b>	<b>1,982,415</b>	<b>10,538,326</b>
Hydro-electric plants	322,000	-	474	-	6,473	328,947
Thermal plant	503	1,099	-	(4,127)	18,558	16,033
Wind farms	6,588,076	(153,951)	292,385	(3,294)	1,778,325	8,501,541
Combined cycle power plants and other alternative plants	308,765	7,729	3,305	(101,222)	418,432	637,009
Gas storage facilities	621,986	37,311	120,753	(15,804)	(342,518)	421,728
Distribution facilities	497,299	(1,737)	16,009	-	60,897	572,468
Meters and measuring devices	1,626	-	-	-	-	1,626
Dispatching centers and other facilities	11,478	-	5,248	-	42,248	58,974
<b>Other items of property, plant and equipment in use</b>	<b>65,252</b>	<b>1,845</b>	<b>3,439</b>	<b>(778)</b>	<b>(2,792)</b>	<b>66,966</b>
	<b>8,507,165</b>	<b>(107,330)</b>	<b>448,626</b>	<b>(125,366)</b>	<b>1,964,367</b>	<b>10,687,462</b>
<b>Accumulated depreciation</b>						
<b>Buildings</b>	<b>(18,539)</b>	<b>(8)</b>	<b>(3,075)</b>	<b>-</b>	<b>5,523</b>	<b>(16,099)</b>
<b>Electricity technical plant in use</b>	<b>(1,254,119)</b>	<b>(4,610)</b>	<b>(436,126)</b>	<b>40,926</b>	<b>(44,312)</b>	<b>(1,698,241)</b>
Hydro-electric plants	(134,832)	-	(6,870)	-	(379)	(142,081)
Thermal plant	-	-	(713)	-	(610)	(1,323)
Wind farms	(975,113)	(2,988)	(382,159)	-	(67,995)	(1,428,255)
Combined cycle power plants and other alternative plants	(65,725)	(810)	(8,546)	40,656	1,740	(32,685)
Gas storage facilities	(20,621)	(812)	(16,478)	270	22,754	(14,887)
Distribution facilities	(55,273)	-	(16,226)	-	44	(71,455)
Meters and measuring devices	(261)	-	(115)	-	-	(376)
Dispatching centers and other facilities	(2,294)	-	(5,019)	-	134	(7,179)
<b>Other items of property, plant and equipment in use</b>	<b>(18,786)</b>	<b>(427)</b>	<b>(5,591)</b>	<b>404</b>	<b>7,802</b>	<b>(16,598)</b>
<b>Valuation corrections</b>	<b>-</b>	<b>-</b>	<b>(8,634)</b>	<b>-</b>	<b>8,281</b>	<b>(353)</b>
	<b>(1,291,444)</b>	<b>(5,045)</b>	<b>(453,426)</b>	<b>41,330</b>	<b>(22,706)</b>	<b>(1,731,291)</b>
<b>Net carrying amount</b>	<b>7,215,721</b>	<b>(112,375)</b>	<b>(4,800)</b>	<b>(84,036)</b>	<b>1,941,661</b>	<b>8,956,171</b>
<b>Property, plant and equipment in progress</b>						
<b>Cost</b>						
<b>Electricity technical plant in progress</b>	<b>2,357,047</b>	<b>(31,875)</b>	<b>3,159,058</b>	<b>(5,840)</b>	<b>(1,565,497)</b>	<b>3,912,893</b>
<b>Prepayments and other property, plant and equipment in progress</b>	<b>122,727</b>	<b>159</b>	<b>86,509</b>	<b>-</b>	<b>(203,638)</b>	<b>5,757</b>
	<b>2,479,774</b>	<b>(31,716)</b>	<b>3,245,567</b>	<b>(5,840)</b>	<b>(1,769,135)</b>	<b>3,918,650</b>
	<b>9,695,495</b>	<b>(144,091)</b>	<b>3,240,767</b>	<b>(89,876)</b>	<b>172,526</b>	<b>12,874,821</b>

Thousands of euros							
December 31, 2007	Balance at 01/01/07	Non-monetary contribution (Note 33)	Translation differences	Additions and charges to provisions	Disposals, write-offs and write-downs	Transfers	Balance at 12/31/07
<b>Property, plant and equipment in use</b>							
<b>Cost</b>							
<b>Land and buildings</b>	76,842	7,296	(532)	6,574	-	-	90,180
<b>Electricity technical plant in use</b>	4,295,336	2,982,340	(10,525)	271,470	(138)	813,250	8,351,733
Hydro-electric plants	311,348	-	-	988	-	9,664	322,000
Thermal plant	503	-	-	-	-	-	503
Wind farms	3,529,833	2,228,592	(94,581)	176,767	-	747,465	6,588,076
Combined cycle power plants	-	273,098	(10,055)	45,722	-	-	308,765
Gas storage facilities and other alternative plants	492	480,650	94,111	46,733	-	-	621,986
Distribution facilities	353,729	-	-	1,260	-	142,310	497,299
Meters and measuring devices	95,349	-	-	-	-	(93,723)	1,626
Dispatching centers and other facilities	4,082	-	-	-	(138)	7,534	11,478
<b>Other items of property, plant and equipment in use</b>	17,546	14,652	(1,844)	34,889	(8)	17	65,252
	4,389,724	3,004,288	(12,901)	312,933	(146)	813,267	8,507,165
<b>Accumulated depreciation</b>							
<b>Buildings</b>	(14,958)	(1,042)	20	(2,559)	-	-	(18,539)
<b>Electricity technical plant in use</b>	(790,090)	(237,102)	13,525	(240,452)	-	-	(1,254,119)
Hydro-electric plants	(126,081)	-	-	(8,751)	-	-	(134,832)
Wind farms	(619,429)	(149,223)	9,156	(215,617)	-	-	(975,113)
Combined cycle power plants and other alternative plants	-	(66,119)	2,505	(2,111)	-	-	(65,725)
Gas storage facilities	(35)	(21,760)	1,864	(690)	-	-	(20,621)
Distribution facilities	(42,637)	-	-	(12,636)	-	-	(55,273)
Meters and measuring devices	(136)	-	-	(125)	-	-	(261)
Dispatching centers and other facilities	(1,772)	-	-	(522)	-	-	(2,294)
<b>Other items of property, plant and equipment in use</b>	(10,094)	(6,234)	1,457	(3,915)	-	-	(18,786)
	(815,142)	(244,378)	15,002	(246,926)	-	-	(1,291,444)
<b>Net carrying amount</b>	3,574,582	2,759,910	2,101	66,007	(146)	813,267	7,215,721
<b>Property, plant and equipment in progress</b>							
<b>Cost</b>							
<b>Electricity technical plant in progress</b>	481,185	1,263,449	(161,455)	1,646,826	-	(872,958)	2,357,047
<b>Prepayments and other property, plant and equipment in progress</b>	79,575	-	(3,211)	46,363	-	-	122,727
	560,760	1,263,449	(164,666)	1,693,189	-	(872,958)	2,479,774
	4,135,342	4,023,359	(162,565)	1,759,196	(146)	(59,691)	9,695,495

The value of fully depreciated property, plant and equipment in use at December 31, 2008 and 2007 was 59,030 thousand euros and 53,000 thousand euros, respectively.

At 31 December 2008 and 2007, "Property, Plant and Equipment in Use" included EUR 93,090 thousand and EUR 54,297 thousand in the accompanying Consolidated Balance Sheets, relating to the items value under a finance lease net from amortization.

The information on the minimum payments under the lease at 31 December 2008, is as follows:

Thousands of euros	
2009	10,189
2010 – 2013	45,416
2014 onwards	62,623
<b>Total lease payments payable</b>	<b>118,228</b>
Finance cost	27,811
Present value of the lease payments	90,417
	<b>118,228</b>

Investment commitments at year-end 2008 amounted to EUR 1,698,056 thousand, of which EUR 1,104,074 thousand relate to investment commitments in the US and EUR 438,459 thousand to commitments in Spain, whereas at December, 2007, these amounted to EUR 2,542,212 thousands of euros (1,370,855 in United States and 803,262 in Spain).

At 31 December, 2008 and 2007, the amount of property, plant and equipment pledged to secure bank loans other than those owned by the companies set out in Note 36 was not significant.

## 10. FINANCIAL ASSETS

### a) Investments accounted for using the equity method

The change in 2008 and 2007 in the carrying amounts of investments of the Group companies accounted for using the equity method (see appendix) is as follows:

	Thousands of euros							
	Balance at 01/01/07	Changes in the consolidation method and/or scope	Profit/ (loss) for the year	Disposals	Balance at 12/31/07	Profit/ (loss) for the year	Otros	Balance at 12/31/08
Sotavento Galicia, S.A.	143	-	1	-	144	77	64	285
Hellenic Fish, S.A.	-	900	(582)	(318)	-	-	-	-
	<b>143</b>	<b>900</b>	<b>(581)</b>	<b>(318)</b>	<b>144</b>	<b>77</b>	<b>64</b>	<b>285</b>

### b) Other non-current financial investments

The detail of this heading in the accompanying IBERDROLA RENOVABLES Group Consolidated Balance Sheet at December 31, 2008 and 2007 is as follows:

	Thousands of euros	
	Balance at 12/31/08	Balance at 12/31/07
Fixed-income securities	181,223	114,670
Prepayments	18,660	10,004
Long-term deposits	4,405	16,784
Other loans and receivables	7,458	40,874
Other	37,824	26,356
	<b>249,570</b>	<b>208,688</b>

The fixed-income securities relate to US securities whose interest rate is between 5.5% and 6.5% and which maturity will be between 2010 and 2017. For accounting purposes, all these securities are classified as held-to-maturity investments.

Long-term deposits correspond mainly to deposits made by the IBERDROLA RENOVABLES Group to guarantee future payments. These deposits bear interest at market rates and its maturity will be long term.

The returns obtained on the remaining items under this heading in the Consolidated Balance Sheet are similar to market rates and their maturity will be from 2010.

### c) Other current financial investments

This heading mainly includes a deposit to cover liabilities relating to the fiscal risk mentioned in Note 22 and other current investments accruing interest at a market rate.

## 11. CURRENT TRADE AND OTHER RECEIVABLES

The detail of this heading in the accompanying Consolidated Balance Sheet at December 31, 2008 and 2007 is as follows:

	Thousands of euros	
	2008	2007
Trade receivables	327,516	366,661
Other receivables	145,628	137,486
Group and related companies (Note 38)	141,163	1,113,723
	<b>614,307</b>	<b>1,617,870</b>

IBERDROLA RENOVABLES Group did not deem necessary to provide for a bad debt provision at December 31, 2008 and 2007.

## 12. CASH AND CASH EQUIVALENTS

The detail of this heading in the accompanying Consolidated Balance Sheet at December 31, 2008 and 2007 is as follows:

	Thousands of euros	
	2008	2007
Cash	91,996	167,293
Short-term deposits	194,889	46,683
	<b>286,885</b>	<b>213,976</b>

As a general rule, cash deposited with banks earns interest at rates similar to market rates on daily deposits. Short-term deposits mature within a period of less than three months and earn market rates. 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 equivalents.

## 13. MEASUREMENT OF FINANCIAL INSTRUMENTS

The comparison between the carrying value and the fair value of the IBERDROLA RENOVABLES Group's financial instruments at December 31, 2008 and 2007 is as follows:

	2008		2007	
	Carrying value	Fair value	Carrying value	Fair value
<b>Financial assets</b>				
Equity investments	1,114	1,114	14,037	14,037
Other financial investments	502,625	502,625	421,204	421,204
Derivative financial instruments	591,771	591,771	217,033	217,033
Trade and other receivables	634,576	634,576	1,617,870	1,617,870
Cash and cash equivalents	286,885	286,885	213,976	213,976
<b>Financial liabilities</b>				
Bank borrowings-loans	904,171	877,283	845,135	838,570
Derivative financial instruments	307,845	307,845	197,633	197,633
Other non-current liabilities	2,325,567	2,280,163	330,172	330,172
Trade payables	420,176	420,176	317,483	317,483

Wherever the financial instruments listed in the table above are not publicly traded, their market value was determined for the most part through discounted cash flow analysis using a credit risk-adjusted rate, with the exception of that indicated in Note 4.j.

## 14. EQUITY

The detail of this heading at December 31, 2008 and 2007 is as follows:

	Thousands of euros										
	Share capital	Share premium	Unrealized assets and liabilities revaluation reserve	Other reserves							Total
				Reserves of companies consolidated using full or proportionate consolidation	Reserves in companies accounted for using the equity method	Legal reserve	Voluntary reserves	Translation differences	Profit for the period	Minority interests	
<b>Balance at January 01, 2007</b>	<b>164,600</b>	<b>101,979</b>	<b>770</b>	<b>61,724</b>	<b>91</b>	<b>14,039</b>	<b>185,915</b>	<b>85</b>	<b>189,688</b>	<b>75,766</b>	<b>794,657</b>
Capital increase	1,947,432	8,317,465	-	-	-	-	-	-	-	28,922	10,293,819
Distribution of 2006 Profit-Dividend (5.90 euros per share)	-	-	-	48,470	1	10,794	33,275	-	(189,688)	-	(97,148)
Income and expense recognized directly in reserves net of tax	-	-	9,679	-	-	-	(1,163)	-	-	-	8,516
Translation differences	-	-	-	-	-	-	-	(216,156)	-	214	(215,942)
Profit for the year attributable to equity holders of the parent	-	-	-	-	-	-	-	-	117,538	-	117,538
Profit for the year attributable to minority interests	-	-	-	-	-	-	-	-	-	11,214	11,214
Changes in consolidation method/scope and other	-	-	-	(30,436)	-	-	17,753	-	-	18,483	5,800
<b>Balance at December 31, 2007</b>	<b>2,112,032</b>	<b>8,419,444</b>	<b>10,449</b>	<b>79,758</b>	<b>92</b>	<b>24,833</b>	<b>235,780</b>	<b>(216,071)</b>	<b>117,538</b>	<b>134,599</b>	<b>10,918,454</b>
Distribution of Profit-Dividend	-	-	-	13,331	-	8,250	95,957	-	(117,538)	-	-
Income and expense recognized directly in reserves net of tax	-	-	11,783	-	-	-	(5,200)	-	-	-	6,583
Recognition of cash flow hedging reserve in income	-	-	(16,884)	-	-	-	-	-	-	-	(16,884)
Translation differences	-	-	-	-	-	-	-	55,795	-	1,448	57,243
Profit for the year attributable to equity holders of the parent	-	-	-	-	-	-	-	-	390,160	-	390,160
Profit for the year attributable to minority interests	-	-	-	-	-	-	-	-	-	7,230	7,230
Gain/loss on transactions with own shares	-	-	-	-	-	-	2,706	-	-	-	2,706
Changes in consolidation method/scope and other	-	-	-	(4,950)	65	-	(102,555)	-	-	(69,773)	(177,213)
<b>Balance at December 31, 2008</b>	<b>2,112,032</b>	<b>8,419,444</b>	<b>5,348</b>	<b>88,139</b>	<b>157</b>	<b>33,083</b>	<b>226,688</b>	<b>(160,276)</b>	<b>390,160</b>	<b>73,504</b>	<b>11,188,279</b>



### Share capital

From January 1, 2007 and until October 3, 2007, the IBERDROLA RENOVABLES Group's share capital consisted of 16,460,044 shares with a nominal value of 10 euros each, fully subscribed and paid by IBERDROLA.

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

Within the context of this offering, on October 3, 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 10 euros. The total amount of the capital increase registered is 5,208,833 thousand euros (see Note 33). To pay for this increase, IBERDROLA contributed to IBERDROLA RENOVABLES the entire share capital of Scottish Power Renewable Energy Holding Ltd, which in turn owned 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, and also for the purposes of enabling the initial public offering to take place, on November 5, 2007 IBERDROLA subscribed another capital increase in IBERDROLA RENOVABLES, in which 18,962,596 new shares were issued, each with a nominal value of 10 euros and share premium of 25.79 euros. This capital increase, with a total value of 678,671 thousand euros, was paid by IBERDROLA via the contribution of a loan collection right that IBERDROLA held with respect to Scottish Power 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 3,379,251,920, via a reduction in their nominal value from 10 to 0.50 euros.

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

Therefore, on December 31, 2007 and 2008, the share capital of IBERDROLA RENOVABLES amounted to 2,112,032 thousand euros and consisted of 4,224,064,900 shares, each with a nominal value of 0.50 euro. These shares are listed on the Spanish Continuous Market and were included in the Ibex-35 since February 4, 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, as a result of which the new shares were placed on the market, and that the ultimate aim of the operation is under no circumstances to float the remaining 80% of the shares, which remain under the stable ownership of IBERDROLA, these costs, which total 143,022 thousand euros, have been recorded, net of tax, against "Share premium" in the Consolidated Balance Sheet.

On December 31, 2008 and 2007, IBERDROLA owned 80% of IBERDROLA RENOVABLES shares. According to the public information available to IBERDROLA RENOVABLES, on this date no other shareholder was in possession of more than 3% of the shares.

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 or 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 has a good credit ratings (A3 Moody's, A-S&P), and which helps it maximize the value of its businesses and guarantee the financial strength of the IBERDROLA RENOVABLES Group.

The purpose of the capital increase carried out in December 2007 was to reduce IBERDROLA's level of indebtedness, in order to finance its expansion plan.

The leverage ratios for the IBERDROLA RENOVABLES Group at December 31, 2008 and 2007 are as follows:

	Thousands of euros	
	2008	2007
Bank borrowings-loans	904,171	845,135
Financial debt with IBERDROLA Group	2,547,817	1,228,487
Derivative financial liabilities	63,357	703
Non-banking Borrowings	41,248	-
Gross debt	3,556,593	2,074,325
Derivative financial assets	36,397	5,919
Group loans	-	1,051,238
Cash and cash equivalents	286,885	213,976
Total cash assets	323,282	1,271,133
<b>Net debt</b>	<b>3,233,311</b>	<b>803,192</b>
Equity		
of the parent	11,114,775	10,783,855
of minority interest	73,504	134,599
	<b>11,188,279</b>	<b>10,918,454</b>
<b>Leverage</b>	<b>22.4%</b>	<b>6.9%</b>

Derivatives shown in the table only include derivatives used to hedge risks on financial operations and not those used to hedge risks arising on the sale and purchase of commodities.

#### 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 the share capital. The legal reserve 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, and only on condition that sufficient other reserves are not available for this purpose.

#### 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.

#### 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 1 January 2007</b>	-	-
Acquisitions	-	-
Disposals	-	-
<b>Balance at 31 December 2007</b>	-	-
Acquisitions	22,880,000	64,467
Disposals	(22,880,000)	(64,467)
<b>Balance at 31 December 2008</b>	-	-

The IBERDROLA RENOVABLES Group obtained a gain of EUR 2,706 thousand on transactions carried out with treasury shares in 2008, which was taken to "Other Reserves" on the Consolidated Balance Sheet at 31 December 2008. In 2007 no transactions with treasury shares were carried out.

**Unrealized assets and liabilities revaluation reserve**

Movements in this reserve due to changes in the value of derivatives designated as cash-flow hedges and hedges of a net investment in a foreign operation were as follows:

	Thousands of euros					
	01.01.07	Change in market value	12.31.07	Valuation corrections	Amounts allocated to income	12.31.08
<b>Cash flow hedges</b>						
Interest rate collars and swaps	(77)	5,034	4,957	(15,032)	(2,283)	(12,358)
Foreign exchange rate	1,262	9,737	10,999	9,848	477	21,324
Commodities	-	396	396	23,861	(24,208)	49
Deferred tax on unrealized assets and liabilities	(415)	(5,488)	(5,903)	(6,894)	9,130	(3,667)
	<b>770</b>	<b>9,679</b>	<b>10,449</b>	<b>11,783</b>	<b>(16,884)</b>	<b>5,348</b>

**Other reserves**

In the course of 2008 and 2007, the IBERDROLA RENOVABLES Group made various acquisitions of additional percentage interests in its Greek subsidiary C. Rokas, S.A. The IBERDROLA RENOVABLES Group opted to treat the difference between the amount paid in each acquisition and the value of the minority interest as a transaction between shareholders and therefore recognised this difference, which totalled EUR 64,672 thousand and EUR 28,727 thousand in 2008 and 2007 respectively, via a charge to "Retained earnings" in the Consolidated Balance Sheet.

Meanwhile, restricted reserves included under "Reserves in companies consolidated using the full or proportionate consolidation methods" amounted to EUR 46,935 thousand and EUR 37,537 thousand euros at 31 December, 2008 and 2007, respectively.

**Share-based payment plans**

In 2008, the IBERDROLA RENOVABLES Board of Directors approved an incentives 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 still be working in the IBERDROLA RENOVABLES Group on these dates in order to qualify for the incentive payment.

At 31 December 2008, the amounts comprising "Staff costs" in the 2008 Consolidated Income Statement included EUR 3,895 thousand corresponding to the amount accrued in connection with this incentives plan. This amount was credited to "Other Reserves" on the Consolidated Balance Sheet at 31 December 2008.

In addition, in October 2007, the Board of Directors of IBERDROLA RENOVABLES approved a share-based payment plan involving the award of IBERDROLA RENOVABLES shares within the framework of the Company's IPO. The aim of this plan was to reward those employees of the IBERDROLA RENOVABLES Group that had in the past made a notable contribution to the creation of value, the management and the governance of IBERDROLA RENOVABLES and involves the grant of a specific number of IBERDROLA RENOVABLES shares in equal parts every year for three years starting in March 2008. The maximum aggregate number of shares that each beneficiary of the plan will be entitled to receive is 1,700,000 shares.

## 15. EQUITY INSTRUMENTS HAVING THE SUBSTANCE OF A FINANCIAL LIABILITY

The movement in this caption of the Consolidated Balance Sheet in 2008 and 2007 is as follows:

	Thousands of euros
<b>Balance at 1 January 2007</b>	-
Non-monetary contribution (Note 33)	550,585
Currency translation differences	(20,273)
Additions	187,708
Finance costs accrued during the year (Note 30)	12,098
Payments	(49,573)
<b>Balance at 31 December 2007</b>	<b>680,545</b>
Currency translation differences	(17,801)
Additions	239,666
Finance costs accrued during the year (Note 30)	56,182
Payments	(160,966)
<b>Balance at 31 December 2008</b>	<b>797,626</b>

The amounts under this heading of the Consolidated Balance Sheet at December 31, 2008 and 2007 accrued interest at an average rate of 7.45% and 7.23% respectively.

## 16. DEFERRED INCOME

The movement in this heading in 2008 and 2007 was as follows:

	Thousands of euros		
	Capital grants	Other deferred income	Total
<b>Balance at January 1, 2007</b>	<b>46,065</b>	<b>71,441</b>	<b>117,506</b>
Non-monetary contribution (Note 33)	-	8,600	8,600
Translation differences	-	(310)	(310)
Additions	4,459	20,791	25,250
Transfers to profit and loss (Note 28)	(5,047)	(2,563)	(7,610)
<b>Balance at December 31, 2007</b>	<b>45,477</b>	<b>97,959</b>	<b>143,436</b>
Additions	377	10,296	10,673
Transfers to profit and loss (Note 28)	(5,551)	(2,401)	(7,952)
<b>Balance at December 31, 2008</b>	<b>40,303</b>	<b>105,854</b>	<b>146,157</b>

Increases to "Other deferred income" in 2008 and 2007 relate to the agreements between several group companies and various wind farm developers regarding the licensing of certain facilities for connection to the grid, allowing for joint dispatch of the power generated.

## 17. PROVISIONS

The detail of movements in this heading in 2008 and 2007 is as follows:

	Thousands of euros			
	Provision for pensions (Note 4.m)	Other provisions		Total
		Provision for plant closure	Other provisions for contingencies and expenses	
<b>Balance at January 1, 2007</b>	<b>564</b>	<b>2,815</b>	<b>11,964</b>	<b>15,343</b>
Non-monetary contribution (Note 33)	14,897	20,365	5,145	40,407
Translation differences	(291)	(1,002)	(187)	(1,480)
Additions	3,805	9,395	1,948	15,148
Unused amounts reversed	(28)	(1,343)	(2,281)	(3,652)
Payments and other	(2,167)	-	(227)	(2,394)
<b>Balance at December 31, 2007</b>	<b>16,780</b>	<b>30,230</b>	<b>16,362</b>	<b>63,372</b>
Translation differences	2,376	(1,785)	120	711
Additions	11,906	32,608	14,915	59,429
Unused amounts reversed	(9)	-	(9,406)	(9,415)
Payments and other	(2,947)	-	(1,924)	(4,871)
<b>Balance at December 31, 2008</b>	<b>28,106</b>	<b>61,053</b>	<b>20,067</b>	<b>109,226</b>

The detail of provisions for pensions in 2008 and 2007 is as follows:

	Thousands of euros	
	2008	2007
Defined benefit plans, US	26,676	16,288
Post-employment benefits, other countries	290	215
Electricity for employees in Spain	485	149
Long-service bonuses in Spain	655	128
	<b>28,106</b>	<b>16,780</b>

### a) Pension plans and other similar obligations

#### Spain

The IBERDROLA RENOVABLES Group's main commitments to its employees in Spain in terms of defined benefits, other than social security benefits, are the following:

- i) Serving employees and employees who have retired and are subject to the IBERDROLA Group's collective labour agreement and members/beneficiaries of the IBERDROLA pension plan, risk benefits (e.g. for death of spouse, permanent disability or death of present employee's parent) which guarantee a defined benefit at the time the event giving rise to such benefits occurs, are instrumented through an annually renewable insurance policy. The guaranteed benefit consists of the difference between the present actuarial value of the above-mentioned defined benefit at the time of the event and the member's vested rights at the time of the event, if the latter are lower. The premiums on the insurance policy for 2008 and 2007 are recognised as "Staff costs" in the accompanying

Income Statement and came to EUR 583 thousand and EUR 4 thousand, respectively.

- ii) The IBERDROLA RENOVABLES Group also maintains a provision against certain commitments to its employees other than those indicated above, 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 consisting of 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	81	128
Finance cost	4	-
<b>Balance at 31 December 2007</b>	<b>149</b>	<b>128</b>
Normal cost	54	46
Finance cost	8	7
Actuarial differences		
in the income statement	13	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 bonus and Free electricity	4.75%/4.85%	According to age	PERM/F 2000P	4.50%	According to age	PERM/F 2000P

#### United Kingdom

Former employees of SCOTTISH POWER residing in the UK who joined the company prior to 1 April 2006 are covered by a defined benefit retirement plan.

The cost for IBERDROLA RENOVABLES in 2008 and 2007 totalled EUR 973 thousand and EUR 277 thousand respectively, and is recognised under "Staff Costs" on the Consolidated Income Statement in these years.

#### United States

Former employees of SCOTTISH POWER currently on the staff of Iberdrola Renewables Holding Inc. (hereinafter, IRHI), are covered by various post-employment plans (Supplemental Executive Retirement Plan, Iberdrola Renewables Retiree Benefits Plan, Iberdrola Renewables Retirement Plan).

The key data pertaining to the IRHI plans at 31 December 2008 and 2007 were the following:

	United States (IRHI)	
	Thousands of euros	
	12/31/08	12/31/07
Obligation present value	(49,629)	(43,401)
Fair value of plan assets	22,953	27,113
<b>Net asset / (net provision)</b>	<b>(26,676)</b>	<b>(16,288)</b>
<b>Amount recognised in the Consolidated Balance Sheet:</b>		
- Provision for pensions and Similar obligations	(26,676)	(16,288)
<b>Net asset / (net provision)</b>	<b>(26,676)</b>	<b>(16,288)</b>

The movement in the present value of the obligation in this connection is as follows:

	Thousands of euros	
	(IRHI)	
<b>Present value of obligation at 3 October 2007</b>	<b>42,191</b>	
Normal cost	1,726	
Finance cost	620	
Actuarial differences taken to reserves	955	
Employee contributions	-	
Payments	-	
Translation differences	(2,091)	
<b>Present value of obligation at 31 December 2007</b>	<b>43,401</b>	
Normal cost	2,510	
Finance cost	2,663	
Actuarial differences taken to reserves	505	
Employee contributions	160	
Payments	(2,508)	
Translation differences	2,898	
<b>Fair value at 31 December 2008</b>	<b>49,629</b>	

The movement in the fair value of the plan assets is as follows:

	Thousands of euros	
	(IRHI)	
<b>Fair value at 3 October 2007</b>	<b>27,294</b>	
Estimated revaluation	509	
Actuarial differences taken to reserves	(928)	
Company contributions	1,438	
Employee contributions	-	
Payments	-	
Translation differences	(1,200)	
<b>Fair value at 31 December 2007</b>	<b>27,113</b>	
Estimated revaluation	2,349	
Actuarial differences taken to reserves	(7,620)	
Company contributions	2,937	
Employee contributions	160	
Payments	(2,508)	
Translation differences	522	
<b>Fair value at 31 December 2008</b>	<b>22,953</b>	

The allocation of plan assets, as a percentage of total plan assets, at the close of each year is shown in the table below:

	2008		
	Equity securities	Fixed-income securities	Other
United States (IRHI) Retirement plan	43%	26%	31%
Retiree Benefits Plan	46%	53%	1%
	2007		
	Equity securities	Fixed-income securities	Other
United States (IRHI) Retirement plan	44%	18%	38%
Retiree Benefits Plan	41%	52%	7%

The expected return on plan assets was calculated on the basis of market expectations for returns over the entire life of the related obligations.

The assets associated with these plans include neither financial instruments issued by the IBERDROLA RENOVABLES Group nor property, plant and equipment nor intangible assets.

The main assumptions used in the actuarial studies undertaken to determine the provision required in connection with these plans were as follows:

	2008			
	Discount rate	CPI/ Wage inflation	Health insurance cost	Mortality tables
United States (IRHI)	6.29%-6.32%	2.50% / 4.00%	9%	RP-2000 Combined fully generational

	2007			
	Discount rate	CPI/ Wage inflation	Health insurance cost	Mortality tables
United States (IRHI)	5.90%-6.05%	2.50% / 4.00%	9%	RP-2000 Combined fully generational

#### Greece

The Group's Greek subsidiary, C. Rokas, S.A. has a commitment under Greek legislation to pay a bonus to employees upon retirement. This bonus varies in accordance with the employee's professional category and term of service. Its externalisation is not mandatory. It is estimated each year based on an actuarial calculation.

The Group records provisions for liabilities arising from ongoing litigation and indemnity payments, as well as obligations, collaterals and other similar guarantees.

The Group estimates that these obligations will fall due as follows:

#### b) Defined contribution plan

- i) The active employees of IBERDROLA RENOVABLES, S.A., 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.

	Thousands of euros
2012 and beyond	81,120
	<b>81,120</b>

In accordance with this system and IBERDROLA RENOVABLES's 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.

The contributions made by the IBERDROLA RENOVABLES Group in 2008 and 2007 amounted to EUR 482 thousand and EUR 33 thousand, respectively. These amounts are recognised under "Staff costs" in the accompanying Consolidated Income Statement.

- ii) Employees of SCOTTISH POWER hired after 1 April 2006 may opt for a defined contribution plan. IBERDROLA RENOVABLES' contributions for these employees in 2008 and 2007 were EUR 87 thousand and EUR 13 thousand, respectively, and are recognised under "Staff costs" in the accompanying Consolidated Income Statement.

#### c) Other provisions for contingencies and expenses

The "Provisions - Other Provisions" heading in the Consolidated Balance Sheet includes the best available estimate of the dismantling costs for certain IBERDROLA RENOVABLES facilities (see Notes 4.f and 6.a).



## 18. BANK BORROWINGS-LOANS

The detail of outstanding loans is as follow:

	Thousands of euros			
	Loans in euros	Foreign-currency loans		Total
		US dollars	Other	
<b>Balance at December 31, 2007</b>	<b>628,401</b>	<b>85,854</b>	<b>130,880</b>	<b>845,135</b>
<b>Balance at December 31, 2008</b>	<b>716,699</b>	<b>145,215</b>	<b>42,257</b>	<b>904,717</b>
<b>2009 – (current borrowings)</b>	<b>102,944</b>	<b>12,113</b>	<b>4,373</b>	<b>119,430</b>
2010	70,768	11,799	4,108	86,675
2011	68,690	15,374	4,106	88,170
2012	60,146	18,433	4,106	82,685
2013	52,272	24,300	4,106	80,678
Others	361,879	63,196	21,458	446,533
<b>Non-current borrowings</b>	<b>613,755</b>	<b>133,102</b>	<b>37,884</b>	<b>784,741</b>

The foregoing loan balances relate to amounts drawn down and not repaid.

At December 31, 2008 and 2007, the IBERDROLA RENOVABLES Group was fully up to date on all its outstanding financial debt obligations. None of the amounts in the table above matured prior to December 31, 2008.

Some of the debt contracted with third parties to finance projects includes standard covenants, such as meeting a series of financial ratios, the obligation to set up a fund to guarantee the annual payment of loan principal and interest, financing part of the projects with internal resources in accordance with predefined ratios, the commitment to maintain the borrower's shareholder body and the obligation to pledge all the shares of the projects to creditors of the projects (see Note 36). In addition to the fundamental obligation to repay principal and pay interest, fees and expenses, a series of restrictions are included to keep the viability of the project from being affected, such as not disposing of the related assets; providing the appropriate guarantee and maintenance of the assets; completing and managing the financed project efficiently and diligently; not carrying out any activities other than those related to the financed project; ensuring compliance with all the legal obligations applicable to the project; not incurring debts with other banking institutions, etc.

Outstanding third-party debt containing these kinds of covenants which, if not satisfied, could trigger early repayment of the covenanted borrowing amounted to approximately 600,869 million euros at December 31, 2008.

At the date of preparation of these Annual Consolidated Financial Statements, the IBERDROLA RENOVABLES Group was in compliance with the covenants of its debt contracts, the breach of which could trigger the early repayment of outstanding amounts.

The loans and credits payable in foreign currency are stated in euros at the ruling exchange rates at the end of each year.

At December 31, 2008 and 2007, the outstanding loans were bearing weighted average annual interest at 4.64% and 5.40%, respectively.

The estimated market value of bank borrowings bearing fixed interest at December 31, 2008 and 2007 amounted to 159,965 and 83,284 thousand euros, respectively. The market value was determined by discounting the future cash flows at market interest rates. The interest rate curve used to make this calculation takes into account the risks associated with the electricity industry and the credit rating of IBERDROLA RENOVABLES. The sensitivity of the aforementioned market value to exchange and interest rate fluctuations is as follows:

	Thousands of euros			
	2008		2007	
	Interest rate fluctuation		Interest rate fluctuation	
	+ 0.25%	- 0.25%	+ 0.25%	- 0.25%
Change in the value of borrowings	<b>(1,847)</b>	<b>2,040</b>	<b>(1,245)</b>	<b>871</b>

The structure of borrowings at December 31, 2008 and 2007, distinguishing between fixed and floating interest, was as follows:

	Thousands of euros	
	2008	2007
Fixed rate	186,854	89,726
Floating rate	717,317	755,409
	<b>904,171</b>	<b>845,135</b>

At December 31, 2008 and 2007, the IBERDROLA RENOVABLES Group had 287,721 and 238,710 thousand euros, respectively, of undrawn lines of credit facilities maturing between 2009 and 2016.

## 19. DERIVATIVE FINANCIAL INSTRUMENTS

The detail of the headings reflecting the value of derivative instruments at December 31, 2008 and 2007 is as follows:

	Thousands of euros							
	Assets 2008		Liabilities 2008		Assets 2007		Liabilities 2007	
	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
<b>INTEREST RATE HEDGES</b>	<b>115</b>	<b>121</b>	<b>1,744</b>	<b>12,301</b>	-	<b>5,403</b>	<b>5</b>	<b>698</b>
<b>Cash flow hedges</b>	<b>115</b>	<b>121</b>	<b>1,744</b>	<b>12,301</b>	-	<b>5,403</b>	<b>5</b>	<b>440</b>
- Interest rate swap	115	121	1,674	7,511	-	5,394	5	396
- Collar	-	-	70	4,790	-	9	-	44
<b>Fair value hedge</b>	-	-	-	-	-	-	-	<b>258</b>
- Interest rate swap	-	-	-	-	-	-	-	258
<b>FOREIGN EXCHANGE HEDGES</b>	<b>94,379</b>	<b>15,037</b>	<b>65,724</b>	<b>5,136</b>	<b>16,408</b>	<b>3,374</b>	<b>331</b>	<b>1,058</b>
<b>Cash flow hedges</b>	<b>94,379</b>	<b>15,037</b>	<b>65,724</b>	<b>5,136</b>	<b>16,408</b>	<b>3,374</b>	<b>331</b>	<b>1,058</b>
- Foreign exchange hedge	94,379	15,037	65,724	5,136	16,408	3,374	331	1,058
<b>NET FOREIGN INVESTMENT HEDGE</b>	<b>253,576</b>	-	-	<b>52,588</b>	<b>9,921</b>	-	-	-
<b>Cash flow hedges</b>	<b>253,576</b>	-	-	<b>52,588</b>	<b>9,921</b>	-	-	-
- Foreign exchange hedge	253,576	-	-	52,588	9,921	-	-	-
<b>COMMODITY PRICE HEDGES</b>	<b>27,459</b>	-	<b>1,866</b>	<b>240</b>	<b>20,516</b>	-	-	<b>1,239</b>
<b>Cash flow hedges</b>	<b>27,459</b>	-	-	-	<b>20,516</b>	-	-	<b>1,239</b>
- Forwards	27,459	-	-	-	20,311	-	-	-
- Other	-	-	-	-	205	-	-	1,239
<b>Fair value hedges</b>	-	-	<b>1,866</b>	<b>240</b>	-	-	-	-
- Other	-	-	1,866	240	-	-	-	-
<b>NON-HEDGING DERIVATIVES</b>	<b>146,239</b>	<b>54,845</b>	<b>111,498</b>	<b>56,748</b>	<b>88,037</b>	<b>73,374</b>	<b>78,716</b>	<b>115,586</b>
<b>Derivatives over own shares</b>	<b>739</b>	-	-	<b>21,472</b>	-	<b>3,196</b>	-	-
- Option	739	-	-	21,472	-	3,196	-	-
<b>Interest rate derivatives</b>	-	<b>60</b>	-	<b>9</b>	-	<b>516</b>	-	-
- Interest rate swap	-	60	-	9	-	516	-	-
<b>Exchange rate derivatives</b>	-	-	-	-	<b>2,518</b>	-	-	-
- Foreign exchange hedge	-	-	-	-	2,518	-	-	-
<b>Commodity price derivatives</b>	<b>145,500</b>	<b>54,785</b>	<b>111,498</b>	<b>35,267</b>	<b>85,519</b>	<b>69,662</b>	<b>78,716</b>	<b>115,586</b>
- Forwards	145,500	54,785	111,498	35,267	85,519	69,662	78,716	115,586
	<b>521,768</b>	<b>70,003</b>	<b>180,832</b>	<b>127,013</b>	<b>134,882</b>	<b>82,151</b>	<b>79,052</b>	<b>118,581</b>

The detail by maturity of the notional values of the derivative financial instruments in effect at December 31, 2008 is as follows:

	Thousands of euros					Total
	2009	2010	2011	2012	2013 and forward	
<b>INTEREST RATE HEDGES:</b>	<b>13,903</b>	<b>1,779</b>	<b>14,306</b>	<b>117,456</b>	<b>260,527</b>	<b>407,971</b>
<b>Cash flow hedges</b>	<b>13,903</b>	<b>1,779</b>	<b>14,306</b>	<b>117,456</b>	<b>260,527</b>	<b>407,971</b>
- Interest rate swap	-	-	7,153	117,456	156,729	281,338
- Collar	13,903	1,779	7,153	-	103,798	126,633
<b>FOREIGN EXCHANGE HEDGES</b>	<b>2,043,298</b>	<b>173,561</b>	-	-	-	<b>2,216,859</b>
<b>Cash flow hedges</b>	<b>2,043,298</b>	<b>173,561</b>	-	-	-	<b>2,216,859</b>
- Foreign exchange hedge	2,043,298	173,561	-	-	-	2,216,859
<b>NET FOREIGN INVESTMENT HEDGE</b>	<b>1,283,912</b>	<b>1,356,000</b>	-	-	-	<b>2,639,912</b>
<b>Cash flow hedges</b>	<b>1,283,912</b>	<b>1,356,000</b>	-	-	-	<b>2,639,912</b>
- Foreign exchange hedge	1,283,912	1,356,000	-	-	-	2,639,912
<b>COMMODITY PRICE HEDGES:</b>	<b>229,746</b>	<b>253</b>	-	-	-	<b>229,999</b>
<b>Cash flow hedges</b>	<b>227,756</b>	-	-	-	-	<b>227,756</b>
- Forwards	227,756	-	-	-	-	227,756
<b>Fair value hedges</b>	<b>1,990</b>	<b>253</b>	-	-	-	<b>2,243</b>
- Other	1,990	253	-	-	-	2,243
<b>NON-HEDGING DERIVATIVES:</b>	<b>5,100,139</b>	<b>568,846</b>	<b>214,373</b>	<b>21,392</b>	<b>19,902</b>	<b>5,924,652</b>
<b>Derivatives over own shares</b>	<b>8,246</b>	-	<b>56,965</b>	-	-	<b>65,211</b>
- Option	8,246	-	56,965	-	-	65,211
<b>Interest rate derivatives</b>	<b>1,351</b>	<b>11,880</b>	<b>3,667</b>	-	-	<b>16,898</b>
- Interest rate swap	1,351	11,880	3,667	-	-	16,898
<b>Exchange rate derivatives</b>	-	-	-	-	-	-
- Foreign exchange hedge	-	-	-	-	-	-
<b>Commodity price derivatives</b>	<b>5,090,542</b>	<b>556,966</b>	<b>153,741</b>	<b>21,392</b>	<b>19,902</b>	<b>5,842,543</b>
- Forwards	5,090,542	556,966	153,741	21,392	19,902	5,842,543
	<b>8,670,998</b>	<b>2,100,439</b>	<b>228,679</b>	<b>138,848</b>	<b>280,429</b>	<b>11,419,393</b>

The heading "Finance costs" on the 2008 and 2007 Consolidated Income Statements includes a charge of EUR 26,052 thousand and a credit of EUR 191 thousand (Note 30), respectively, due to changes in the fair value of derivatives indexed to financial indices that do not fulfil the requirement for hedge accounting. Furthermore, "Finance cost" of the Income Statement includes charges of EUR 703 thousand and EUR 336 thousand respectively, to offset the effect on results of hedged transactions, whose financial risk were charged to "Equity – Unrealized assets and liabilities revaluation reserve" and recorded therein.

The IBERDROLA RENOVABLES Group uses derivatives such as foreign exchange hedges to offset the potential negative effects that fluctuations in exchange rates could generate in transactions and loans in currencies other than the functional currency in certain Group currencies.

The nominal value of the assets and liabilities for which exchange rate hedges have been arranged is as follows:

Type of hedge	2008					
	Thousands of US Dollars	Thousands of Sterling Pounds	Thousands of Swedish Kronor	Thousands of Japanese Yens	Thousands of Polish Zlotys	Thousands of Euros
Cash flow	1,590,513	135,000	588,483	46,151,089	21,000	340,242
Net investment	2,098,771	879,000	-	-	-	-

Type of hedge	2007		
	Thousands of US Dollars	Thousands of Swedish Kronor	Thousands of Polish Zlotys
Cash flow	-	1,947,144	18,000
Net investment	148,771	-	-

Furthermore, the IBERDROLA RENOVABLES Group carries out interest rate hedging transactions in accordance with its risk management policy. The purpose of these transactions is to offset the effect that fluctuations in interest rates could have on future cash flows for credits and loans with floating rates of interest and on the market value of fixed interest loans and credits.

The nominal value of the liabilities for which interest rate hedges have been arranged is as follows:

Type of hedge	Thousands of euros	
	2008	2007
Fair value	-	9,271
Cash flow	407,971	305,428

## 20. OTHER NON-CURRENT LIABILITIES

The detail of this heading at December 31, 2008 and 2007 is as follows:

	Thousands of euros	
	Balance at 12/31/08	Balance at 12/31/07
IBERDROLA Group (Note 38)	2,142,143	189,620
Related parties (Note 38)	28,600	36,746
Other	154,824	103,806
	<b>2,325,567</b>	<b>330,172</b>

The figure for related companies derives from an agreement reached in 2002 to acquire stakes in a number of wind farm companies from the Gamesa Group, under which it committed to acquire from this group the latter's interests in a series of holding companies for a group of wind farms.

Details of the balances and transactions with Group and related companies are given in Note 38.

## 21. DEFERRED TAX AND INCOME TAX

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

Without prejudice to this special tax regime in Spain, which applies to the Parent and certain of its consolidated Spanish subsidiaries, other Spanish and foreign subsidiaries file individual income tax returns in accordance with the laws applicable to them.

The differences between the tax charge allocated to 2008 and 2007 and the tax payable for those years, recorded under "Deferred tax assets" and "Deferred tax liabilities", as appropriate, in the Consolidated Balance Sheet at December 31, 2008 and 2007, arose as a result of the temporary differences relating to the difference between the carrying amount of certain assets and liabilities and their tax bases. The main temporary differences are the following:

- Temporary differences arising from the measurement of assets and liabilities related to derivatives and assets that were measured at their market value in business combinations for which the difference between the tax base and carrying amount is not deductible for tax purposes.
- Temporary differences arising from the tax applied to the accelerated depreciation of items of property, plant and equipment by some Group companies.
- Temporary differences arising from prepaid taxes on intra-group transactions.
- Temporary differences arising from the tax treatment of goodwill generated by acquisition of equity stakes in non-resident entities.

The detail of current and deferred "Income tax" is as follows:

	Thousands of euros	
	Balance at 12/31/08	Balance at 12/31/07
Current tax	182,501	73,076
Deferred income tax	2,436	(5,845)
	<b>184,937</b>	<b>67,231</b>

The detail of the movements in deferred tax assets and liabilities at December 31, 2008 and 2007, is as follows:

	Thousands of euros											
	Balance at 01/01/07	Non-monetary contribution (Note 33)	Credit (charge) to profit and loss	Credit (charge) to asset and liability revaluation reserve	Translation differences	Increases/(Decreases)	Balance at 12/31/07	Credit (charge) to profit and loss	Credit (charge) to asset and liability revaluation reserve	Translation differences	Increases/(Decrease)	Balance at 12/31/08
<b>Deferred tax assets</b>												
From elimination of intra-group profits and homogenization	28,045	-	(9,248)	-	-	3,296	22,093	(1,900)	-	-	-	20,193
From measurement of derivative financial instruments												
Hedging derivatives	692	32,152	4,922	-	(1,184)	4,173	40,755	18,343	(9,337)	902	(28,398)	22,265
Non-hedging derivatives	-	-	-	-	-	-	-	-	-	-	-	-
Tax credits for loss carryforwards and deductions	4,987	52,320	6,875	-	(1,791)	(4,987)	57,404	75,447	-	5,953	(7,512)	131,292
Costs related to the initial public offering	-	-	(440)	-	-	42,906	42,466	-	(42,466)	-	-	-
Provision for pensions and similar commitments	-	1,915	5,784	720	(70)	7,125	15,474	(3,138)	3,186	1,766	6,944	24,232
Other	-	55,439	3,017	-	(2,041)	30,083	86,498	(7,269)	33,961	68,269	(15,672)	165,787
	<b>33,724</b>	<b>141,826</b>	<b>10,910</b>	<b>720</b>	<b>(5,086)</b>	<b>82,596</b>	<b>264,690</b>	<b>81,483</b>	<b>(14,656)</b>	<b>76,890</b>	<b>(44,638)</b>	<b>363,769</b>

	Thousands of euros											
	Balance at 01/01/07	Non-monetary contribution (Note 33)	Credit (charge) to profit and loss	Credit (charge) to asset and liability revaluation reserve	Translation differences	Increases/(Decreases)	Balance at 12/31/07	Credit (charge) to profit and loss	Credit (charge) to asset and liability revaluation reserve	Translation differences	Increases/(Decrease)	Balance at 12/31/08
<b>Deferred tax liabilities</b>												
From standardization of depreciation methods	14,844	-	1,012	-	-	(2,053)	13,803	(435)	-	-	-	13,368
From allocation of fair value in business combinations	8,282	1,520,761	(6,611)	-	(64,084)	(744)	1,457,604	(17,202)	-	(42,327)	-	1,398,075
From accelerated depreciation and amortization	-	266,063	(11,929)	-	1,276	21,123	276,533	61,150	-	3,218	120,386	461,287
From measurement of derivative financial instruments:	442	32,016	17,516	5,488	(1,107)	9,850	64,205	31,638	(2,443)	1,560	(35,914)	59,046
Other	3,170	41,827	5,077	-	(1,540)	6,027	54,561	8,768	(1,362)	(766)	(37,043)	24,158
	<b>26,738</b>	<b>1,860,667</b>	<b>5,065</b>	<b>5,488</b>	<b>(65,455)</b>	<b>34,203</b>	<b>1,866,706</b>	<b>83,919</b>	<b>(3,805)</b>	<b>(38,315)</b>	<b>47,429</b>	<b>1,955,934</b>

At December 31, 2008 and 2007 there were no deferred tax assets or other tax credits that had not yet been recognized by Group companies.

Following the amendments to applicable Tax legislation the carrying amounts of deferred tax assets and liabilities recognized and pending reversal at December 31, 2007 were modified to reflect the tax rate now expected to be in force when said reversal takes place.

"Income Tax Expense" on consolidated companies for 2008 and 2007 was calculated as follows:

	Thousands of euros	
	2008	2007
<b>Profit before tax</b>	<b>582,327</b>	<b>195,983</b>
Non-deductible expenses and non-computable income		
- from individual companies	(18,239)	3,230
- from consolidation adjustments	15,186	13,063
Share of profit/(loss) of associates accounted for using the equity method	(77)	(581)
<b>Adjusted consolidated accounting profit</b>	<b>579,197</b>	<b>211,695</b>
Gross tax calculated at the tax rate in force in each country (a)	179,333	68,613
Tax relief	(13,388)	(2,456)
Restatement of tax credits	18,992	1,074
<b>Income Tax</b>	<b>184,937</b>	<b>67,231</b>

(a) The various foreign fully and proportionately consolidated subsidiaries calculate the Income Tax expense and the resulting tax charge under the taxes applicable to them in accordance with the legislation applicable to them and on the basis of the tax rates in force in each country.

## 22. CURRENT TAX RECEIVABLES AND PAYABLES

The detail of "Tax receivables" and "Current tax liabilities and other tax payables" on the asset and liability sides, respectively, of the accompanying Consolidated Balance Sheets at December 31, 2008 and 2007, is as follows:

	Thousands of euros	
	2008	2007
<b>Current assets</b>		
Corporate income tax receivable	38,381	-
VAT receivable	136,713	228,399
Tax withholdings and prepayments	5,966	-
Sundry tax receivables	65,301	109,372
Social security tax receivable	28	-
	<b>246,389</b>	<b>337,771</b>
<b>Current liabilities</b>		
VAT payable	11,208	1,548
Tax withholdings payable	1,824	1,185
Income Tax payable	93,786	9,814
Other tax payables	229,794	219,884
Social Security payables	1,088	798
	<b>337,700</b>	<b>233,229</b>

British (HMRC) and US (IRS) Tax Authorities have reviewed the tax aspects related to some financial operations between SCOTTISH POWER and Scottish Power Holding Inc. (formerly PacifiCorp Holding Inc.). The IBERDROLA group considers the liabilities related to the review are correctly provided for. Furthermore, any other contingency that may arise from the ruling on the appeal would be compensated by IBERDROLA, S.A., in accordance with the indemnity agreement signed by both companies (see Note 38).

Furthermore, 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.

In general, the IBERDROLA RENOVABLES Spanish companies have all years since 2004 open for review by the tax inspection authorities for the main taxes applicable to it, except for Corporate Income Tax, for which all years since 2001 are open for review. However, this period may differ in the case of the Group companies taxed in different tax jurisdictions.

The IBERDROLA Group and its tax advisors consider that no significant liabilities will arise for the Group as a result of the matters detailed in the paragraphs above.

### 23. OTHER CURRENT LIABILITIES

The detail of this heading in the Consolidated Balance Sheet at December 31, 2008 and 2007 is as follows:

	Thousands of euros	
	2008	2007
IBERDROLA Group companies and related companies (Note 38)	1,065,784	1,753,188
Suppliers of fixed assets	574,311	213,214
Other payables	83,376	89,236
	<b>1,723,471</b>	<b>2,055,638</b>

### 24. REVENUE

The detail of this heading for 2008 and 2007 is as follows:

	Thousands of euros	
	2008	2007
Renewable energies in Spain	889,713	598,890
Renewable energies in the United States	338,640	81,148
Renewable energies in the United Kingdom	138,475	27,237
Renewable energies in the rest of the world	105,921	81,355
Rest of activities in the United States	557,568	164,385
	<b>2,030,317</b>	<b>953,015</b>

### 25. PROCUREMENTS

The detail of this heading in the Consolidated Income Statements for 2008 and 2007 is as follows:

	Thousands of euros	
	2008	2007
Power purchases	177,043	58,180
Gas purchase	174,554	32,114
Tolls for the use of distribution networks	23,429	-
Other external purchases	34,134	39,882
	<b>409,160</b>	<b>130,176</b>

### 26. STAFF COSTS

The detail of this heading in 2008 and 2007 is as follows:

	Thousands of euros	
	2008	2007
Wages and salaries	155,804	80,973
Social security contributions	19,771	15,647
Pensions	4,801	2,296
Other social charges	8,545	84
	<b>188,921</b>	<b>99,000</b>
Capitalized staff costs		
Property, plant and equipment (Note 4.f)	<b>(38,920)</b>	<b>(16,089)</b>

The average number of employees of IBERDROLA RENOVABLES in 2008 and 2007 was 1,748 and 942 of which 942 y 205 are women, respectively.

The average number of employees in the consolidated Group is calculated based on the percentage ownership of IBERDROLA RENOVABLES in the joint ventures consolidated using proportionate consolidation and the total number of employees of fully-consolidated subsidiaries.

### 27. OUTSIDE SERVICES

The detail of this heading in 2008 and 2007 is as follows:

	Thousands of euros	
	2008	2007
Operation and maintenance	167,287	69,168
Operating leases	32,828	17,294
Insurance	14,395	10,499
Other	83,846	84,123
	<b>298,356</b>	<b>181,084</b>

The estimate of future minimum payments under non-cancelable operating leases outstanding at December 31, 2008, is as follows:

	Thousands of euros
2009	24,819
2010 – 2012	73,751
2013 and beyond	527,896
	<b>626,466</b>

The estimate of future minimum payments under non-cancelable operating leases outstanding at December 31, 2007, is as follows:

	Thousands of euros
2008	15,204
2009 – 2011	46,080
2012 and beyond	432,321
	<b>493,605</b>

Most lease contracts have clauses allowing for renewal on expiry.

## 28. DEPRECIATION AND AMORTIZATION

The detail of this heading in 2008 and 2007 is as follows:

	Thousands of euros	
	2008	2007
Property, plant and equipment depreciation charge		
Property, plant and equipment (Nota 9)	444,792	246,926
Amortization of intangible assets (Nota 8)	21,020	14,093
Capital grants transferred to profit or loss (Nota 16)	(5,551)	(5,047)
Change in bad debt provision	-	(38,938)
Impairment allowances (Note 9)	8,634	-
Other provisions and write-offs	6,988	-
	<b>475,883</b>	<b>217,034</b>

## 29. FINANCE INCOME

The detail of this heading in 2008 and 2007 is as follows:

	Thousands of euros	
	2008	2007
Finance income from loans or similar		
- from Group companies and associates (see Note 38)	9,338	1,371
- other finance income	27,563	17,932
Settlement of fair value derivatives		
- from Group companies (see Note 38)	-	2,611
- other	39	18
Diferencias positivas de cambio		
- from Group companies (see Note 38)	6,691	-
- Other	6,818	737
Capitalized finance costs		
- Property, plant and equipment (Note 4.f)	62,925	17,704
	<b>113,374</b>	<b>40,373</b>

## 30. FINANCE COSTS

The detail of this heading in 2008 and 2007 is as follows:

	Thousands of euros	
	2008	2007
Finance costs on loans or similar		
- From loans from Group companies (Note 38)	76,832	130,714
- From loans from related companies (Note 38)	2,996	738
- Other	43,411	43,298
Changes in fair value of non hedging derivatives (Note 19)	26,052	(191)
Changes in fair value of hedging derivatives (Note 19)	(703)	336
Exchange losses		
- From Group companies (Note 38)	7,592	-
- Other	4,611	1,521
Pensions	2,678	620
Finance costs for equity having the substance of a financial liability (Note 15)	56,182	12,098
Finance costs from valuation of debt at amortized cost	839	790
Other finance costs	14,707	2,303
	<b>235,197</b>	<b>192,227</b>

## 31. SWAPS

The IBERDROLA RENOVABLES Group did not carry out any swaps.



### 32. BUSINESS COMBINATIONS

In 2008 and 2007, the IBERDROLA RENOVABLES Group did not undertake any significant business combinations in relation to the Consolidated Balance Sheet.

### 33. BUSINESS LINES FROM SCOTTISH POWER

As described in Note 14, on October 3, 2007 IBERDROLA subscribed 100% of a non-monetary capital increase through the contribution of SCOTTISH POWER assets used in the renewable energies sector in the UK and the United States, as well as other activities in U.S.

These assets and liabilities have been recognized in the IBERDROLA RENOVABLES Consolidated Balance Sheet at the fair value stated by IBERDROLA at the date of acquisition of SCOTTISH POWER (April 23, 2007).

Details of assets and liabilities contributed are as follows:

	Thousands of euros
Goodwill (Note 8)	1,686,807
Other intangible assets and computer software (Note 8)	2,963,255
Property, plant and equipment (Note 9)	4,023,359
Financial assets	258,179
Deferred tax assets (Note 21)	141,826
Inventories	178,725
Receivables	300,631
Current financial assets	130,983
Tax receivables	15,320
Cash and cash equivalents	248,377
<b>Total assets</b>	<b>9,947,462</b>
Minority interests	28,922
Equity instruments having the substance of a financial liability (Note 15)	550,585
Deferred income (Note 16)	8,600
Provision for contingencies and expenses (Note 17)	40,407
Non-current bank borrowings-loans	260,363
Other non-current payables	56,023
Deferred tax liabilities (Note 21)	1,860,667
Current bank borrowings-loans	286,575
Trade and other payables	1,646,487
<b>Total liabilities</b>	<b>4,738,629</b>
<b>Value of the capital increase</b>	<b>5,208,833</b>

From October 3, 2007 until December 31, 2007, these assets and liabilities have contributed 24,203 thousand euros to the net profit of the Group. Had these assets and liabilities been contributed to IBERDROLA RENOVABLES at January 1, 2007, revenue and net profit for 2007 would have been increased in 627,585 and 46,262 thousand euros, respectively.

### 34. CONTINGENT LIABILITIES

IBERDROLA RENOVABLES and certain investees are party to legal and out-of-court disputes arising as part of the Company's activities (these conflicts could be with suppliers, clients, administrative authorities including tax authorities, individuals, environmental activists, and employees).

Based on an evaluation of IBERDROLA RENOVABLES' legal advisors, these conflicts will not significantly affect the equity situation and financial position of IBERDROLA RENOVABLES.

The most significant conflicts are as follows:

#### Regulatory and tax proceedings

a) In February 2002 the California Public Utilities Commission (CPUC) and the California Energy Oversight Board (CEOB), both US-based entities, filed a claim with the Federal Regulatory Energy Commission (FERC) against PPM, an IBERDROLA RENOVABLES subsidiary. The claim alleges that the tariffs charged in accordance with the contract signed between PPM and the California Department of Water Resources (CDWR) is unreasonable.

In the event the FERC were to consider the tariffs charged to be unreasonable, PPM could be ordered to reimburse the corresponding amounts received. However, the related amounts are not considered significant.

b) SPHI is currently in conflict with MidAmerican Energy Holdings Company (hereinafter MidAmerican), which acquired PacifiCorp from Scottish Power Plc (currently Scottish Power Limited) in 2006. The conflict relates to tax indemnity payments in connection with the contract for the acquisition of PacifiCorp. In particular, the parties differ as to the calculation of deferred income, carryforward of tax losses, and the distribution of tax refunds. However, no formal legal action has been filed against SPHI, and it is not possible to determine whether MidAmerican will file a claim or to quantify such a potential legal action. IBERDROLA has undertaken to compensate IBERDROLA RENOVABLES for any contingencies deriving from this conflict, as per the terms of the indemnity agreement signed between both sides.

#### Proceedings concerning the IBERDROLA RENOVABLES Group's plants

a) In Greece, a group of claimants (including landowner associations) challenged the licenses for the construction and operation of a 43.7 MW wind farm located in the Akarifnia and Opountii municipalities and owned by Rokas Aeoliki Komito, S.A. (98.96% owned by C. Rokas, S.A.), therefore, a 96.74% belongs to IBERDROLA RENOVABLES Group. In response to this claim, in March 2006 the Greek High Administrative Court ordered precautionary measures involving the suspension of construction work on the wind farm.

In the event an adverse decision was issued, the wind farm could not be built with the current licenses. Applications for new licenses have been filed in order to mitigate this risk.

- b) IBERDROLA RENOVABLES does not have documentation accrediting the mandatory municipal licenses for carrying out its activities in certain plants in Spain, in particular with respect to the Company's oldest mini-hydraulic plants.

As part of its efforts to remedy the situation, IBERDROLA RENOVABLES has identified the licenses that must obtain for each plant. City councils grant municipal licenses based on objective, and not 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 licenses are not high.

### 35. INTERESTS IN JOINT VENTURES

Details of the principal financial indicators of the IBERDROLA RENOVABLES Group's main operations and interest in joint ventures (proportionately consolidated jointly-controlled entities) in 2008 and 2007 are as follows:

	Thousands of euros						
	Energías Renovables de la Región de Murcia, S.A.	Eólicas de Euskadi, S.A.	Eólica de Campollano, S.A.	Subgrupo Iberdrola EERR de la Rioja	Energía Global Castellana, S.A.	Scottish Power Holding, Inc. Subgroup	Other
<b>2008</b>							
<b>Non-current assets</b>							
Intangible assets	-	-	-	587	-	-	2,080
Property, plant and equipment	140,871	-	98,257	251,462	-	455,629	120,667
Non-current financial assets	1,492	-	6,297	109,579	-	8,780	33,341
	<b>142,363</b>	-	<b>104,554</b>	<b>361,628</b>	-	<b>464,409</b>	<b>156,088</b>
<b>Current assets</b>	<b>12,613</b>	-	<b>9,339</b>	<b>18,706</b>	-	<b>14,615</b>	<b>22,920</b>
<b>Total assets</b>	<b>154,976</b>	-	<b>113,893</b>	<b>380,334</b>	-	<b>479,024</b>	<b>179,008</b>
<b>Non-current liabilities</b>	<b>78,328</b>	-	<b>77,682</b>	<b>202,129</b>	-	<b>64,372</b>	<b>60,056</b>
<b>Current liabilities</b>	<b>9,880</b>	-	<b>15,787</b>	<b>76,260</b>	-	<b>7,999</b>	<b>39,039</b>
<b>Total liabilities</b>	<b>88,208</b>	-	<b>93,469</b>	<b>278,389</b>	-	<b>72,371</b>	<b>99,095</b>
<b>Revenue</b>	<b>24,758</b>	-	<b>29,546</b>	<b>99,051</b>	-	<b>55,662</b>	<b>13,980</b>
<b>Expenses</b>	<b>13,171</b>	-	<b>19,867</b>	<b>49,266</b>	-	<b>42,926</b>	<b>14,834</b>

Thousands of euros							
	Energías Renovables de la Región de Murcia, S.A.	Eólicas de Euskadi, S.A.	Eólica de Campollano, S.A.	Subgrupo Iberdrola EERR de la Rioja	Energía Global Castellana, S.A.	Scottish Power Holding, Inc. Subgroup	Other
<b>2007</b>							
<b>Non-current assets</b>							
Intangible assets	-	3	-	617	1	-	2,590
Property, plant and equipment	142,876	96,108	101,553	265,866	180,867	450,276	93,973
Non-current financial assets	198	-	5,975	65,359	71	5,632	20,809
	<b>143,074</b>	<b>96,111</b>	<b>107,528</b>	<b>331,842</b>	<b>180,939</b>	<b>455,908</b>	<b>117,372</b>
<b>Current assets</b>	<b>20,819</b>	<b>14,874</b>	<b>2,098</b>	<b>46,580</b>	<b>25,756</b>	<b>18,957</b>	<b>33,847</b>
<b>Total assets</b>	<b>163,893</b>	<b>110,985</b>	<b>109,626</b>	<b>378,422</b>	<b>206,695</b>	<b>474,865</b>	<b>151,219</b>
<b>Non-current liabilities</b>	<b>61,574</b>	<b>65,843</b>	<b>85,044</b>	<b>186,962</b>	<b>139,700</b>	<b>66,584</b>	<b>15,429</b>
<b>Current liabilities</b>	<b>45,388</b>	<b>8,886</b>	<b>10,975</b>	<b>30,317</b>	<b>49,145</b>	<b>9,003</b>	<b>30,019</b>
<b>Total liabilities</b>	<b>106,962</b>	<b>74,729</b>	<b>96,019</b>	<b>217,279</b>	<b>188,845</b>	<b>75,587</b>	<b>45,448</b>
<b>Revenue</b>	<b>9,496</b>	<b>24,948</b>	<b>18,951</b>	<b>74,784</b>	<b>1,801</b>	<b>15,691</b>	<b>1,671</b>
<b>Expenses</b>	<b>5,200</b>	<b>12,751</b>	<b>9,264</b>	<b>24,869</b>	<b>743</b>	<b>10,052</b>	<b>1,773</b>

### 36. GUARANTEE COMMITMENTS TO THIRD PARTIES AND OTHER CONTINGENT LIABILITIES

IBERDROLA RENOVABLES and its subsidiaries are required to provide the bank or corporate guarantees associated with the normal management of the Group's activities.

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

Furthermore, IBERDROLA RENOVABLES acts as guarantor to Iberdrola in the financing of the EUR 350,000 thousand EIB loan.

The IBERDROLA RENOVABLES Group considers that any additional liabilities that could arise from the guarantees extended at 31 December 2008 and 2007 and which were provisioned at 31 December 2008 or 2007, would not be significant.

Similarly, the IBERDROLA RENOVABLES Group, in compliance with the contractual obligations related to loans received from banks, has pledged all or part of its shares in certain Group companies at 31 December 2008 and 2007. Details of pledged shares by company are as follows:

Company	Thousands of euros			
	31 December 2008		31 December 2007	
	Number of shares pledged by percentage of Group ownership	Carrying amount by percentage of Group ownership	Number of shares pledged by percentage of Group ownership	Carrying amount by percentage of Group ownership
Desarrollo de Energías Renovables de La Rioja, S.A.	668,415	10,748	668,415	10,756
Molinos del Cidacos, S.A.	325,694	9,788	325,745	9,144
Sistemas Energéticos Torralba, S.A.	18,486	5,433	18,486	5,074
Sistemas Energéticos Mas Garullo, S.A.	12,569	2,367	12,569	2,274
Sistemas Energéticos La Muela, S.A.	25,500	4,808	25,500	3,759
Sistemas Energéticos del Moncayo, S.A.	24,075	4,762	24,075	4,657
Eólicas de Campollano, S.A.	272,425	5,106	272,425	3,402
Biovent Energía, S.A.	1,900	63,129	1,700	38,818
Energías Renovables de la Región de Murcia, S.A.	2,561,450	33,384	2,561,450	28,466
Molinos de La Rioja, S.A.	127,080	3,796	127,110	3,360
Energías Eólicas de Cuenca, S.A.	76,000	12,130	47,500	5,693
Iberdrola Energías Renovables de La Rioja, S.A.	63,608	64,786	63,608	62,209
Energía de Castilla y León, S.A.	1,624,587	2,189	1,624,587	2,070
Rokas Aeoliki Thraki (C Rokas)	5,983	10,429	3,292	4,818
Rokas Aeoliki Thraki II (R-Aeoliki)	10,923	14,271	6,005	7,081
Rokas Aeoliki (C Rokas)	-	-	10,167	14,129
Rokas Aeoliki Evia (C Rokas)	-	-	5,983	7,746
Rokas Aeoliki Komito (C Rokas)	-	-	3,626	3,350
Fitou	103	276	103	447
Eolica 2000, S.L.	3,355	1,709	-	-
SER	499	8,694	-	-
SER 1	489	2,005	-	-
ENERBRASIL	102,071	31,671	102,071	37,866

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

#### 2008 Compensation stipulated in the bylaws

Article 44, sections 1 and 2 of the IBERDROLA RENOVABLES bylaws establish 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 recognised under “Staff Costs” on the accompanying Consolidated Income Statement is as follows:

#### a) Compensation stipulated in the bylaws

Bylaw-stipulated compensation paid to the current Directors with a charge to the aforementioned compensation stipulated in the bylaws amounted to EUR 1,380 thousand and EUR 211 (\*) thousand in 2008 and 2007, respectively. The fixed amounts received by the directors depend on the duties assigned to them, as shown in detail below:

##### 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
Board Members	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
Board Members	360	55
	<b>1,380</b>	<b>211*</b>

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
Board Members	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
Board Members	59	23
	<b>619</b>	<b>155</b>

#### c) Other remuneration

In 2008 the Directors of IBERDROLA RENOVABLES with executive responsibilities and also eligible for “Compensation stipulated in the bylaws”, set 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, 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 by-laws 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.

\* 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

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.

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

Pursuant to Article 127 ter. section 4 of the Spanish Corporations 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 that which comprises the corporate purpose of IBERDROLA RENOVABLES are as follows.

Board Members	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

In accordance with above-mentioned legislation, details of identical, similar or complementary activities to those of IBERDROLA RENOVABLES, carried out by members of the Board of Directors on a self-employed or employed basis are as follows:

Board Members	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.

### 38. BALANCES AND TRANSACTIONS WITH OTHER IBERDROLA GROUP COMPANIES AND RELATED PARTIES

The table below shows the detail of balances and transactions with Iberdrola Group companies and related parties, defined as those companies that are considered as such by Iberdrola, S.A. (majority shareholder of IBERDROLA RENOVABLES) at December 31, 2008 and 2007:

	Thousands of euros								
	At December 31, 2008					Financial year ended December 31, 2008			
	Current receivables	Non current financial debt	Current financial debt	Current payables	Non-current other payables	Revenue	Services received	Finance income	Finance costs
Group									
Iberdrola, S.A.	2,643	2,046,407	405,674	1,322	-	-	31,165	11,425	81,171
Iberdrola Generación, S.A.U.	986	-	-	(2,286)	-	27,386	2,703	-	-
Iberdrola Distribución, S.A.U.	83,329	-	-	1,720	-	260,924	1,720	-	-
Iberdrola Ingeniería y Construcción, S.A.U.	-	-	-	81,594	-	-	8,249	-	-
Scottish Power Subgroup	54,149	95,736	-	39,911	-	-	-	4,604	3,253
Other Group Companies	-	-	-	41	-	-	-	-	-
	<b>141,107</b>	<b>2,142,143</b>	<b>405,674</b>	<b>122,302</b>	<b>-</b>	<b>288,310</b>	<b>43,837</b>	<b>16,029</b>	<b>84,424</b>
Related companies									
Grupo Gamesa	56	-	41,248	470,137	28,600	-	83,519	-	629
Bilbao Bizkaia Kutxa (*)	-	-	7,876	-	-	-	-	-	756
Grupo ACS (*)	-	-	-	-	-	-	-	-	-
Caja de Ahorros de Valencia, Castellón y Alicante - Bancaja (**)	-	-	-	-	-	-	-	-	-
Natexis (***)	-	-	18,547	-	-	-	-	-	1,611
	<b>56</b>	<b>-</b>	<b>67,671</b>	<b>470,137</b>	<b>28,600</b>	<b>-</b>	<b>83,519</b>	<b>-</b>	<b>2,996</b>

(\*) Significant shareholders of Iberdrola, S.A.

(\*\*) Significant shareholder of Iberdrola, S.A. from July 2008

(\*\*\*) Shareholder of French subsidiary companies.

Also, in 2008, the IBERDROLA RENOVABLES Group acquired property, plant and equipment assets from Iberdrola Ingeniería y Construcción, S.A.U., the Gamesa Group and Iberdrola Distribución S.A.U. worth EUR 100,117 thousand, EUR 1,403,244 thousand and EUR 4,029 thousand, respectively.

For their part, entities associated with Bilbao Bizkaia Kutxa and Caja de Ahorros de Valencia, Castellón y Alicante - Bancaja had provided guarantees to the Group in the amount of EUR 3,110 and EUR 10,058 thousand, respectively, at 31 December 2008.

Group	Thousands of euros									
	At December 31, 2007					Financial year ended December 31, 2007				
	Current receivables	Loan notes receivables	Non current financial debt	Current financial debt	Current payables	Non-current other payables	Revenue	Services received	Finance income	Finance costs
Iberdrola, S.A.	-	1,047,950	134,766	1,014,301	-	-	-	25,198	754	114,894
Iberdrola Generación, S.A.U.	3,863	-	-	-	-	-	38,295	2,264	-	-
Iberdrola Distribución, S.A.U.	43,598	-	-	-	324	-	226,518	3,294	-	-
Iberdrola Ingeniería y Construcción, S.A.U.	-	-	-	-	57,535	-	113	37,451	-	-
Scottish Power Subgroup	15,024	3,288	54,854	24,566	45,164	-	22,058	1,289	3,228	15,820
Other Group companies	-	-	-	-	-	-	903	592	-	-
	<b>62,485</b>	<b>1,051,238</b>	<b>189,620</b>	<b>1,038,867</b>	<b>103,023</b>	<b>-</b>	<b>287,887</b>	<b>70,088</b>	<b>3,982</b>	<b>130,714</b>
<b>Related companies</b>										
Grupo Gamesa	-	-	-	-	611,298	36,746	-	16,669	-	452
Bilbao Bizkaia Kutxa (*)	-	-	7,088	-	-	-	-	-	-	286
Grupo ACS (*)	-	-	-	-	-	-	-	319	-	-
Caja de Ahorros de Valencia, Castellón y Alicante - Bancaja (**)	-	-	-	-	-	-	-	-	-	-
	-	-	<b>7,088</b>	-	<b>611,298</b>	<b>36,746</b>	-	<b>16,988</b>	-	<b>738</b>

(\*) Significant shareholders of IBERDROLA

(\*\*) Significant shareholder of IBERDROLA from July 2007

Also, in 2007, the IBERDROLA RENOVABLES Group acquired property, plant and equipment assets from Iberdrola Ingeniería y Construcción, S.A.U. and Gamesa Group worth 128,901 and 749,538 thousand euros, respectively.

For their part, entities associated with Bilbao Bizkaia Kutxa and Caja de Ahorros de Valencia, Castellón y Alicante - Bancaja had provided guarantees to the Group in the amount of EUR 3,080 and EUR 4,878 thousand, respectively, at 31 December 2007.

On November 5, 2007, IBERDROLA and IBERDROLA RENOVABLES signed an agreement to establish a framework for transparent relations between Iberdrola S.A. and IBERDROLA RENOVABLES (and between the Group companies). In accordance with corporate governance best practices, 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, 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 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.

On 2 November 2007 IBERDROLA RENOVABLES subscribed three new current account contracts with IBERDROLA, denominated in euros, US dollars and sterling, respectively, to replace the existing ones, to implement the new subsidiary financing 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 LIBORUSD and 3M LIBORGBP respectively, plus a margin of 20 basis points. Balances receivable will accrue daily interest at 3M EURIBOR, 3M LIBORUSD and 3M LIBORGBP respectively, minus a margin of 10 basis points.

On 10 December 2007, IBERDROLA RENOVABLES subscribed 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 minus a margin of 10 basis points respectively.



On 8 April 2008, IBERDROLA RENOVABLES subscribed 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 and IBERDROLA will accrue daily interest at 3M BUBOR plus a margin of 40 basis points and 3M BUBOR minus a margin of 10 basis points respectively.

All these contracts have duration of one year and can be tacitly extended for yearly periods unless one of the parties decides to cancel it.

On November 20, 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 2 billion euros (or its equivalent in US dollars or sterling). The financing will bear interest at a rate that may be (as IBERDROLA RENOVABLES prefers) (i) fixed (based on the swap rates of the Reuters ICAP8 screen) or (ii) floating (based on Euribor for repayments in euros or Libor for repayments in US dollars or sterling). In both cases, a margin of zero point ninety five percent (0.95%) p.a. will be added. The financing must be repaid in one single repayment in a seven-year period (or earlier in accordance with the provisions of the contract).

On December 29, 2008 in accordance with the terms of the above loan agreement, IBERDROLA RENOVABLES has drawn down two billion in euros, US dollars and sterling, which is recognised under "Other non-current liabilities".

The structure of borrowings with Group companies at 31 December 2008 and 2007, distinguishing between fixed and floating interest, was as follows:

	2008	2007
Fixed interest	715,751	-
Floating interest	1,832,066	1,228,487
	<b>2,547,817</b>	<b>1,228,487</b>

The estimated market value of borrowings with Group and related companies bearing fixed interest at 31 December 2008 amounted to EUR 674,292 thousand. The market value was determined by discounting the future cash flows at market interest rates. The interest rate curve used to make this calculation takes into account the risks associated with the electricity industry and the credit rating of IBERDROLA RENOVABLES. The sensitivity of the aforementioned market value to exchange and interest rate fluctuations is as follows:

	Thousands of euros	
	2008	
	Interest rate fluctuation	
	+0.25%	-0.25%
Change in the value of borrowings	(8,477)	9,038

In addition, on 20 November 2007, following approval by its Board of Directors subsequent to a favourable report from the Related Parties Committee, IBERDROLA RENOVABLES signed with IBERDROLA 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 relating to certain software applications.

In 2007, IBERDROLA and IBERDROLA RENOVABLES signed an agreement under which the former agreed to indemnify the latter for litigation arising from events other than the ordinary activities of Scottish Power Holdings, Inc., the holding company for SCOTTISH POWER's US activities, which was contributed to IBERDROLA RENOVABLES on 3 October 2007 (Note 22).

The amounts that IBERDROLA RENOVABLES may recover from third parties for activities carried out by ScottishPower Holdings Inc. prior to October 3, 2007 that are unrelated to its current business, will be compensated, up to the value of the sums that, where applicable, IBERDROLA, S.A. must pay to the Company in accordance with the provisions of the indemnity agreement.

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 the IBERDROLA RENOVABLES' Board of Directors are not appointed on the proposal of IBERDROLA.

IBERDROLA RENOVABLES entered into a framework agreement with Iberdrola Ingeniería y Construcción, S.A. on November 5, 2007, for an indefinite period, to render services involved in developing, constructing, managing and operating the Company's renewable energy plants. These services include (i) with regard to wind farms, engineering services (wind measurement), managing authorizations and supervision, and technical assistance for construction (at all times in accordance with the provisions of the framework agreement of September 30, 2004 covering the construction of wind farms which sets the particular terms for rendering services and the applicable prices); (ii) with regard to mini-hydroelectric and supplying electromechanical equipment, including the construction process, monitoring the environmental surveillance and waste management plan (in all cases in accordance with the framework agreement of July 16, 2004 for mini-hydroelectric plants whereby services are invoiced based on costs incurred plus a 9.3%-17.3% margin); and (iii) services related to CORE (Renewables Operations Center).

In 2006, IBERDROLA RENOVABLES signed an agreement with Gamesa Eólica, S.A. for the supply of wind turbines by which the Gamesa Group will supply the Group wind turbines with total capacity of 2,700 MW valued at over 2,300 million euros between 2007 and 2009 for installation in Spain, the rest of Europe, Mexico and the US. The contract extends to assembly and start-up, as well as operating and maintenance services during the guarantee period.

Also during the same year, IBERDROLA RENOVABLES committed to buying from Gamesa Energía (a subsidiary of Gamesa Corporación Tecnológica, S.A.) approximately 1,000 MW of wind capacity in the US, worth between 700 and 1,100 million US dollars, depending on the total capacity actually acquired and output.

In October 2005, the IBERDROLA RENOVABLES Group agreed to buy from Gamesa Energía, S.A. (a subsidiary of Gamesa Corporación Tecnológica, S.A.) certain wind farms with a combined installed capacity of 700 MW. These acquisitions will take place between 2006 and 2009 at a price of approximately 900,000 thousand euros, extendible to 2012.

On June 13, 2008, the corresponding social parties of IBERDROLA RENOVABLES and Gamesa Corporación Tecnológica, S.A.U. (hereinafter, GAMESA) have formalized a contract to supply wind turbines, under which IBERDROLA RENOVABLES will acquire wind turbines to GAMESA Group with a combined power equivalent to 4,500 MWs for wind farms in Europe, Mexico and the United States during the period ranging from year 2010 to 2012.

The contract includes assembling and launching of wind turbines, as well as operation and maintenance services during their warranty period.

In addition, on 13 June 2008, the governing bodies of IBERDROLA RENOVABLES and GAMESA signed a strategic agreement entailing:

- The acquisition by IBERDROLA RENOVABLES of wind projects owned by the GAMESA Group in the UK, Mexico and the Dominican Republic, with combined capacity of over 900 MW, for approximately 65 million euros.
- The pooling of their businesses in promotion, development and operation of the wind farms of IBERDROLA RENOVABLES and GAMESA Group in Spain and certain countries in Europe.

For this purpose, they will set up two joint companies, one for business in Spain and the other for operations abroad. Initially, depending on the criteria established in the agreement, IBERDROLA RENOVABLES will own 77% of the new company operating in Spain and 76% of the company operating abroad.

IBERDROLA RENOVABLES and GAMESA have agreed to not sell their stakes before 31 December 2010 unless both parties agree. In addition, IBERDROLA RENOVABLES and GAMESA have granted each other put and call options on GAMESA's stake, which may be exercised from January 1, 2011.

### 39. REMUNERATION OF SENIOR MANAGEMENT

Employee benefits expenses (wages and salaries, bonuses, compensation in kind, Social Security costs, pension plans and so on) relating to Senior Executives amounted to EUR 5,786 and 3,337 thousand in 2008 and 2007, respectively. These sums are recognized under "Staff costs" in the accompanying 2008 and 2007 Consolidated Income Statements.

In addition to the variable compensation accrued in 2008, a multi-year performance-linked bonus payment of EUR 1,905 thousand was made, which had been fully provisioned in previous years.

The employment contracts of senior executives, including executive directors, of the Company and its Group contain golden parachute clauses for cases of termination or changes of control. The contracts have obtained the prior approval of the Board of Directors since its incorporation.

The objective of these contracts 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 length of service or responsibilities held at the Company by members of the executive team, with annual salary payments ranging from a minimum of two to a maximum of five years.

### 40. FINANCIAL POSITION

The Consolidated Financial Statements for 2008 and 2007 show a net working capital requirement, mainly due to the classification as current borrowings of as current both reciprocal current account debts that various Group companies have with IBERDROLA (Note 38) and debt with related entities. It is the intention of IBERDROLA as the Group's majority shareholder, to provide all finance necessary to allow the Group to adequately carry on its business activities.

#### 41. FEES FOR SERVICES PROVIDED BY AUDITORS

Fees paid to the auditor by IBERDROLA RENOVABLES Group companies for audit services, including those relating to the IBERDROLA RENOVABLES in 2007 initial public offering, provided by the statutory auditor and related companies in 2008 and 2007, amounted to 3,802 and 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 146 thousand and 133 thousand euros, respectively.

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

#### 42. ENVIRONMENTAL INFORMATION

The IBERDROLA RENOVABLES Group incurred environmental expenses for insignificant amounts in terms of these Consolidated Financial Statements, in 2008 and 2007.

IBERDROLA RENOVABLES did not consider it necessary to record any provision to cover environmental risks. Neither are there any significant contingencies with respect to the environment.

#### 43. EARNINGS PER SHARE

The table below shows the calculation of basic and diluted earnings per share for 2008 and 2007:

	2008	2007
Net profit for the year attributable to the equity holders of the Parent (thousands of euros)	390,160	117,538
Weighted average number of ordinary shares outstanding	4,223,404,832	1,095,585,408
Basic and diluted earning per share (€)	0.09	0.11

The average number of shares is calculated as indicated in Note 4.v.

#### 44. 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.

#### 45. PREPARATION OF THE FINANCIAL STATEMENTS

The Consolidated Financial Statements for the year ended December 31, 2008 were formally prepared by the Board of Directors of Iberdrola Renovables, S.A., on 24 February, 2009.

#### EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

These Consolidated Financial Statements are presented on the basis of IFRSs, as adopted by the European Union. Certain accounting practices applied by the Group that conform with IFRSs may not conform with other generally accepted accounting principles.

## APPENDIX

## INFORMATION ON SUBSIDIARIES, ASSOCIATES AND INVESTEES OF IBERDROLA RENOVABLES

The tables below give details of the percentage ownership held either directly or indirectly by IBERDROLA RENOVABLES in its subsidiaries. The percentage of voting rights in the corporate bodies of these companies controlled by IBERDROLA basically corresponds to the percentage of ownership.

## A. COMPANIES MAJORITY OWNED OR CONTROLLED AND FULLY CONSOLIDATED IN 2008 AND 2007

Company	Location	Activity	Direct or indirect percentage ownership		Auditor
			12.31.08	12.31.07	
Windpark Jülicher Land	Germany	Energy	100	100	-
Iberdrola Renovables Deustchland, GMBH	Germany	Energy	100	100	-
Scottish Power Hazelwood Pty, Ltd.	Australia	Dormant	100	100	-
Hazelwood Ventures	Australia	Dormant	100	100	-
Energías Renováveis do Brasil, Ltda. S.A.	Brazil	Energy	99,9	99,9	Ernst & Young
Enerbrasil, S.A.	Brazil	Energy	100	100	Ernst & Young
Iberdrola Renovables Bulgaria EEOD	Bulgaria	Energy	100	100	Ernst & Young
Iberdrola Renewable Energy Canada, Ltd.	Canada	Holding company	80	100	Ernst & Young
True North Winds, Ltd.	Canada	Energy	80	100	Ernst & Young
Rokas Aeoliki Cyprus, Ltd.	Cyprus	Energy	72.56	39.52	Ernst & Young
Ibernova Promociones, S.A.U.	Spain	Energy	100	100	Ernst & Young
Ciener, S.A.U.	Spain	Energy	100	100	Ernst & Young
Energía I Vent, S.A.	Spain	Energy	90	90	Ernst & Young
Iberdrola Renovables Galicia, S.A.U.	Spain	Energy	100	100	Ernst & Young
Iberdrola Renovables Castilla La Mancha, S.A.U.	Spain	Energy	100	100	Ernst & Young
Minicentrales del Tajo, S.A.	Spain	Energy	66.58	66.58	Ernst & Young
Biovent Energía, S.A.	Spain	Energy	95	85	Ernst & Young
Iberdrola Renovables Andalucía, S.A.U.	Spain	Energy	100	100	Ernst & Young
Iberdrola Renovables Aragón, S.A.U.	Spain	Energy	100	100	Ernst & Young
Sociedad Gestora de Parques Eólicos Campo de Gibraltar, S.A.	Spain	Energy	55	55	Ernst & Young
Sociedad Gestora de Parques Eólicos de Andalucía, S.A.	Spain	Energy	55	55	Ernst & Young
Iberdrola Renovables Castilla y León, S.A.	Spain	Energy	95	95	Ernst & Young
Sistemas Energéticos Chandrexha, S.A.	Spain	Energy	96.07	96.07	Ernst & Young
Sistemas Energéticos Mas Garullo, S.A.	Spain	Energy	51	51	Ernst & Young
Sistemas Energéticos La Muela, S.A.	Spain	Energy	50	50	Ernst & Young
Sistemas Energéticos Moncayo, S.A.	Spain	Energy	75	75	Ernst & Young
Sistemas Energéticos Torralba, S.A.	Spain	Energy	60	60	Ernst & Young
Electra Sierra de San Pedro, S.A.	Spain	Energy	80	80	-
Iberdrola Energía Marinas de Cantabria, S.A.	Spain	Energy	60	60	-
Energías Eólicas de Cuenca, S.A.	Spain	Energy	100	62.5	Ernst & Young
Somozas Energías y Recursos Medioambientales, S.A.	Spain	Energy	90	90	Ernst & Young
Iberdrola Renovables Canarias, S.A.	Spain	Energy	100	100	Ernst & Young
Energías Ecológicas de Tenerife, S.A.	Spain	Energy	50	50	-
Energías Ecológicas de Lanzarote, S.L.	Spain	Energy	50	50	-
Energías Ecológicas de Fuencaliente, S.L.	Spain	Energy	50	50	-
Energías Ecológicas de La Gomera, S.L.	Spain	Energy	50	50	-
Energías Ecológicas de Fuerteventura, S.L.	Spain	Energy	50	50	-

## A. COMPANIES MAJORITY OWNED OR CONTROLLED AND FULLY CONSOLIDATED IN 2008 AND 2007 (CONT.)

Company	Location	Activity	Direct or indirect percentage ownership		Auditor
			12.31.08	12.31.07	
Energías Ecológicas de La Palma, S.L.	Spain	Energy	50	50	-
Iberdrola Energía Solar de Puertollano, S.A.	Spain	Energy	90	90	Ernst & Young
Parque Eólico Puerto de Málaga, S.L.	Spain	Energy	55	55	Ernst & Young
Sistemas Energéticos Tacica de Plata, S.A.	Spain	Energy	100	100	Ernst & Young
Sistemas Energéticos Nacimiento, S.A.	Spain	Energy	100	100	Ernst & Young
Inversiones Financieras Perseo, S.L.	Spain	Holding company	70	-	-
Energías Renovables de Fisterra, S.A.	Spain	Energy	80	-	-
Energías Renovables de Ría Muros, S.A.	Spain	Energy	51	-	-
Energías Renovables de Tambre, S.A.	Spain	Energy	100	-	-
Parque Eólico Cerro Mingarron, S.L.U.	Spain	Energy	40	-	-
Parque Eólico Maraña, S.L.U.	Spain	Energy	40	-	-
Parque Eólico La Cava, S.L.U.	Spain	Energy	40	-	-
Parque Eólico Carriles, S.L.U.	Spain	Energy	40	-	-
Parque Eólico Montalbo, S.L.U.	Spain	Energy	40	-	-
Parque Eólico Fuente Romana, S.L.U.	Spain	Energy	40	-	-
Iberjalón, S.A.	Spain	Energy	80	-	-
Sistemas Energéticos La Torrecilla, S.A.	Spain	Energy	100	-	Ernst & Young
Eme Ferreira Uno, S.L.	Spain	Energy	100	-	-
Eme Dólar Dos, S.L.	Spain	Energy	100	-	-
Eme Hueneja Cinco, S.L.	Spain	Energy	100	-	-
Eme Hueneja Cuatro, S.L.	Spain	Energy	100	-	-
Eme Hueneja Dos, S.L.	Spain	Energy	100	-	-
Eme Hueneja Uno, S.L.	Spain	Energy	100	-	-
Sistemas Energéticos de Cádiz, S.A.	Spain	Energy	85	-	-
Eme Alcudia Uno, SL	Spain	Energy	100	-	-
Eme Calahorra Dos, S.L.	Spain	Energy	100	-	-
Eme Calahorra Uno, S.L.	Spain	Energy	100	-	-
Sistemas Energéticos Altamira, S.A.	Spain	Energy	100	-	Ernst & Young
Sistemas Energéticos La Higuera, S.A.	Spain	Energy	100	-	Ernst & Young
Sistemas Energéticos La Linera S.A.	Spain	Energy	100	-	Ernst & Young
Sistemas Energéticos de Levante, S.A.	Spain	Energy	60	-	-
Iberdrola Renovables de Valencia, S.A.	Spain	Energy	100	-	-
Iberdrola Renovables de Cantabria, S.A.	Spain	Energy	100	-	-
Iberdrola Renovables de La Rioja, S.A.	Spain	Energy	63.55	63.55	Ernst & Young
Eólicas de Euskadi, S.A.	Spain	Energy	100	50	Ernst & Young
Producciones Energéticas de Castilla y León, S.A.	Spain	Energy	85.5	85.5	Ernst & Young
Parque Eólico Cruz del Carrutero, S.L.	Spain	Energy	76	76	-
Iberdrola Renewables Holdings, Inc. (IRHI)	United States	Energy	100	100	Ernst & Young
Iberdrola Renewables, Inc. (PPM)	United States	Services	100	100	Ernst & Young
Technical Services India, LLC (PPM)	United States	Services	100	100	Ernst & Young
Phoenix Wind Power II, LLC	United States	Energy	100	100	Ernst & Young
PPM Colorado Wind Ventures, LLC	United States	Holding company	100	100	Ernst & Young
Moraine Wind II, LLC	United States	Services	100	100	Ernst & Young

**A. COMPANIES MAJORITY OWNED OR CONTROLLED AND FULLY CONSOLIDATED IN 2008 AND 2007 (CONT.)**

Company	Location	Activity	Direct or indirect percentage ownership		Auditor
			12.31.08	12.31.07	
Heartland Wind, LLC	United States	Holding company	100	100	Ernst & Young
Pacific Wind Development, LLC	United States	Energy	100	100	Ernst & Young
MinnDakota Wind, LLC	United States	Energy	100	100	Ernst & Young
Eastern Desert Power, LLC	United States	Energy	100	100	Ernst & Young
Atlantic Wind, LLC	United States	Holding company	100	100	Ernst & Young
Manzana Wind, LLC	United States	Energy	100	100	Ernst & Young
Rugby Wind, LLC	United States	Energy	100	100	Ernst & Young
Atlantic Renewable Energy Corporation	United States	Holding company	100	100	Ernst & Young
PPM Wind Energy, LLC	United States	Holding company	100	100	Ernst & Young
Kimberly Run Windpower, LLC	United States	Energy	100	100	Ernst & Young
Casselman Windpower, LLC	United States	Energy	100	100	Ernst & Young
Chestnut Ridge Windpower, LLC	United States	Energy	100	100	Ernst & Young
West Virginia Windpower, LLC	United States	Energy	100	100	Ernst & Young
PPM Roaring Brook, LLC	United States	Energy	100	100	Ernst & Young
Elm Creek Wind, LLC	United States	Energy	100	100	Ernst & Young
Leaning Juniper II North Wind, LLC	United States	Energy	100	100	Ernst & Young
Twin Buttes Wind, LLC	United States	Energy	100	100	Ernst & Young
Dillon Wind, LLC	United States	Energy	100	100	Ernst & Young
PPM Wind Management, LLC	United States	Services	100	100	Ernst & Young
New Harvest Wind Project, LLC	United States	Energy	100	100	Ernst & Young
Tule Wind, LLC	United States	Energy	100	100	Ernst & Young
Deerfield Wind, LLC	United States	Energy	100	100	Ernst & Young
New England Wind, LLC	United States	Energy	100	100	Ernst & Young
Blue Nothern, LLC	United States	Energy	100	100	Ernst & Young
Penascal Wind Power, LLC	United States	Energy	100	100	Ernst & Young
Streator – Cayuga Ridge Wind Power, LLC	United States	Energy	100	100	Ernst & Young
Pebble Springs Wind, LLC	United States	Energy	100	100	Ernst & Young
Buffalo Ridge I, LLC	United States	Energy	100	100	Ernst & Young
Aeolus Wind Power I, LLC	United States	Holding company	100	100	Ernst & Young
Moraine Wind, LLC	United States	Energy	100	100	Ernst & Young
Klondike Wind Power, LLC	United States	Energy	100	100	Ernst & Young
Mountain View Power Partners III, LLC	United States	Energy	100	100	Ernst & Young
Flying Cloud Power Partners, LLC	United States	Energy	100	100	Ernst & Young
Aeolus Wind Power III, LLC	United States	Holding company	100	100	Ernst & Young
Trimont Wind I, LLC	United States	Energy	100	100	Ernst & Young
Elk River Windfarm, LLC	United States	Energy	100	100	Ernst & Young
Shiloh I Wind Project, LLC	United States	Energy	100	100	Ernst & Young
Dry Lake Wind Power, LLC	United States	Energy	100	100	Ernst & Young
Aeolus Windpower III, LLC	United States	Holding company	100	100	Ernst & Young
Atlantic Renewable Projects, LLC	United States	Holding company	100	100	Ernst & Young
Aeolus Wind Power IV, LLC	United States	Holding company	100	100	Ernst & Young
Aeolus Wind Power V, LLC	United States	Holding company	100	100	Ernst & Young
Aeolus Wind Power VI, LLC	United States	Holding company	100	100	Ernst & Young

**A. COMPANIES MAJORITY OWNED OR CONTROLLED AND FULLY CONSOLIDATED IN 2008 AND 2007 (CONT.)**

Company	Location	Activity	Direct or indirect percentage ownership		Auditor
			12.31.08	12.31.07	
Aeolus Wind Power VII, LLC	United States	Holding company	100	100	Ernst & Young
Big Horn Wind Project, LLC	United States	Energy	100	100	Ernst & Young
Buffalo Ridge II, LLC	United States	Energy	100	100	Ernst & Young
Conestoga Winds, LLC	United States	Energy	100	100	Ernst & Young
PPM Elm Creek Wind, LLC	United States	Holding company	100	100	Ernst & Young
Enstor Columbia Storage and Transportation, LLC	United States	Energy (Gas)	100	100	Ernst & Young
Enstor Louisiana, LLC	United States	Energy (Gas)	100	100	Ernst & Young
Enstor Operating Company, LLC	United States	Energy (Thermal)	100	100	Ernst & Young
Enstor Houston Hub Storage and Transportation, L.P.	United States	Energy (Gas)	100	100	Ernst & Young
Enstor Katy Storage and Transportation, L.P.	United States	Energy (Gas)	100	100	Ernst & Young
Enstor Waha Storage and Transportation, L.P.	United States	Energy (Gas)	100	100	Ernst & Young
Enstor Grama Ridge Storage and Transportation, LLC	United States	Energy (Gas)	100	100	Ernst & Young
Freebird Assets, Inc.	United States	Energy (Gas)	100	100	Ernst & Young
Freebird Gas Storage, LLC	United States	Energy (Gas)	100	100	Ernst & Young
Pacific Klamath Energy, Inc.	United States	Energy (Thermal)	100	100	Ernst & Young
West Valley Leasing Company, LLC	United States	Energy (Thermal)	100	100	Ernst & Young
Klamath Energy, LLC	United States	Energy (Thermal)	100	100	Ernst & Young
Klamath Generation, LLC	United States	Holding company	100	100	Ernst & Young
Scottish Power Group Holdings Company	United States	Holding company	100	100	Ernst & Young
Black Light (Minority Interest)	United States	Holding company	0.5	0.5	Ernst & Young
Nth Power Technologies Fund I, L.P.	United States	Holding company	19	19	Ernst & Young
Scottish Power Financial Services, Inc.	United States	Holding company	100	100	Ernst & Young
Pacific Harbor Capital, Inc.	United States	Services	100	100	Ernst & Young
Hillsborough Leasing Services, Inc.	United States	Services	100	100	Ernst & Young
Scottish Power International Group Holdings Company	United States	Holding company	100	100	Ernst & Young
Hazelwood Finance, L.P.	United States	Dormant	12.55	12.55	-
Iberdrola Renewable Energies, USA, Ltd.	United States	Holding company	100	100	Ernst & Young
Community Energy, Inc.	United States	Holding company	100	100	Ernst & Young
CEI Mass Wind, LLC	United States	Holding company	100	100	Ernst & Young
CEI Wind Park Bear Creek, LLC	United States	Energy	100	100	Ernst & Young
CH-Community Wind Energy, LLC	United States	Energy	50	50	Ernst & Young
Providence Heights Wind, LLC	United States	Energy	100	100	Ernst & Young
JB Wind Holdings, LLC	United States	Holding company	8.85	8.85	Ernst & Young
Jordanville Wind, LLC	United States	Energy	100	100	Ernst & Young
Lempster Wind, LLC	United States	Energy	100	100	Ernst & Young
Locust Ridge II, LLC	United States	Energy	100	100	Ernst & Young
Locust Ridge Windfarm, LLC	United States	Energy	46.3	46.3	Ernst & Young
Mount Pleasant Wind, LLC	United States	Energy	50	50	Ernst & Young
Wind Park Bear Creek, LLC	United States	Energy	8.85	8.85	Ernst & Young
Benson Wind Farm, LLC	United States	Energy	100	100	Ernst & Young
Wildhorse Mountain Wind, LLC	United States	Energy	100	100	Ernst & Young
Mattoon Wind Farm, LLC	United States	Energy	100	100	Ernst & Young
Barton Windpower, LLC	United States	Energy	100	100	Ernst & Young

**A. COMPANIES MAJORITY OWNED OR CONTROLLED AND FULLY CONSOLIDATED IN 2008 AND 2007 (CONT.)**

Company	Location	Activity	Direct or indirect percentage ownership		Auditor
			12.31.08	12.31.07	
Barton Windpower II, LLC	United States	Energy	100	100	Ernst & Young
Midwest Renewable Energy Projects II, LLC	United States	Holding company	100	100	Ernst & Young
Northern Iowa Windpower, LLC	United States	Energy	100	100	Ernst & Young
Winnebago Windpower, LLC	United States	Energy	100	100	Ernst & Young
Winnebago Windpower II, LLC	United States	Energy	100	100	Ernst & Young
Barre Wind, LLC	United States	Energy	100	-	Ernst & Young
County Line Wind, LLC	United States	Energy	100	-	Ernst & Young
Dundy County Wind, LLC	United States	Energy	100	-	Ernst & Young
Goodland Wind, LLC	United States	Energy	100	-	Ernst & Young
Hamlin Wind, LLC	United States	Energy	100	-	Ernst & Young
Hays Wind, LLC	United States	Energy	100	-	Ernst & Young
Horse Creek Wind, LLC	United States	Energy	100	-	Ernst & Young
Land Holdings Wind, LLC	United States	Holding company	100	-	Ernst & Young
Laramie County Wind, LLC	United States	Energy	100	-	Ernst & Young
Mercury Valley Wind, LLC	United States	Energy	100	-	Ernst & Young
Moyer Ranch Wind, LLC	United States	Energy	100	-	Ernst & Young
Spring Creek Wind, LLC	United States	Energy	100	-	Ernst & Young
Trew Ranch Wind, LLC	United States	Energy	100	-	Ernst & Young
Union County Wind, LLC	United States	Energy	100	-	Ernst & Young
Wauneta Wind, LLC	United States	Energy	100	-	Ernst & Young
Wilder Wind, LLC	United States	Energy	100	-	Ernst & Young
Midland Wind, LLC	United States	Energy	100	70	Ernst & Young
Houck Mountain Wind, LLC	United States	Energy	100	100	Ernst & Young
Groton Wind, LLC	United States	Energy	100	100	Ernst & Young
Farmers City Wind, LLC	United States	Energy	100	-	Ernst & Young
Enstor Colorado, LLC	United States	Energy	100	100	-
E.O. Resources, LLC	United States	Energy	100	100	-
Caledonia Energy Partners, LLC	United States	Energy	100	-	-
Gemini Capital LLC	United States	Holding company	100	-	-
CEP Energy Services, LLC	United States	Services	100	-	-
Enstor Columbia Gas Storage, LLC	United States	Energy	100	100	-
PCC Holdings, Inc.	United States	Holding company	100	100	-
Barton Chapel Wind, LLC	United States	Energy	100	-	-
Columbia Community Windpower, LLC	United States	Energy	100	100	-
Oceantec Energias Marinas	United States	Energy	46.662	-	-
Colorado Wind Ventures, LLC	United States	Holding company	50	50	Ernst & Young
ScotPower UK	United States	Dormant	100	100	Ernst & Young
ScotPower Limited	United States	Dormant	100	100	Ernst & Young
Colorado Green Holdings, LLC	United States	Energy	50	50	Ernst & Young
Pacific Solar Investments, Inc.	United States	Energy	100	-	-
Iberdrola Renewable, Inc.	United States	Dormant	100	100	Ernst & Young
Enstor, Inc.	United States	Energy (Gas)	100	100	Ernst & Young
Wind Ventures Holdings, LLC	United States	Holding company	100	-	Ernst & Young



**A. COMPANIES MAJORITY OWNED OR CONTROLLED AND FULLY CONSOLIDATED IN 2008 AND 2007 (CONT.)**

Company	Location	Activity	Direct or indirect percentage ownership		Auditor
			12.31.08	12.31.07	
Jersey Atlantic Wind, LLC	United States	Energy	8.85	8.85	Ernst & Young
Klondike Wind Power III, LLC	United States	Energy	100	100	Ernst & Young
Star Point Wind Project, LLC	United States	Energy	100	-	Ernst & Young
PPM Technical Services, LLC	United States	Energy	100	100	Ernst & Young
Penascal II Wind Project, LLC	United States	Energy	100	-	Ernst & Young
Klondike Wind Power II, LLC	United States	Energy	100	100	Ernst & Young
Ousauhing Raisner, AS	Estonia	Energy	65	80	-
SE Hamel au Brun, SAS	France	Energy	100	100	Deloitte
Eolienne de la Grande Place, SAS	France	Energy	100	100	Mazars
Parc Eolien la Talizat, SAS	France	Energy	100	100	Deloitte
Société de Mulsonnier, SAS	France	Energy	100	100	Deloitte
CEPE de Nurlu, SAS	France	Energy	100	100	Ernst & Young
Iberdrola Energies Renouvelables, SAS	France	Energy	100	100	Ernst & Young
Perfect Wind, SAS	France	Energy	100	100	Tabilet Ravelet
Energy Eolienne Trayes	France	Energy	100	100	Tabilet Ravelet
Cepe de Carrière Martín, SAS	France	Energy	100	100	Ernst & Young
Cepe de Villers Le SER, SAS	France	Energy	100	100	Ernst & Young
Energie Eolienne Fitou, SAS	France	Energy	100	100	Tabilet Ravelet
Pamproux Energies, SAS	France	Energy	70	70	Jacques Hourcade
Foye Energies, SAS	France	Energy	70	70	Jacques Hourcade
Teillay Energies, SAS	France	Energy	70	70	Jacques Hourcade
Jazenenuil Energies, SAS	France	Energy	70	70	Jacques Hourcade
Energie Rose de Vents, SAS	France	Energy	51	51	Conseil Audit et Synthese
La Rose des Vents Lorraine Saint Aubain, SAS	France	Energy	51	51	Conseil Audit et Synthese
Eolienne de Mauron, SAS	France	Energy	100	100	Mazars
Haute Marne Energie, SAS	France	Energy	51	51	Ernst & Young
Energiaki Alogorachis, S.A.	Greece	Energy	100	100	Ernst & Young
Rokas, S.A. (*)	Greece	Energy	96.74	52.7	Ernst & Young
Rokas Constructions, S.A.	Greece	Construction	96.74	52.7	Ernst & Young
Rokas Aeoliki, S.A.	Greece	Energy	95.77	52.17	Ernst & Young
Rokas Aeoliki Evia, S.A.	Greece	Energy	95.90	52.24	Ernst & Young
Rokas Aeoliki Zarakas, S.A.	Greece	Energy	95.90	52.24	Ernst & Young
Rokas Aeoliki Kriti, S.A.	Greece	Energy	96.37	52.5	Ernst & Young
PPC Renewables Rokas, S.A.	Greece	Energy	49.34	26.88	Ernst & Young
Rokas Aeoliki Thraki, S.A.	Greece	Energy	95.77	52.17	Ernst & Young
Rokas Aeoliki Thraki II, S.A.	Greece	Energy	95.86	52.22	Ernst & Young
Rokas Aeoliki Thraki III, S.A.	Greece	Energy	96.14	52.37	Ernst & Young
Rokas Aeoliki Komito, S.A.	Greece	Energy	96.73	52.69	Ernst & Young
Rokas Aeoliki Thessalia I, S.A.	Greece	Energy	96.14	52.37	Ernst & Young
Rokas Aeoliki Thessalia II, S.A.	Greece	Energy	96.14	52.37	Ernst & Young
Rokas Aeoliki Viotia, S.A.	Greece	Energy	96.73	52.37	Ernst & Young
Rokas Aeoliki Achladotopos, S.A.	Greece	Energy	96.14	52.37	Ernst & Young
Rokas Energy, S.A.	Greece	Energy	96.39	52.51	Ernst & Young

**A. COMPANIES MAJORITY OWNED OR CONTROLLED AND FULLY CONSOLIDATED IN 2008 AND 2007 (CONT.)**

Company	Location	Activity	Direct or indirect percentage ownership		Auditor
			12.31.08	12.31.07	
Rokas Aeolos, Ltd.	Greece	Energy	96.74	52.7	Ernst & Young
Rokas Aeoliki Vorios Ellas I, Ltd.	Greece	Energy	96.74	52.7	Ernst & Young
Rokas Aeoliki Vorios Ellas II, Ltd.	Greece	Energy	96.74	52.7	Ernst & Young
Rokas Aeoliki Kozani I, Ltd.	Greece	Energy	96.74	52.7	Ernst & Young
Rokas Aeoliki Kozani II, Ltd.	Greece	Energy	96.74	52.7	Ernst & Young
Rokas Aeoliki Macedonia I, Ltd.	Greece	Energy	96.74	52.7	Ernst & Young
Rokas Aeoliki Macedonia II, Ltd.	Greece	Energy	96.74	52.7	Ernst & Young
Rokas Aeoliki Macedonia III, Ltd.	Greece	Energy	96.74	52.7	Ernst & Young
Rokas Aeoliki Peloponnisis I, Ltd.	Greece	Energy	96.74	52.7	Ernst & Young
Rokas Aeoliki Peloponnisis II, Ltd.	Greece	Energy	96.74	52.7	Ernst & Young
Rokas Iliaki I, Ltd. S.A.	Greece	Energy	96.74	52.7	Ernst & Young
Rokas Iliaki II, Ltd.	Greece	Energy	96.74	52.7	Ernst & Young
Rokas Aeoliki Sterea Ellas I, Ltd.	Greece	Energy	96.74	52.7	Ernst & Young
Rokas Hydroelectric III, S.A.	Greece	Energy	96.74	-	Ernst & Young
Rokas Hydroelectric I, Ltd.	Greece	Energy	96.74	52.7	Ernst & Young
Rokas Hydroelectric II, Ltd.	Greece	Energy	96.74	52.7	Ernst & Young
Rokas Iliaki III, S.A.	Greece	Energy	96.74	-	Ernst & Young
Iberdrola Magyarorszag, KFT	Hungary	Energy	100	100	-
Magellan Investment Vagyonkezeló	Hungary	Energy	100	100	-
Kaptar Sxeleronm, KFT	Hungary	Energy	100	100	-
Amithaba Vagyonkezeló, KFT	Hungary	Energy	100	100	-
Mistral Energética Villamosen, KFT	Hungary	Energy	100	100	-
Amitaius Vagyonkezeló, KFT	Hungary	Energy	100	100	-
Vento Energética Villamosenergiatermelő, KFT	Hungary	Energy	100	100	-
Società Energie Rinnovabili, S.p.A.	Italy	Energy	49.9	100	Ernst & Young
Società Energie Rinnovabili I, S.p.A.	Italy	Energy	48.902	99	Ernst & Young
Eólica Lucana, S.R.L.	Italy	Energy	100	-	-
Iberdrola Energie Rinnovabili, S.p.A.	Italy	Energy	100	100	-
Parques Ecológicos de México, S.A. de CV	Mexico	Energy	100	100	Ernst & Young
Iberdrola Renovables Mexico, S.A. de CV	Mexico	Energy	100	-	Ernst & Young
Energía Wiatrowa Karscino, S.P. ZOO EWK	Poland	Energy	100	100	-
Iberdrola Energia Odnawialna Spo3kaz Ograniczon Odpowiedzialnocecil	Poland	Energy	100	100	Ernst & Young
Elektrownie Wiat. Podkarpacia, S.P. ZOO	Poland	Energy	100	-	-
Eoenergy Energia Eólica, S.A.	Portugal	Energy	100	100	Ernst & Young
Aeolia Producao de Energia, S.A.	Portugal	Energy	78	78	Ernst & Young
Iberdrola Renewables Portugal, S.A.	Portugal	Energy	100	100	Ernst & Young
PE Serra do Alvao	Portugal	Energy	100	-	-
Scottish Power Renewable Energy Limited (SPREL)	UK	Energy	100	100	Ernst & Young
Coldham Windfarm Limited	UK	Energy	80	80	Ernst & Young
Wind Resources Limited	UK	Energy	100	100	Ernst & Young
CRE Energy Limited	UK	Energy	100	100	Ernst & Young
Iberdrola Renewable Energies of UK Limited	UK	Energy	100	100	Ernst & Young

**A. COMPANIES MAJORITY OWNED OR CONTROLLED AND FULLY CONSOLIDATED IN 2008 AND 2007 (CONT.)**

Company	Location	Activity	Direct or indirect percentage ownership		Auditor
			12.31.08	12.31.07	
Scottish Power Renewable Energy Hb (SPREHL)	UK	Energy	100	100	Ernst & Young
Iberdrola Renewable Holdings, Inc.	UK	Holding company	100	100	Ernst & Young
Beaufort Energy Limited	UK	Holding company	100	100	Ernst & Young
Wolf Bog Limited	UK	Energy	100	100	Ernst & Young
Callagheen Windfarm Limited	UK	Energy	100	100	Ernst & Young
Carland Cross Limited	UK	Energy	100	100	Ernst & Young
Coal Clough Limited	UK	Energy	100	100	Ernst & Young
Das Yenilenebilir Enerjiler	Turkey	Energy	100	100	-

(\*) Listed on the Greece stock exchange.

## B. JOINTLY CONTROLLED ENTITIES CONSOLIDATED USING THE PROPORTIONATE CONSOLIDATION METHOD IN 2008 AND 2007

Company	Location	Activity	Direct or indirect percentage ownership		Auditor
			12.31.08	12.31.07	
Molinos del Cídacos, S.A.	Spain	Energy	31.78	31.78	Ernst & Young
Desarrollo de Energías Renovables de La Rioja, S.A.	Spain	Energy	40.51	40.51	Ernst & Young
Energías Renovables de la Región de Murcia, S.A.	Spain	Energy	50	50	Ernst & Young
Molinos de La Rioja, S.A.	Spain	Energy	42.36	42.37	Ernst & Young
Eólicas de Campollano, S.A.	Spain	Energy	25	25	KPMG
Ecobarcial, S.A.	Spain	Energy	43.78	43.78	Ernst & Young
Electra de Malvana, S.A.	Spain	Energy	48	48	-
Electra de Montachez, S.A.	Spain	Energy	40	40	-
Sistema Eléctrico de Conexión Huenéja, S.L.	Spain	Energy	47.37	47.37	-
Salto del Belmontejo, S.A.	Spain	Energy	24.84	24.84	Ernst & Young
Electra de Layna, S.A.	Spain	Energy	47.5	47.5	-
Aerocastilla, S.A.	Spain	Energy	57	57	-
Generación de Energía Eólica, S.A.	Spain	Energy	57	57	-
Vientos de Castilla y León, S.A.	Spain	Energy	57	57	-
Eólicas Fuente Isabel, S.A.	Spain	Energy	57	57	-
Productora de Energía Eólica, S.A.	Spain	Energy	56.91	56.91	-
Energías de Castilla y León, S.A.	Spain	Energy	85.5	85.5	Ernst & Young
Peache Energías Renovables, S.A.	Spain	Energy	57	57	-
Eléctricas de La Alcarria, S.L.	Spain	Energy	40	40.02	Ernst & Young
Sierra de Baños, S.L.	Spain	Energy	30	30	-
Rioglass Photovoltaica, S.A.	Spain	Energy	24.5	24.5	-
Bionor Eólica, S.L.	Spain	Energy	57	57	-
OLA Galicia, S.A.	Spain	Energy	22	-	-
Eólica 2000, S.L.	Spain	Energy	49	-	Ernst & Young
Flat Rock Windpower, LLC	United States	Energy	50	50	Ernst & Young
Flat Rock Windpower, II LLC	United States	Energy	50	50	Ernst & Young
Baca Wind, LLC	United States	Energy	50	-	-
SEFEOSC, SAS	France	Energy	49	49	Ernst & Young
Les Moulins de la Somme, SARL	France	Energy	50	50	-
Ferme Eolienne de Welling, SAS	France	Energy	49	49	PWC
Eoliennes De Pleugriffet	France	Energy	49	-	Mazars
Hammerfest Storm, AS	Norway	Energy	13.72	-	PWC
Celtpower Ltd.	UK	Energy	50	50	-

## C. ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD IN 2008 AND 2007

Company	Location	Activity	Direct or indirect percentage ownership	
			12.31.08	12.31.07
Sotavento Galicia, S.A.	Spain	Energy	8.00	8.00

**D. GROUP COMPANIES AT 31 DECEMBER 2008 WHICH WERE EXCLUDED FROM CONSOLIDATION BECAUSE THEY HAD BEEN LIQUIDATED OR MERGED**

Company	Location	Activity	Direct or indirect percentage ownership		Auditor
			12.31.08	12.31.07	
Energía Global Castellana, S.A.	Spain	Energy	-	95	Ernst & Young
Villardefrades Eólica, S.L.	Spain	Energy	-	95	-
Eme Dólar Uno, S.L.U.	Spain	Energy	-	100	Ernst & Young
Eme Hueneja Tres, S.L.U.	Spain	Energy	-	100	Ernst & Young
Eme Dólar Tres, S.L.U.	Spain	Energy	-	100	Ernst & Young
Eme Ferreira Dos, S.L.U.	Spain	Energy	-	100	Ernst & Young
Global Solar Energy, S.A.	Spain	Energy	-	100	Ernst & Young
SE Ferrol – Naron	Spain	Energy	-	100	-
Scenic Vista Wind Powers, LLC	United States	Energy	-	100	Ernst & Young
Enstor Brentwood Gast Storage, LLC	United States	Energy (Gas)	-	100	Ernst & Young
Enstor City Gate, LLC	United States	Energy (Gas)	-	100	Ernst & Young
Enstor Delta Gas Storage, LLC	United States	Energy (Gas)	-	100	Ernst & Young
New Energy Holdings I, Inc.	United States	Dormant	-	100	-
Scottish Power Energy Ventures, Inc.	United States	Holding company	-	100	Ernst & Young
Pacific Development, Inc.	United States	Dormant	-	100	-
PHC Properties Corporation	United States	Dormant	-	100	-
Hazelwood Australia, Inc.	United States	Dormant	-	100	-
Scottish Power Trans, Inc.	United States	Dormant	-	100	-
CEI New Hampshire Wind, LLC	United States	Energy	-	100	Ernst & Young
Illinois Wind Energy, LLC	United States	Energy	-	50	Ernst & Young
Freebird Energy Marketing, LLC	United States	Services	-	100	Ernst & Young
Pa Wind Park Bear Creek 2, LLC	United States	Energy	-	50	Ernst & Young
Bear JAW Holding, LLC	United States	Holding company	-	99	Ernst & Young
Monterey Wind, LLC	United States	Energy	-	70	Ernst & Young
Mountain Wiew Green, LLC	United States	Energy	-	100	Ernst & Young
Iberdrola Renewable Energies, USA, Ltd.	United States	Energy	-	100	Ernst & Young
PACE Group, Inc.	United States	Holding company	-	100	Ernst & Young
CEI New Jersey Wind, LLC	United States	Energy	-	100	Ernst & Young
PPM Tug Hill, LLC	United States	Energy	-	100	Ernst & Young
Bishop Wind Farm, LLC	United States	Energy	-	100	Ernst & Young
Operations, LLC (PPM)	United States	Services	-	100	Ernst & Young
Grass Valley Wind, LLC	United States	Energy	-	100	Ernst & Young
Leaning Juniper Wind Power, LLC	United States	Services	-	100	Ernst & Young
Roaring Brook Wind Power, LLC	United States	Energy	-	100	Ernst & Young
South Chestnut, LLC	United States	Energty	-	100	Ernst & Young
Tug Hill Wind Power, LLC	United States	Energy	-	100	Ernst & Young
Energy Works Holdings I	Cayman Islands	Being wound up	-	100	-



# **CONSOLIDATED MANAGEMENT REPORT**

Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

## IBERDROLA RENOVABLES, S.A. AND SUBSIDIARIES

Consolidated Management Report Financial 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 Eólica S.L.U. signed the largest wind turbine supply agreement in the history of the wind power sector, for a total of 4,500 megawatts (MW) of capacity between 2010 and 2012.

IBERDROLA RENOVABLES 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") signed a strategic agreement to jointly promote, develop, and manage wind power projects in Spain and certain continental European countries, with the aim of increasing 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 the complementary mix of their 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 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 RENOVABLES' Strategic Plan, 2008-2012

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

Delivering the targets set out in its Strategic Plan would enable IBERDROLA RENOVABLES 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 RENOVABLES by 2012, marking the end of the current Strategic Plan, to EUR 3.4 billion and EUR 1 billion, respectively.

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 RENOVABLES agreed a EUR 604 million long-term syndicated loan to finance its expansion plans in Italy.

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



IBERDROLA RENOVABLES 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 RENOVABLES launched a 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 RENOVABLES already held 52.70% of the ordinary shares and 47.32% of the preferred 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 RENOVABLES 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 RENOVABLES 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 231.9% to EUR 390.2 million from the EUR 117.5 million earned in 2007.

Gross profit stood at EUR 1,621.2 million, growth of 97% on 2007. Profit on the Spanish wind power business was up by 49.8% on 2007. Note also that gross profit from operations in the Rest of the World rose by 30.2% compared to 2007. The increase in the wind power business was 89.3% on 2007 thanks to the rise in operating capacity and higher prices over the period. Gross profit for the gas business was EUR 163.5 million.

Net operating expense and taxes other than income tax totalled EUR 435.6 million, up by 68.3% on the prior year due to the increase in installed capacity.

EBITDA was EUR 1,185.5 million, an increase of 110.2% on 2007, attributable to healthy growth in Gross Profit and a slower rise in Net Operating Expense (68.3%) than Gross Profit (97%).

Net financial expense was EUR 121.8 million, a 19.8% reduction on 2007, chiefly due to a fall in average third-party borrowings.

Profit Before Tax was EUR 582.3 million, a rise of 197.1% on the previous year. The effective tax rate was 31.8% and profit attributable to minorities was EUR 7.2 million.

### 1.8 Main operating figures

Capacity installed at renewable facilities rose 31.0% year-on-year to 9,302 MW (2007: 7,098 MW). 86.5% of installed capacity is 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% 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. The regulatory framework to support renewable energies under the special regime is governed by Royal Decree 661/2007. This 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 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 getting a subsidy of 30% of eligible costs, to be implemented by the Treasury Secretary. It also sets up an approximately USD 8 billion programme of loan guarantees 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 offshore 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 so-called "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 renewable energies 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 Renewables 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, we cannot guarantee the following:

- 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 regulation 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 continuous 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 profitability 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 to the Group and 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 the IBERDROLA RENOVABLES Group 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 avoids negative impact on the environment.

At the present time, the Company'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 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' 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 running 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 students and the population in general about the main characteristics and environmental benefits of the various renewable energy sources available, through a day 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 6th Framework Programme, WindGrid and IS-Power, and has been invited to contribute to the consultative body for the SUSPLAN project under the EU's 7th 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 the 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 the 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 the company PERSEO, a venture capital vehicle that invests in companies with high technological capital. PERSEO is 70% owned by IBERDROLA RENOVABLES and has an investment budget of EUR 6 million annually.

## 6. HUMAN RESOURCES

The Board of Directors of IBERDROLA RENOVABLES has approved a new recruiting and selection policy. This policy is 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 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 this 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 Corporations 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 Corporations 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 By-laws 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 shareholders 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 By-laws.**

#### **Appointment and Replacement of Board Members**

Articles 30, 31 and 32 of the By-Laws, 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 resignation or removal from such positions; these Articles can be summarised as follows:

**Capacities.** Appointment of Board Members is the responsibility of shareholders at the Shareholders' Meeting in accordance with the Spanish Corporation Law and the By-laws.

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 Appointments and Remuneration 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 (4) 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 Appointments and Remuneration 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 as 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 the 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 Appointments and Remuneration Committee in the case of independent Directors, or a report issued by said Committee for other Directors, evaluating the quality of work performed and the 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 the powers granted to them by law or under Company By-laws. 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, 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 By-Laws has expired in the event that the Board considers that there is just cause following a report from the Appointments and Remuneration Committee. Just cause shall be specifically understood to include when the Director fails to fulfil the duties of the office 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 By-laws

The procedures for amending the By-laws of the Company are, in general, those contained in Article 144 of the Spanish Corporation Law, and require approval by shareholders at the 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 By-Laws 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 By-Laws 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 By-Laws 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 By-Laws can not be delegated.

On 5 November 2007, the sole shareholder at the time, Iberdrola, S.A., resolved to delegate to the Board of Directors, in accordance with Article 153.1 b) of the Spanish Corporations Law, powers 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 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 its 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. and members of its group and of IBERDROLA RENOVABLES ENERGY LTD group on the one part and ScottishPower Energy Retail Ltd., the owner of UK wind farms, on the other, 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 de April de 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 347 million euros.

**i) 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 two years' annual salary to a maximum 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.



# **ANNUAL CORPORATE GOVERNANCE REPORT**

# ANNUAL CORPORATE GOVERNANCE REPORT PUBLIC LIMITED COMPANIES

## MODEL 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 YESmilar 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:

YES	NO
	X

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 ANTOLÍN RAYBAUD	0	0	0.000
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:**

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>			<b>0.045</b>

**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:**

Individual or corporate name of related parties	Type of relationship	Brief Description
IBERDROLA, S.A.	Contractual	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 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. See section G.
IBERDROLA, S.A.	Commercial	The business relationships between Iberdrola, S.A. and Iberdrola Renovables, S.A. and their respective groups may be classified as follows: See section G.
IBERDROLA, S.A.	Societaria	Registered shareholder of 80% of the share capital of IBERDROLA RENOVABLES.

**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:**

YES	NO
	X

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

YES	NO
	X

**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	NO
X	

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:**

<b>Total:</b>	-
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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.
- 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 compensa-

tion systems provided for in the third paragraph of sub-section 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:**

YES	NO
	X

**Maximum percentage of voting rights that a shareholder may exercise due to legal restrictions**

**0**

**Indicate whether there are by-law restrictions on the exercise of voting rights:**

YES	NO
	X

**Maximum percentage of voting rights that a shareholder may exercise due to by-law restrictions**

**0**

**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
	X

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



## 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:**

<b>Maximum number of directors</b>	<b>15</b>
<b>Minimum number of directors</b>	<b>8</b>

**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 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>	<b>15</b>
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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>		<b>1</b>
<b>Total % of Board members</b>		<b>6.67%</b>

### 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.
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>		<b>9</b>
<b>Total % of Board members</b>		<b>60%</b>

### EXTERNAL INDEPENDENT DIRECTORS

Individual or corporate name of director	Profile
MS. MARÍA HELENA ANTOLÍN RAYBAUD	<p>Born in Toulon, 1966.</p> <p>Spanish citizen. Degree in International Business &amp; 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).</p> <p>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).</p> <p>Currently serving as Member of the Board of Directors of the Antolín-Irausa Group, S.A., and as Director of Operations of VW &amp; Porsche Group Account and Corporate Director of Strategy.</p>

Individual or corporate name of director	Profile	
MR. LUIS CHICHARRO ORTEGA	<p>Born in Madrid, 1954.</p> <p>Spanish citizen. Degrees in Economics from Universidad Pontificia de Comillas (ICADE) and Law from Universidad de Deusto.</p> <p>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.</p> <p>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.</p>	
MR. SANTIAGO MARTÍNEZ LAGE	<p>Born in Betanzos, 1946.</p> <p>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.</p> <p>He is a member of the Diplomatic Corps (Embassy Counselor), currently on leave.</p> <p>As an attorney and business consultant, he founded the law firm Martínez Lage &amp; 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.</p> <p>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.</p> <p>He is a member of the Board of Directors of the Círculo de Empresarios.</p>	
MR. MANUEL MOREU MUNAIZ	<p>Born in Pontevedra, 1953.</p> <p>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).</p> <p>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.</p> <p>He is currently Chairman of Seaplace, S.L., Tierra Dentro, S.L., HI Ingeniería y Proyectos and Howard Engineering and Development.</p>	
MR. ÁLVARO VIDEAIN MURO	<p>Born in Bilbao, 1951.</p> <p>Spanish citizen. Degrees in Economics and Law from Universidad de Deusto.</p> <p>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.</p> <p>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.</p> <p>President of the Círculo de Empresarios Vascos and Vice President of Innovasque.</p>	
<b>Total number of independent directors</b>		<b>5</b>
<b>Total % of Board members</b>		<b>33.33%</b>

**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.

YES	NO
	X

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:

YES	NO
	X

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

Individual or corporate name of director	Brief Description
MR. XABIER VITERI SOLAUN	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:

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	NO
X	

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:**

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

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>

Compensation item	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:

Total director compensation (in thousands of euros)	2,618
Total director compensation / profits attributable to the controlling company (as a %)	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.
ÁLVARO DELGADO PIERA	DIRECTOR OF ADMINISTRATION AND CONTROL
RAFAEL DE ICAZA DE LA SOTA	CHIEF CORPORATE RESOURCES OFFICER
JOSÉ ÁNGEL MARRA RODRÍGUEZ	DIRECTOR OF ECONOMIC AND FINANCIAL DIVISION
ESTANISLAO REY- BALTAR BOOGEN	DEPUTY TO CHIEF EXECUTIVE OFFICER
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>

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

<b>Is information about these provisions given to the shareholders at the General Shareholders' Meeting?</b>	<b>YES</b>
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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.**

#### **Process to set the compensation of the members of the Board of Directors and by-law provisions**

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).

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.

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 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:**

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.	YES
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.	YES

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

<b>YES</b>	<b>NO</b>
<b>X</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	YES
Variable compensation items	YES
Main characteristics of the social security systems, with an estimate of the amount thereof or equivalent annual cost.	YES
Terms and conditions that must be included in the contracts with executive directors performing senior management duties	YES

**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:**

YES	NO
	X

#### Papel desempeñado por la Comisión de Nombramientos y Retribuciones

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:

- Has issued a favorable report on the proposed Director compensation policy prior to the approval thereof by the Board of Directors.
- 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.

<b>Has external advice been utilized?</b>	<b>NO</b>
<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:**

YES	NO
	X
Description of amendments	

**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 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.

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.

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:

- (i) 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.
- (ii) 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.
- (iii) 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.
- (iv) 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.
- (v) 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.
- (vi) 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.
- (vii) 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:

YES	NO
	X

#### Measures to mitigate risks

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 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	NO
	X

#### Description of rules

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).

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.

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.

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

YES	NO
X	

**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

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

YES	NO
	X

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

YES	NO
X	

**Matters on which a tie-breaking vote may be cast**

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	NO
X	

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:**

YES	NO
	X
Maximum term of office	
0	

**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.**

Description of reasons and initiatives
<p>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.</p> <p>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.</p> <p>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.</p>

**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	NO
X	

**Describe the main procedures**

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:**

Number of meetings of the Board	11
Number of meetings of the Board at which the Chairman was not in attendance	0

**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	NO
X	

**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.

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?

YES	NO
	X

#### 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.

Procedure for appointment and removal
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.

Does the Nominating Committee report on the appointment?	YES
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	NO
X	

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.

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).
- 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:**

YES	NO
	X

Outgoing auditor	Incoming auditor

**If there has been any disagreement with the outgoing auditor, describe the content thereof:**

YES	NO
	X

**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	NO
X	

	Company	Group	Total
Amount of other non-audit work (thousands of Euros)	0	245	245
Amount of non-audit work / Aggregate amount billed by the audit firm (%)	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.**

YES	NO
	X

**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
Number of consecutive years	4	4

	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	NO
X	

**Detalle el procedimiento**

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:

- That it is not necessary for the proper performance of the duties entrusted to the Directors.
- That the cost thereof is not reasonable in light of the significance of the issues and the assets and income of the Company.
- That the technical assistance sought may be adequately provided by the Company's own experts and technical personnel.
- That it may entail a risk to the confidentiality of the information that must be made available to the expert.

**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	NO
X	

**Description of procedure**

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	NO
X	

#### Describe the rules

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:**

YES	NO
	X

**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.**

YES	NO
	X

## B.2. Committees of the Board of Directors

**B.2.1. List all the committees of the Board of Directors and the members thereof:**

### 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

**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

**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

**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
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	Brief Description
EXECUTIVE COMMITTEE	<p>Article 36 of the By-Laws provides that “<i>the Board of Directors must create and maintain an Executive Committee...</i>” 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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>
AUDIT AND COMPLIANCE COMMITTEE	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>

Name of the Committee	Brief Description
NOMINATING AND COMPENSATION COMMITTEE	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>Section B.2.4 below contains a description of the main powers of the Nominating and Compensation Committee.</p>
RELATED-PARTY TRANSACTIONS COMMITTEE	<p>Article 36.2 of the By-Laws provides that <i>“the Board of Directors may also create other Committees or Commissions with such powers as are determined by the Board of Directors.”</i></p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>Section B.2.4 below contains a description of the main powers of the Related-Party Transactions Committee.</p>

**B.2.4. Indique las facultades de asesoramiento, consulta y en su caso, delegaciones que tienen cada una de las comisiones:**

Name of the Committee	Brief Description
EXECUTIVE COMMITTEE	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.
AUDIT AND COMPLIANCE COMMITTEE	<ul style="list-style-type: none"> <li>(a) Report to the General Shareholders' Meeting with respect to matters raised therein by shareholders regarding its powers.</li> <li>(b) Propose appointments of the Company's Auditors to the Board of Directors for submission to the shareholders at the General Shareholders' Meeting.</li> <li>(c) Supervise the management of the Internal Audit Area, which shall be functionally controlled by the Chairman of the Audit and Compliance Committee.</li> <li>(d) Know the process for gathering financial information and associated systems for monitoring risks relevant to the Company.</li> <li>(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.</li> <li>(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.</li> <li>(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.</li> <li>(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.</li> <li>(i) Report on the proposed amendments to the Regulations of the Board of Directors.</li> <li>(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.</li> </ul>
NOMINATING AND COMPENSATION COMMITTEE	<ul style="list-style-type: none"> <li>(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.</li> <li>(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.</li> <li>(c) Propose to the Board of Directors the members who should make up each of the Committees.</li> <li>(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.</li> <li>(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.</li> <li>(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.</li> <li>(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.</li> <li>(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.</li> <li>(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.</li> <li>(j) Provide information regarding incentive plans and pension supplements.</li> <li>(k) Periodically review the compensation programs, evaluating the adequacy and results thereof.</li> <li>(l) Ensure compliance with the compensation policy of the Company.</li> <li>(m) Ensure that in the event of new vacancies, the selection procedures are free from any implied bias entailing any kind of discrimination.</li> <li>(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.</li> </ul>

Name of the Committee	Brief Description
RELATED-PARTY TRANSACTIONS COMMITTEE	<p>(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.</p> <p>(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.</p> <p>(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.</p> <p>(d) Report periodically on compliance with the Framework Agreement.</p> <p>(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.</p> <p>(f) Make recommendations and proposals for improvement on the matters within its purview.</p>

**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	Brief Description:
AUDIT AND COMPLIANCE COMMITTEE	<p>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 (<a href="http://www.iberdrolarenovables.es">www.iberdrolarenovables.es</a>), on the CNMV website (<a href="http://www.cnmv.es">www.cnmv.es</a>) and at the Commercial Registry of Valencia.</p> <p>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.</p> <p>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.</p>
NOMINATING AND COMPENSATION COMMITTEE	<p>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 (<a href="http://www.iberdrolarenovables.es">www.iberdrolarenovables.es</a>), on the website of the CNMV (<a href="http://www.cnmv.es">www.cnmv.es</a>) and at the Commercial Registry of Valencia.</p> <p>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.</p> <p>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.</p>
RELATED-PARTY TRANSACTIONS COMMITTEE	<p>The Related-Party Transactions Committee is governed by the By-Laws, the Regulations of the Board of Directors and the Framework Agreement.</p> <p>These documents are available on the website of the Company (<a href="http://www.iberdrolarenovables.es">www.iberdrolarenovables.es</a>), and on the CNMV website (<a href="http://www.cnmv.es">www.cnmv.es</a>). The By-Laws and the Regulations of the Board of Directors are also available at the Commercial Registry of Valencia.</p>

**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	NO
X	

## 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	NO
X	

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:

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
X	



Individual or corporate name of the director	Description of the conflict of interest situation
MR. JOSÉ IGNACIO SÁNCHEZ GALÁN	<ol style="list-style-type: none"> <li>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.</li> <li>Evaluation of his performance during fiscal year 2007.</li> </ol>
MR. ALBERTO CORTINA KOPLOWITZ	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.
MR. CARLOS EGEA KRAUEL	<ol style="list-style-type: none"> <li>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.</li> <li>Authorization to serve on the Board of Directors of Enagás, S.A.</li> <li>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.</li> </ol>
MR. JULIO FERMOSE GARCÍA	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.
MR. MARCOS FERNÁNDEZ FERMOSELLE	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.
MR. JUAN PEDRO HERNÁNDEZ MOLTÓ	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.
MR. JOSÉ LUIS SAN-PEDRO GUERENABARRENA	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.
MR. JAVIER SÁNCHEZ-RAMADE MORENO	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.
MR. JOSÉ SAINZ ARMADA	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.
MR. ÁLVARO VIDEGAIN MURO	Authorization to act as individual representative of a Director of Sener Grupo de Ingeniería, S.L.
MR. MANUEL MOREU MUNAIZ	Authorization for the provision of certain services to third parties.
MR. XABIER VITERI SOLAUN	<ol style="list-style-type: none"> <li>Approval of the terms and conditions of his contract and those governing his compensation.</li> <li>Approval of his inclusion as beneficiary of certain compensation systems.</li> <li>Evaluation of his performance during fiscal year 2007.</li> </ol>

### 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 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 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 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 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?

YES	NO
	X

#### 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:**

## 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.
- 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
- 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.**

YES	NO
X	

**If so, indicate the circumstances giving rise to them and whether the established control systems have worked:**

Risk that occurred during the fiscal year	Circumstances giving rise thereto	Performance of control systems
Risks relating to scope: market, credit, business, regulatory, operational and reputational.	Those inherent in the conduct of the business..	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	NO
X	

**If so, describe its duties:**

Name of Committee or Other Body	Description of duties
BOARD OF DIRECTORS AND EXECUTIVE COMMITTEE	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. 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.
AUDIT AND COMPLIANCE COMMITTEE	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.
MANAGEMENT COMMITTEE / RISK COMMITTEE	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.
CORPORATE AND BUSINESS DIVISIONS	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.
ECONOMIC AND FINANCIAL DIVISION	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.
INVESTMENT UNIT	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.

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.

## 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.**

YES	NO
	X

	% 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:**

YES	NO
	X

**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

La normativa interna de IBERDROLA RENOVABLES desarrolla lo dispuesto. 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.

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**

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.
- 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	NO
X	



### 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 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.
5. 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).
6. 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.
7. 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").
  - 10.b) Amendment of Section 2 of Article 48 ("Company fiscal year and preparation of the annual financial statements").

**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.

**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.**

YES	NO
	X

Number of shares required to attend the General Shareholders' Meeting	1
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**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.”*

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:**

YES	NO
	<b>X</b>

**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;
- b) In the event of amendments of the By-Laws, to each article or group of articles that are substantially independent of one another.

*See section: E.8*

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.

*See section: E.4*

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.
- 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<sup>a</sup> They are governed by standard-form agreements applied on an across-the-board basis to a large number of clients;
- 2<sup>a</sup> They are conducted at prices or rates generally set by the party acting as supplier of the goods or services in question;
- 3<sup>a</sup> 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 few 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, B.1.3 and B.14*

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

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 section: 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 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.

*See section: 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.1.17*

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 section: B.1.2*

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.

*See sections: A.2, A3 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 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 and 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*

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 sections: A.3 and B.1.13*

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

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;
  - 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..
- c) 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:

- 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.

*See sections: B.2.1 and B.2.3*

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:

- 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.

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 section: B.2.3*

Complies

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.

b) Ensure compliance with the compensation policy of the Company.

*See sections: B.1.14 and B.2.3*

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.5

Type or relationship	Brief Description
Commercial	<p>(i) <b>Corporate services</b>, 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.</p> <p>(ii) <b>Financing and guarantees</b>, 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 guarantees given by the Company or companies within the Iberdrola Group in favor of third-party creditors of companies of the Iberdrola Renovables Group.</p> <p>(iii) <b>Sale of power and gas</b>, 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.</p> <p>(iv) <b>Engineering, consulting, construction and technical assistance</b>, 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.</p> <p>(v) <b>Research and development</b>, 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%.</p> <p>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.</p>
Contractual	<p>(i) <b>Delimitation of the scope of activity of the Company and IBERDROLA, S.A.</b> 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.</p> <p>(ii) <b>Regulation of business opportunities.</b> 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 IBERDROLA, 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.</p> <p>(iii) <b>Flow of information between the Company and Iberdrola, S.A.</b> 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</p> <p>(iv) <b>Operaciones Vinculadas:</b> 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.</p>



**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 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**

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 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	NO
X	

Name of the director	Type of relationship	Explanation
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.

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.

YES	NO
	X



# **CERTIFICATION**





**I, ANA BUITRAGO MONTORO, SECRETARY OF THE BOARD OF DIRECTORS OF "IBERDROLA RENOVABLES, S.A.," WITH REGISTERED OFFICE IN VALENCIA, AT CALLE MENORCA 19, PLANTA 13, TAX ID CODE [C.I.F.] A – 86028035,**

**HEREBY CERTIFY:**

That the Annual Financial Statements, the Management Report, the Proposed Allocation of Profits of IBERDROLA RENOVABLES, S.A., as well as the Annual Financial Statements and the Management Report of IBERDROLA RENOVABLES, S.A. and its controlled companies were submitted and approved by the Board of Directors of the Company at its meeting of February 24, 2009, the originals of which documents have been signed by all the members of the Board of Directors.

That the Audit Reports of both IBERDROLA RENOVABLES, S.A. and IBERDROLA RENOVABLES, S.A. and its controlled companies, have been issued without qualifications.

That the originals of all the documents mentioned above will be deposited with the Valencia Commercial Registry.

**In witness whereof, I issue this certificate in Valencia, on February 25, 2009.**

[Seal and signature of the General Secretary of Iberdrola Renovables, S.A.]



Prepared by: IBERDROLA RENOVABLES  
Design and Layout: GRUPO IBERDROLA  
Photography: IBERDROLA RENOVABLES  
Translations: Ernst & Young and Juriscribe







**IBERDROLA**  
**RENOVABLES**