

Valencia, 22 March 2011

To the National Securities Market Commission

Subject: Approval of the Common Merger Project by the Boards of Directors of Iberdrola Renovables, S.A. and Iberdrola, S.A.

Dear Sirs,

In relation to the proposal of the merger by absorption of Iberdrola Renovables, S.A. ("**Iberdrola Renovables**") by Iberdrola, S.A. ("**Iberdrola**"), communicated by virtue of the significant event of 8 March 2011 (registration number 139849), and in accordance with the provisions of article 82 of Act 24/1988 of 28 July on the Securities Market and relevant dispositions, it is hereby notified that today the Boards of Directors of Iberdrola and Iberdrola Renovables have agreed the drafting, approval and subscription of a common merger project, (the "**Common Merger Project**"), the essential terms of which are attached to this communication as an Annex.

In accordance with the rules regarding conflicts of interest which are included in the corporate governance system of Iberdrola Renovables, the members of the Board of Directors of Iberdrola Renovables, which were appointed as Proprietary Directors of Iberdrola, have not participated in the deliberation and have abstained from partaking in the voting on the resolution for the drafting, approval and subscription of the Common Merger Project.

It is also hereby notified that the text of the Common Merger Project agreed between Iberdrola and Iberdrola Renovables has taken into consideration the conclusions reached by the Merger Commission, with the assistance of its advisors. As notified in the above mentioned significant event, said Commission, composed of three independent directors, was created *ad hoc* by the Board of Directors of Iberdrola Renovables with the main function of performing analysis of the merger operation from the perspective of the corporate interest of Iberdrola Renovables.

In accordance with the Common Merger Project, the exchange ratio for the shares of the entities which participate in the merger will be 0.30275322 shares in Iberdrola each with a nominal value of seventy five euro cents (Eur 0.75) for each share in Iberdrola Renovables, each with a nominal value of fifty euro cents (Eur 0.50) in addition to, where appropriate, monetary compensation in

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the terms of article 25 of Act 3/2009 of 3 April on structural modifications to commercial companies (the “**Structural Modifications Act**”) for the purposes of meeting the so-called “peaks”.

The exchange ratio is determined by, among other issues, the resolution adopted today by the Board of Directors of Iberdrola Renovables, (likewise with the abstention of the Proprietary Directors), proposing to the General Shareholders’ Meeting of this company the distribution of an extraordinary dividend for a gross amount per share of one euro and twenty euro cents (Eur 1.20), in addition to the assumption on the part of Iberdrola of an irrevocable commitment to vote in favour of this proposal. This extraordinary dividend is independent from the ordinary dividend that the Board of Directors, in its meeting held on 21 February 2011, proposed for allocation to the ordinary General Shareholders’ Meeting.

The shares which, where appropriate, are issued and delivered by Iberdrola to account for the exchange, will grant the holders the right to have a share in the corporate profits of Iberdrola from the date on which they are issued or delivered, as appropriate, under the same terms as the other shares of Iberdrola in circulation as of said date (which will include having a share, among others and in accordance with the content of the Annex to this communication, in the distribution of an ordinary dividend and in the system for compensating shareholders called “Iberdrola Flexible Dividend” (“*Iberdrola Dividendo Flexible*”), both proposed to the General Shareholders’ Meeting of Iberdrola by its Board of Directors on 22 February 2011).

In accordance with the provisions of article 32 of the Structural Modifications Act and article 226 of the Commercial Registry Regulation, original copies of the Common Merger Project will be deposited in the Commercial Registries of Biscay and Valencia.

The appointment of a common independent expert will be requested from the Commercial Registry of Biscay for the issue of a single report on the Common Merger Project under the terms provided for in article 34 of the Structural Modifications Act and article 349 of the Commercial Registry Regulation.

Finally, it is hereby notified that it is provided that the Common Merger Project is submitted to the General Shareholders’ Meetings of both companies for their approval, the calls for which are expected to take place in April.

For relevant purposes the above is hereby communicated.

Sincerely,

The Secretary of the Board of Directors

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IMPORTANT INFORMATION

This announcement does not constitute an offer to purchase, sell or exchange or the solicitation of an offer to purchase, sell or exchange any securities. IBERDROLA RENOVABLES, S.A. shall not be offered or sold in the United States of America, unless an effective notice statement as provided in the Securities Act is made, or under a valid exemption from the notifying obligation.

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

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

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

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ANNEX - ESSENTIAL TERMS OF THE COMMON MERGER PLAN

- The exchange ratio is fixed at 0.30275322 shares of Iberdrola for each share of Iberdrola Renovables, with a complement, if applicable, of up to 10% of the face value in cash in order to meet the so-called “peaks”.
- In order to calculate the exchange ratio, (i) the capital increase and the sale of treasury shares which took place on March 14, 2011, (ii) the shares maintained as treasury shares by Iberdrola Renovables (which represent, on the date of the approval of the Common Merger Plan, approximately 0.386% of the share capital) and (iii) the following forecasts for payment of dividend and other forms of shareholder remuneration have been taken into account:

(a) On Iberdrola Renovables’ part:

- (i) Ordinary dividend: if the General Shareholders’ Meeting of Iberdrola Renovables approves the proposed resolution submitted by the Board of Directors of Iberdrola Renovables at its meeting held on February 21, 2011, Iberdrola Renovables will pay a dividend in cash with charge (respect) to the 2010 results in an amount equal to twenty five gross thousandths of euro (Eur 0.025) per share of Iberdrola Renovables entitled to receive it.

It is foreseen that the payment of such dividend will take place, approximately, as of June 21, 2011 and, in any case, before the merger between Iberdrola and Iberdrola Renovables is registered with the Mercantile Registry.

- (ii) Extraordinary dividend: if the General Shareholders’ Meeting of Iberdrola Renovables approves the proposed resolution submitted by the Board of Directors of Iberdrola Renovables at its meeting held on March 22, 2011, Iberdrola Renovables will pay a extraordinary dividend in cash in an amount equal to one euro and twenty cents of euro (Eur 1.20) per share of Iberdrola Renovables entitled to receive it.

The proposed resolution referred to in this paragraph (ii) is, additionally, subject to the proposed merger to be approved by the General Shareholders’ Meetings of both companies. If such proposal is approved by the General Shareholders’ Meeting of Iberdrola Renovables, the above referred payment of a extraordinary dividend (amounting to one euro and twenty cents of euro

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(Eur 1.20) per each share of Iberdrola Renovables) will be carried out, approximately, on June 21, 2011.

(b) On Iberdrola's part:

- (i) Ordinary dividend: the current shareholders of Iberdrola Renovables that become shareholders of Iberdrola as a consequence of the merger will be entitled to receive an ordinary dividend of three gross cents of euro (Eur 0.030) per share, with charge to the 2010 results, which was proposed for approval to the General Shareholders' Meeting of Iberdrola by its Board of Directors at its meeting held on February 22, 2011. Such distribution of dividend shall be carried out, if approved by the General Shareholders' Meeting of Iberdrola, once the merger becomes effective and its payment is expected to take place during the month of July 2011.
- (ii) Participation in the shareholders' remuneration system called "Iberdrola Dividendo Flexible": the current shareholders of Iberdrola Renovables that become shareholders of Iberdrola as a consequence of the merger will be entitled to benefit from each of the installments of the so-called scheme "Iberdrola Dividendo Flexible".

It is stated for the record that the Board of Directors of Iberdrola, at its meeting held on February 22, 2011, resolved to draft a proposal of resolution that will be raised to the General Shareholders' Meeting of Iberdrola consisting of a capital increase with a charge to reserves for the free-of-charge allocation of new shares among the shareholders of Iberdrola, within the context of the shareholders' remuneration system called "Iberdrola Dividendo Flexible".

This system will grant the shareholders of Iberdrola the option to receive the entirety or part of its remuneration in bonus shares of Iberdrola or in cash (in this latter case, by means of transferring their free-of-charge allocation rights onto the market or pursuant to the purchase commitment at a guaranteed fixed price undertaken by Iberdrola, in the event that such resolution proposal is eventually approved by the General Shareholders' Meeting of Iberdrola).

If the proposal relating to the system "Iberdrola Dividendo Flexible" is approved by the General Shareholders' Meeting of Iberdrola, the delivery of the new bonus shares or the perception of the cash amounts may take place in two installments of the share capital increase with a charge to reserves, which would take place when the traditional supplemental dividend

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payment for fiscal year 2010 and the interim dividend payment for fiscal year 2011 would otherwise have been made.

The market value of reference for the purposes of determining the total number of shares to be issued in the first implementation of the capital increase, which is in any event subject to the approval of the shareholders acting at the General Shareholders' Meeting, will be fixed by the Board of Directors later on at the time of approval of the appropriate resolution to be put to the vote of the General Shareholders' Meeting. This notwithstanding, in light of the current share capital of Iberdrola and the market conditions as of the date of this notice, the price of the commitment that Iberdrola would assume to acquire the free-of-charge allocation rights that the shareholders would receive in the first implementation of the capital increase is estimated to amount to a minimum gross figure of fifteen (0.150) euro cents per right. Please note that this amount is provided for information purposes only. The final fixed price of Iberdrola's commitment to purchase each free-of-charge allocation right would be duly communicated upon the first implementation of the paid-in capital increase. It is expected that the first implementation of the paid-in capital increase will take effect in late July 2011.

- Iberdrola will meet the referred exchange ratio through the delivery of shares held in treasury stock and, in the event that the amount of such shares is not enough to meet such exchange, by means of the delivery of newly-issued shares.
- Pursuant to Section 26 of the Structural Modifications Act (Ley de Modificaciones Estructurales), shares of Iberdrola Renovables owned by Iberdrola will not be redeemed in any case (representing 80% of the share capital on the date of the approval of the Common Merger Plan), nor shares held in treasury by Iberdrola Renovables (representing, on the date of the approval of the Common Merger Plan, approximately 0.386% of the share capital), which will be redeemed.
- Those shares that are issued or delivered by Iberdrola to meet the exchange ratio, will grant to its owners, from the date on which they are issued or delivered, as the case may be, the right to participate in the social profits of Iberdrola in the same terms as the rest of the shares of Iberdrola already trading as of such date.
- The merger will be subject to the special tax regime provided for in Chapter VIII of Title VII and Second Additional Provision of Spanish Corporate Income Tax Law (texto refundido de la Ley del Impuesto sobre Sociedades), as enacted by Legislative Royal Decree 4/2004 of 5 March. The merger will, therefore, be neutral from a tax point of view.
- The effective date for accounting purposes will be January 1, 2011.

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