Santiago Martínez Garrido
Secretary of the Board of Directors

Valencia, April 14, 2011

To the National Securities Market Commission

RE: Documentation relating to the merger by absorption between Iberdrola, S.A. and Iberdrola Renovables, S.A.

Dear Sirs,

In accordance with the provisions of section 82 of the Law 24/1988, of July 28, on the Securities Markets, Iberdrola Renovables, S.A. (hereinafter, "**Iberdrola Renovables**") hereby sends the documentation listed below in connection with the merger by absorption between Iberdrola, S.A. ("**Iberdrola**") (as absorbing company) and Iberdrola Renovables (as absorbed company):

(i) The common terms of merger agreed by the Boards of Directors of Iberdrola and Iberdrola Renovables and submitted for deposit with the Commercial Registries of Biscay and Valencia on March 25 and 29, 2011, respectively (Annex I).

(ii) The report issued by the Board of Directors of Iberdrola Renovables regarding the common terms of merger, approved and signed by the referred body on April 13, 2011, along with the report issued by KPMG Auditores, S.L., as sole independent expert appointed by the Commercial Registry of Biscay, regarding the common terms of merger and regarding the assets to be contributed by Iberdrola Renovables, which is attached to the referred report (Annex II).

(iii) Opinion of Credit Suisse Securities (Europe) Limited, as financial advisor of Iberdrola Renovables and its Merger Committee, concerning the fairness from a financial viewpoint of the consideration to be received by the shareholders of Iberdrola Renovables within the framework of the merger (Annex III).

(iv) Opinion of Merrill Lynch Capital Markets España, S.A., S.V., as financial advisor of Iberdrola Renovables and its Merger Committee, concerning the fairness from a financial viewpoint of the consideration to be received by the shareholders of Iberdrola Renovables within the framework of the merger (Annex IV).

Likewise, it is hereby recorded that, upon publication of the call to the General Shareholders' Meeting called to decide on the merger, Iberdrola Renovables will make available to the shareholders, bondholders and workers' representatives at the registered office all documentation required by section 39.1 of the Law 3/2009, of April 3, on structural changes to corporations.

Yours truly,

Secretary of the Board of Directors

IMPORTANT INFORMATION

This communication does not constitute an offer to purchase, sell or exchange or the solicitation of an offer to purchase, sell or exchange any securities. The shares of Iberdrola Renovables, S.A. may not be offered or sold in the United States of America except pursuant to an effective registration statement under the Securities Act or pursuant to a valid exemption from registration.

ANNEX I - COMMON TERMS OF MERGER

COMMON TERMS OF MERGER

between

IBERDROLA, S.A.

(as absorbing company)

and

IBERDROLA RENOVABLES, S.A.

(as absorbed company)

Madrid, March 22, 2011

For purposes of Sections 30 and 31, *et. seq.* of Section 32 of Law 3/2009, of April 3, on structural changes to corporations (hereinafter, the "**Structural Modifications Law**"), the undersigned, in their capacity as members of the Board of Directors of IBERDROLA, S.A. ("**Iberdrola**") and IBERDROLA RENOVABLES, S.A. ("**Iberdrola Renovables**"), respectively, proceed to formulate these common terms of merger (hereinafter, the "**Common Terms of Merger**"), which will be submitted for the approval of the shareholders acting at the General Shareholders' Meetings of Iberdrola and Iberdrola Renovables, pursuant to the provisions of Section 40 of the Structural Modifications Law.

The contents of these Common Terms of Merger are as follows.

1. INTRODUCTION

1.1 Rationale for the Merger

The reasons for the proposed merger by absorption are as follows:

(i) The renewable energy sector has changed significantly since the public offering for shares of Iberdrola Renovables (the "**IPO**").

The Merger will combine assets of two large companies and will allow Iberdrola to more directly engage in an activity intrinsic to its corporate purpose. In addition, Iberdrola's shareholder base will be strengthened by the inclusion of shareholders from Iberdrola Renovables.

(ii) At the same time, with the proposed integration of Iberdrola Renovables' shareholders into Iberdrola, Iberdrola Renovables' shareholders will benefit from Iberdrola's larger size, the liquidity of its securities, and the lower volatility of its shares.

This integration will reduce or eliminate the future risk of cannibalization of shareholders when both companies compete for equity from the same shareholders and investors. Finally, Iberdrola Renovables' shareholders will be able to benefit from Iberdrola's dividend policy, which currently involves a distribution of approximately 50% of the company's net profits by means of a shareholder compensation system that the company has put into place (dividend payments and the Iberdrola Flexible Dividend).

Without prejudice to the foregoing, it should be noted that the integration of the merging companies' shareholders will not deprive the current shareholders of Iberdrola Renovables from continuing to benefit from the activities that it is carrying out in the renewable energy sector, as this activity will continue to be carried out by Iberdrola, and are expected to have a significant weight in its results.

(iii) Furthermore, it should be kept in mind that at the time of the IPO, the development and operation of generation assets from renewable sources were activities with low visibility in the markets and a small number of competitors. In addition, the goals set upon agreeing to list Iberdrola Renovables at the end of 2007 have been met, or have changed in recent years due to the evolution of the markets and the renewables industry:

a. The IPO was carried out to emphasize the value of and give visibility to the Iberdrola group's renewable energy division. Currently, the renewable energy sector is well represented in the capital markets and is subject to appropriate recognition, following and analysis (e.g., Enel Green Power, Terna Energy and EDP Renováveis), thanks in part to the investor communication effort carried out by Iberdrola Renovables since the IPO.

b. At the time of the IPO, it was expected that there would be a possibility of future increases in the share capital of Iberdrola Renovables in order to finance organic growth. However, the current financial crisis has reduced the possibilities of obtaining outside funds, and the acquisition of equity is thus more feasible and efficient at a company of larger size and liquidity.

c. Brand recognition. The IPO was carried out in order to, among other reasons, give Iberdrola Renovables a position in the market that would Foster the international growth of the Iberdrola group. Today, the Iberdrola group as a whole is internationally valued and recognized as a leading producer of clean energy.

   Within the new context of the industry, both companies are now convinced that activities in the renewable energy sector can be more properly and effectively carried out with reliance upon the shareholders within Iberdrola Renovables and the other companies of the Iberdrola group that carry out similar and complementary activities in this industry. In addition, upon completion of the Merger, they can dedicate more operational and financial resources to this activity.

d. Facilitate the exploitation of opportunities for growth in new technologies (such as, for example, offshore wind and thermosolar technologies). Given their state of development, the exploitation and enhancement of the value of these new technologies require initial investments in significant amounts, which requires that the entity intending to exploit them have a significant volume of financial resources, the contribution of guarantees, and a large diversification of risk.

Over more than three (3) years of Iberdrola Renovables' existence as a listed company, this company has required both financial resources as well as operational support in order to undertake certain projects. These resources and support have been provided on numerous occasions by Iberdrola under the Framework Agreement signed by both entities on November 5, 2007.

If the Merger is carried out with the reintegration of Iberdrola Renovables into Iberdrola, such support would not be required, as the projects previously developed by Iberdrola Renovables will now be carried out by a larger and stronger company. In turn, its larger size and strength will allow Iberdrola to undertake projects that Iberdrola Renovables would previously have found difficult to carry out itself, due to its balance sheet, financial and human resource limitations.

(iv) It would also be appropriate to keep in mind that the proposed Merger entails synergies in their administration, allowing for simplification thereof,

eliminating duplicative organizational work, reducing management costs and, among other things, centralizing within Iberdrola the obligations to provide information to the market and to third parties). It is expected that this group of measures will translate into cost savings of approximately 20 million euros per year beginning in 2012.

(v) Upon implementation of the Merger, and assuming that the exchange ratio is paid for in whole or in part by newly-issued shares of Iberdrola, the integration of the shareholder base of Iberdrola and Iberdrola Renovables will entail a higher number of Iberdrola shares trading on the stock markets (i.e., larger size and depth of the free float). It can reasonably be expected that this circumstance will reduce the volatility of Iberdrola's securities and increase its liquidity.

(vi) If the proposed transaction is completed, the capital markets can be accessed for outside funds from a corporate platform with greater weight and a stronger capacity for dialogue with financial players than is currently represented by Iberdrola Renovables.

1.2 Structure of the Transaction

The legal structure chosen to integrate the businesses of Iberdrola and Iberdrola Renovables is a merger upon the terms of Sections 22 *et. seq.* of the Structural Modifications Law.

Specifically, the planned merger will be implemented through the absorption of Iberdrola Renovables (absorbed company) by Iberdrola (absorbing company), with the termination of the former by dissolution without liquidation and the *en bloc* transfer of all of its assets to the latter, which shall acquire by universal succession all of the rights and obligations of Iberdrola Renovables. As a result of the Merger, the shareholders of Iberdrola Renovables other than Iberdrola shall receive shares of Iberdrola in exchange, as well as cash compensation, if applicable, upon the terms of Section 25 of the Structural Modifications Law in order to pay for "odd-lots."

2. IDENTIFICATION OF THE ENTITIES PARTICIPATING IN THE MERGER

2.1 Iberdrola (absorbing company)

Iberdrola, with a registered office in Bilbao, at calle del Cardenal Gardoqui, número 8, was incorporated for an indefinite period of time and under the name "HIDROELÉCTRICA IBÉRICA, S.A." via a public instrument executed on July 19, 1901 before the Bilbao Notary Public Mr. Isidro de Erquiaga y Barberías; it conformed its By-Laws to the Companies Law of 1951 via an instrument verified by the Bilbao Notary Public Mr. Gregorio de Altube e Izaga, Notario de Bilbao on April 28, 1953; it changed its name to "IBERDUERO, S.A." and conformed its by-laws to the Companies Law of 1989 via an instrument verified by the Bilbao Notary Public Mr. José Antonio Isusi Ezcurdia, as a substitute and for recording in the notarial book of records of his colleague Mr. José María Arriola Arana on July 6, 1990 and recorded under number 2,479; and finally, it has its current name by virtue of a merger by absorption, verified by the above-referenced Bilbao

Notary Public, Mr. José María Arriola Arana, on December 12, 1992 and recorded in his notarial book of records under number 4,150.

Iberdrola is registered with the Commercial Registry of Biscay in Volume BI-233, folio 156, sheet number BI-167A, entry 923, and bears Tax Identification Number A-48.010.615.

It is also registered with the Administrative Registry of Qualified Distributors, Vendors and Consumers of the Ministry of Economy, established in Law 54.1997, on the electricity industry, in Section 2 corresponding to Qualified Vendors under identification number R2-002.

The share capital of Iberdrola is the amount of FOUR BILLION THREE HUNDRED SIXTY-SIX MILLION SIX HUNDRED FORTY-SEVEN THOUSAND (4,366,647,000) Euros and is made up of FIVE BILLION EIGHT HUNDRED TWENTY-TWO MILLION ONE HUNDRED NINETY-SIX THOUSAND (5,822,196,000) ordinary shares, each having a par value of SEVENTY-FIVE (€0.75) EURO CENTS, numbered consecutively from ONE (1) to FIVE BILLION EIGHT HUNDRED TWENTY-TWO MILLION ONE HUNDRED NINETY-SIX THOUSAND (5,822,196,000), both inclusive, fully subscribed and paid-up, all belonging to a single class and series.

The shares into which the share capital of Iberdrola is divided are represented by book-entries and are admitted to trading on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges through the Automated Quotation System (*Sistema de Interconexión Bursátil*) (Electronic Market).

The book-entry system is handled by SOCIEDAD DE GESTIÓN DE LOS SISTEMAS DE REGISTRO, COMPENSACIÓN Y LIQUIDACIÓN DE VALORES, S.A. UNIPERSONAL (IBERCLEAR) ("**Iberclear**").

2.2 Iberdrola Renovables (absorbed company)

Iberdrola Renovables, with a registered office in Valencia, at calle Menorca, número 19, planta 13ª, was incorporated for an indefinite period of time via a public instrument dated July 9, 2001 verified by the Madrid Notary Public Mr. Miguel Ruiz-Gallardón García de la Rasilla and recorded in his book of notarial records under number 4,690; its name was changed to the current name by virtue of an instrument verified by the Madrid Notary Public Mr. Miguel Ruiz-Gallardón García de la Rasilla on June 30, 2008 and recorded in his notarial book of records under number 4,137. It is registered with the Commercial Registry of Valencia at Volume 8,919, Book 6,205, Folio 119, Sheet V-130.102, Entry 2.

Iberdrola Renovables is registered with the Commercial Registry of Valencia at Volume 8,919, book 6,205, folio 119, sheet number V-130.102, and bears Tax Identification Number A-83.028.035.

The share capital of Iberdrola Renovables is the amount of TWO BILLION ONE HUNDRED TWELVE MILLION THIRTY-TWO THOUSAND FOUR HUNDRED FIFTY (2,112,032,450.00) Euros made up of FOUR BILLION TWO HUNDRED TWENTY-TWO MILLION SIXTY-FOUR THOUSAND NINE HUNDRED (4,224,064,900) ordinary shares with a par value of FIFTY (€0.50)

EURO CENTS each, consecutively numbered from the number ONE (1) to FOUR BILLION TWO HUNDRED TWENTY-FOUR MILLION SIXTY-FOUR THOUSAND NINE HUNDRED, both inclusive, fully subscribed and paid-up, and all belonging to a single class and series.

The shares into which the share capital of Iberdrola Renovables is divided are represented by book-entries and accepted for trading on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges through the Automated Quotation System (*Sistema de Interconexión Bursátil*) (Electronic Market).

The book-entry system is handled by Iberclear.

As of the date of these Common Terms of Merger, the only significant shareholder of Iberdrola Renovables is Iberdrola, the holder of 80% of its share capital.

3. SHARE EXCHANGE RATIO

The exchange ratio for the shares of the entities participating in the merger, which has been determined based on the actual value of the corporate assets of Iberdrola and Iberdrola Renovables, and will be 0.30275322 shares of Iberdrola, each having a par value of SEVENTY-FIVE (€0.75) EURO CENTS per share, for each share of Iberdrola Renovables, each having a par value of FIFTY (€0.50) EURO CENTS, as well as, if applicable, cash compensation upon the terms of Section 25 of the Structural Modifications Law in order to pay for "odd-lots."

This exchange ratio has been agreed to and calculated based on the methodologies explained and for which a rationale will be provided in a report that the Board of Directors of both companies will issue pursuant to the provisions of Section 33 of the Structural Modifications Law. The following has been taken into consideration for such purposes: (i) the dividends that both companies plan to distribute and the other forms of shareholder compensation referred to in Section 8 below, (ii) the capital increase and sale of treasury stock that took place at Iberdrola on March 14, 2011, and (iii) the treasury shares held by Iberdrola Renovables (representing approximately 0.386% of its share capital as of the date of approval of these Common Terms of Merger).

In any event, HSBC BANK PLC and CITIGROUP GLOBAL MARKETS LIMITED, SUCURSAL EN ESPAÑA, as financial advisors of Iberdrola for this transaction, have expressed to the company's Board of Directors their respective opinions (fairness opinions) that the agreed exchange rate is fair for Iberdrola from a financial viewpoint.

For Iberdrola Renovables, CREDIT SUISSE SECURITIES (EUROPE) LIMITED and MERRILL LYNCH CAPITAL MARKETS ESPAÑA, S.A., S.V., as financial advisors of this company, have expressed to its Board of Directors their respective opinions (fairness opinions) regarding the consideration to be received by the shareholders of Iberdrola Renovables other than its majority shareholder (i.e., Iberdrola) within the framework of the merger, which would include the agreed exchange rate. Pursuant to such opinions, the consideration to be received is fair from a financial viewpoint for the shareholders of Iberdrola Renovables other than Iberdrola.

It is stated for the record that the proposed exchange rate will be submitted for verification by the independent expert appointed by the Commercial Registry of Biscay

(corresponding to the registered office of Iberdrola) for purposes of Section 34 of the Structural Modifications Law.

4. MERGER BALANCE SHEETS, ANNUAL FINANCIAL STATEMENTS AND ASSETS AND LIABILITIES OF IBERDROLA RENOVABLES TO BE TRANSFERRED

4.1. Merger Balance Sheets

For purposes of the provisions of Section 36.1 of the Structural Modifications Law, the balance sheets of Iberdrola and Iberdrola Renovables as of December 31, 2010 shall be deemed to be the merger balance sheets. Furthermore, there has been no occurrence of any of the circumstances set forth in Section 36.2 of the Structural Modifications Law that would require the modification of valuations contained in such balance sheets of Iberdrola and Iberdrola Renovables.

Such balance sheets have been formulated by the respective Board of Directors on February 22, 2011 (in the case of Iberdrola) and February 21, 2011 (in the case of Iberdrola Renovables), duly verified by the auditors of both companies, and will be submitted for the approval of the shareholders at the General Shareholders' Meetings of each of the companies that must decide on the Merger prior to the adoption of the merger resolution.

4.2. Annual Financial Statements

In addition, it is stated for the record, for purposes of the provisions of Section 31.10 of the Structural Modifications Law, that the terms upon which the merger will be carried out have been determined taking into consideration the annual financial statements of the merging companies for the fiscal year ended on December 31, 2010, as the fiscal years of the merging companies coincide with the calendar year.

Such annual financial statements as well as the merger balance sheets referred to in Section 4.1, together with the other documents mentioned in Section 39 of the Structural Modifications Law, will be made available to the shareholders, bondholders and special rights holders, as well as the workers' representatives of Iberdrola and Iberdrola Renovables, for examination at the registered office at the time of publication, respectively, of the call to the General Shareholders' Meeting that is to decide on the merger.

4.3. Valuation of Assets and Liabilities of Iberdrola Renovables to be Transferred

Pursuant to the merger by absorption of Iberdrola Renovables by Iberdrola, such company shall dissolve without liquidation and all of its assets and liabilities will be transferred *en bloc* to the assets of Iberdrola.

It should also be pointed out that, as of the date of preparation and signing of these Common Terms of Merger, Iberdrola Renovables is immersed in a process of implementing a new corporate and governance structure for its group of subsidiaries, which includes the creation of one or more subholding companies that will assume the effective management and direction of the renewable energy businesses in Spain and the rest of the world, which is currently expected to be completed prior to the registration of the merger with the Commercial Registry.

For purposes of the provisions of Section 31.9 of the Structural Modifications Law, it is stated for the record that, once the transaction is carried out, the assets

and liabilities transferred by Iberdrola Renovables to Iberdrola will be recorded by Iberdrola in the amount corresponding thereto in the group's consolidated annual financial statements as of the effective date of the merger for accounting purposes, i.e., January 1, 2011.

At January 1, 2011, the main categories of assets and liabilities of Iberdrola Renovables, as well as the value thereof pursuant to the standard set forth in the preceding paragraph, were the following:

4.3.1. Assets to transfer (thousand of euros)

	Net book value
NON-CURRENT ASSETS	**12,301,611**
Intangible assets	9,162
Property, plant and equipment	81,758
Investments in group companies and associates	12,185,860
Non-current financial investments	9,517
Deferred tax assets	15,314
Long-term trade receivables	**12,301,611**
CURRENT ASSETS	**5,002,182**
Inventories	574,796
Trade and other receivables	630,297
Investments in group companies and associates	3,745,698
Current financial investments	50,905
Accruals	486
Cash and cash equivalents	-
TOTAL ASSETS TO TRANSFER	**17,303,793**

4.3.2. Liabilities to assume (thousands of euros)

	Net book value
NON-CURRENT LIABILITIES	**4,783,148**
Provisions	10,845
Borrowings	1,947
Borrowings from group companies and associates	4,599,978
Deferred tax liabilities	170,378
CURRENT LIABILITIES	**1,149,256**
Borrowings	48,924
Payables to group companies and associates	658,889
Trade and other payables	440,572
Accruals	871
TOTAL LIABILITIES TO ASSUME	**5,932,404**

4.3.3. Net value of assets and liabilities to transfer (thousands of euros)

	Net book value
NET VALUE OF ASSETS AND LIABILITIES TO TRANSFER	**11,371,389**

5. METHODS FOR COVERING THE EXCHANGE RATIO BY IBERDROLA

Iberdrola will cover the exchange of Iberdrola Renovables shares set pursuant to the exchange ratio provided in Section 3 of these Common Terms of Merger with treasury or newly-issued shares or a combination of both.

It is stated for the record in this regard that on March 11, 2011, Iberdrola's Board of Directors resolved to carry out a share buyback program pursuant to the authorization granted by the shareholders of such company at the General Shareholders' Meeting held on March 26, 2010 and pursuant to the provisions of Commission Regulation (EC) No. 2273/2003 of December 22, 2003 (the "**Buyback Program**"). The resolution adopted by Iberdrola's Board of Directors was amended regarding the number of shares referred to therein by virtue of another resolution adopted on March 22, 2011.

The share Buyback Program will be carried out on the following terms:

(i) In the implementation of the Buyback Program, Iberdrola may acquire up to a maximum of TWO HUNDRED FIFTY MILLION NINE HUNDRED THOUSAND (250,900,000) shares representing up to 4.30937% of its share capital prior to the merger.

(ii) The shares will be purchased at market price pursuant to the price and volume conditions set forth in Article 5 of Commission Regulation (EC) No. 2273/2003 of December 22, 2003.

(iii) The Buyback Program will remain in effect until the occurrence of the exchange, which is expected to take place no later than July 31, 2011.

Notwithstanding the foregoing, Iberdrola reserves the right to end the Buyback Program in the event that Iberdrola acquires the shares needed to cover the exchange or decides to increase capital for such purpose prior to the stated end of the effective period thereof.

In the event that Iberdrola covers the exchange ratio in whole or in part with newly-issued shares, it will increase its share capital in the amount required by means of the issuance of new shares with a par value of SEVENTY-FIVE (€0.75) EURO CENTS each, belonging to the same and only class as the current shares of Iberdrola, and represented by book-entries.

Notwithstanding the foregoing, it is stated for the record that, by application of Section 26 of the Structural Modifications Law, there will be no exchange of either the shares of Iberdrola Renovables currently held by Iberdrola (representing 80% of the share capital) or the treasury shares of Iberdrola Renovables (representing approximately 0.386% of the share capital as of the date of approval of these Common Terms of Merger), which will be cancelled.

If such capital increase is implemented to cover the exchange ratio in whole or in part, the maximum amount of the capital increase to be carried out may be reduced by the delivery of supplemental cash compensation upon the terms of Section 25 of the Structural Modifications Law in order to cover "odd-lots."

the difference between the net book value of the assets received by Iberdrola under the Merger and the par value of the new shares issued by Iberdrola, as may be adjusted by

the proportion that the new shares represent of the total shares delivered in the exchange, will be considered to be the share premium

In addition, if the capital increase described in this section is implemented, the difference between the net book value of the assets received by Iberdrola under the merger described in these Common Terms of Merger and the par value of the new shares issued by Iberdrola, as may be adjusted by the proportion that the new shares represent of the total shares delivered in the exchange, will be considered to be the share premium.

Both the par value of such shares as well as the corresponding share premium will be entirely paid-up as a result of the transfer *en bloc* of the assets of Iberdrola Renovables to Iberdrola, which will acquire all of the rights and obligations of such company by universal succession.

It is hereby stated for the record that, pursuant to the provisions of Section 304.2 of the Restated Text of the Companies Law, approved by the sole section of Royal Legislative Decree 1/2010, of July 2 (the "**Companies Law**"), if the capital increase referred to herein takes place, the current shareholders of Iberdrola will not have any pre-emptive right to subscribe the new shares issued in relation to the absorption of Iberdrola Renovables.

6. SHARE EXCHANGE PROCEDURE

The procedure for exchanging the shares of Iberdrola Renovables for shares of Iberdrola will be as follows:

(a) Upon approval of the merger by the shareholders acting at the General Shareholders' Meetings of both companies, submission of the documentation referred to in 26.1 d), 40.1 d) and similar sections of Royal Decree 1310/2005, of November 4, to the NATIONAL SECURITIES MARKET COMMISSION (*COMISIÓN NACIONAL DEL MERCADO DE VALORES*) (hereinafter, the "**CNMV**"), and the registration of the Merger instrument with the Commercial Registry of Biscay (after qualification by the Commercial Registry of Valencia with a statement –by means of a note signed by the relevant Registrar– of the non-existence of any obstacles to registration of the planned Merger), the exchange of Iberdrola Renovables shares for Iberdrola shares will proceed.

(b) The exchange will take place as from the date indicated in the announcements to be published in widely-circulated newspapers in the provinces of Biscay and Valencia, respectively, in the Official Gazettes (*Boletines Oficiales*) of the Spanish stock exchanges and in the Official Gazette of the Commercial Registry. The financial institution indicated in such announcements will be appointed to act as agent for such purposes.

(c) The exchange of Iberdrola Renovables shares for Iberdrola shares will be implemented through the institutions participating in Iberclear acting as depositaries thereof pursuant to the provisions set forth in the book-entry system in accordance with the provisions of Royal Decree 116/1992, of February 14, and with the application of the provisions of Section 117 of the Companies Law to the extent applicable.

(d) Shareholders holding shares representing a fraction of the number of shares of Iberdrola Renovables set as the exchange ratio may acquire or transfer shares in order to exchange them in accordance with such exchange ratio. Without prejudice thereto, the companies participating in the merger will establish mechanisms, including the appointment of an "odd-lot agent," to facilitate the exchange for those shareholders of Iberdrola Renovables holding a number of shares that does not allow them to receive a whole number of Iberdrola shares under the agreed exchange ratio.

(e) The shares of Iberdrola Renovables will be cancelled as a result of the Merger.

Finally, it is stated for the record that as of the date of these Common Terms of Merger, Iberdrola is the holder of THREE BILLION THREE HUNDRED SEVENTY-NINE MILLION TWO HUNDRED FIFTY-ONE THOUSAND NINE HUNDRED TWENTY (3,379,251,920) shares of Iberdrola Renovables, representing 80% of the share capital thereof, and that, for its part, Iberdrola Renovables is the holder SIXTEEN MILLION THREE HUNDRED ONE THOUSAND ONE HUNDRED SEVENTY-EIGHT (16,301,178) shares held as of the date of this Report as treasury shares, representing approximately 0.386% of its share capital. Pursuant to the provisions of Section 26 of the Structure Modifications Law and legal provisions regarding treasury shares, none of such shares will be exchanged for shares of Iberdrola.

7. DATE AS FROM WHICH THE SHARES TO BE DELIVERED IN EXCHANGE WILL GIVE THE RIGHT TO PARTICIPATE IN THE PROFITS OF IBERDROLA

As from the date of issuance or delivery thereof, the Iberdrola shares issued within the context of the above-referenced capital increase or delivered to cover the exchange, all upon the terms set forth in Section 5 above, will give the holders thereof the right to participate in Iberdrola's profits upon the same terms as the other Iberdrola shares outstanding on such date.

For purposes of clarification, it is stated for the record that such shares will have the right to receive the dividend that Iberdrola plans to distribute upon the effectiveness of the merger and that, by way of guidance, is expected to become effective during the month of July 2011, with a charge to the profits from the fiscal year ended December 31, 2010. Such shares will also benefit from the implementation of the "Iberdrola Flexible Dividend" system referred to below.

8. DIVIDENDS AND OTHER SHAREHOLDER COMPENSATION SYSTEMS

8.1. Dividends to Distribute by the Merging Companies

The Boards of Directors of Iberdrola and Iberdrola Renovables, respectively, have taken into account the following provisions for the payment of dividends in the preparation of these Common Terms of Merger and the determination of the exchange rate indicated in Section 3 above:

(a) If the proposed resolution formulated by the Board of Directors at its meeting of February 22, 2011 is approved by the shareholders at Iberdrola's General Shareholders' Meeting, Iberdrola will distribute a dividend upon effectiveness of the merger that is expected to be paid during the month of

July 2011 with a charge to the results from fiscal year 2010, in the gross amount of three (€0.03 euro cents) per share with the right to receive it, from which will be deducted applicable withholding at the time of payment of such amount.

Pursuant to the provisions of Section 7 above, the current shareholders of Iberdrola Renovables who become shareholders of Iberdrola as a result of the merger will be entitled to this dividend.

(b) Iberdrola Renovables plans to make the following distributions:

(i) If the proposed resolution formulated by its Board of Directors at its meeting of February 21, 2011 is approved by the shareholders at the General Shareholders' Meeting of Iberdrola Renovables, Iberdrola Renovables will distribute a cash dividend with a charge to the results of fiscal year 2010 in the gross amount of two point five (€0.025) euro cents per share with the right to receive it.

By way of guidance, it is expected that this dividend will be paid on June 21, 2011, and in any event prior to registration of the merger between Iberdrola and Iberdrola Renovables with the Commercial Registry.

(ii) If the proposed resolution formulated by the Board of Directors at its meeting of March 22, 2011 is approved by the shareholders at the General Shareholders' Meeting of Iberdrola Renovables, Iberdrola Renovables will make a special distribution of a cash dividend in the gross amount of one point twenty (€1.20) euro per share with the right to receive it.

The resolution covered by the proposal referred to in this section is also subject to the planned merger being approved by the shareholders at the General Shareholders' Meetings of both companies. If this proposal is approved by the shareholders at the General Shareholders' Meeting of Iberdrola Renovables, the payment of the above-referenced special dividend (in the gross amount of one point twenty (€1.20) euro per share of Iberdrola Renovables) will be made, by way of guidance, on June 21, 2011.

8.2. <u>Other Forms of Compensation for Iberdrola Shareholders</u>

It is hereby stated for the record that Iberdrola's Board of Directors, at its meeting of February 22, 2011, resolved to formulate a proposed resolution to be submitted to the shareholders at Iberdrola's General Shareholders' Meeting consisting of an increase in unrestricted capital for the free-of-charge allocation of new shares to the shareholders of Iberdrola within the framework of the shareholder compensation system referred to as the "Iberdrola Flexible Dividend."

This system will allow Iberdrola's shareholders to choose to receive all or a part of their compensation in unrestricted shares of Iberdrola or in cash (in the latter case, through the sale of the free-of-charge allocation rights to which they are entitled on the market or pursuant to a fixed-price purchase commitment to be

assumed by Iberdrola in the event that the proposed resolution is ultimately approved at the General Shareholders' Meeting).

If the proposal regarding the "Iberdrola Flexible Dividend" system is approved by the shareholders at the General Shareholders' Meeting of Iberdrola, the delivery of new unrestricted shares or the receipt of cash amounts could occur in two implementations of the increase in unrestricted capital, which would take place on dates close to those on which the supplemental dividend for fiscal year 2010 and the interim dividend for fiscal year 2011 are traditionally paid.

The reference market value determining the total number of shares to be issued on the first installment of the capital increase, which in any case is subject to the approval of Iberdrola's shareholders, will be determined by Iberdrola's Board of Directors at the time of approval of the relevant proposed resolution. However, taking into account the current share capital of Iberdrola and the market conditions as of the date of these Common Terms of Merger, it is expected that the price of the purchase commitment that would be assumed by Iberdrola with respect to the free-of-charge allocation rights to be received by Iberdrola's shareholders in the first implementation of the capital increase would be the gross amount of at least fifteen (€0.15) euro cents per right. Keep in mind that this amount is provided merely for guidance purposes. The definitive amount of the fixed price of the commitment to be assumed by Iberdrola with respect to the free-of-charge allocation rights will be timely communicated on occasion of the first implementation of the increase in unrestricted capital.

Pursuant to the provisions of Section 7 above, the current shareholders of Iberdrola Renovables becoming shareholders of Iberdrola as a result of the merger will benefit from implementations of the "Iberdrola Flexible Dividend" system, as they will take place after the merger.

9. DATE OF ACCOUNTING EFFECTS OF THE MERGER

January 1, 2011 is established as the date from which the transactions of Iberdrola Renovables shall be deemed for accounting purposes to have taken place on behalf of Iberdrola.

For the appropriate purposes, it is hereby stated for the record that the retroactive effect thus determined for accounting purposes in accordance with the General Chart of Accounts (*Plan General de Contabilidad*), approved by Royal Decree 1514/2007, of November 16.

10. ANCILLARY OBLIGATIONS AND SPECIAL RIGHTS

There are no ancillary obligations, special shares or other special rights other than the shares at Iberdrola Renovables.

Iberdrola shares delivered to the shareholders of Iberdrola Renovables under the merger contemplated in these Common Terms of Merger will not give the holders thereof any special rights.

11. BENEFITS EXTENDED TO DIRECTORS OR INDEPENDENT EXPERTS

No benefits of any type will be extended to the directors of either of the entities participating in the merger or to the independent expert participating in the merger process.

12. TAX REGIME

The planned merger is subject to the special tax regime established in Chapter VIII of Title VII and the second additional provision of the Restated Text of the Corporate Income Tax Law approved by Royal Legislative Decree 4/2004, of March 5.

For such purpose, and pursuant to the provisions of Section 96 of such Restated Text, notice of the the merger will be given to the Ministry of the Economy and Treasury in the form and within the deadline established in the relevant regulations.

13. BY-LAW AMENDMENTS

Upon completion of the merger covered by these Common Terms of Merger, Iberdrola, as absorbing company, will continue to be governed by its By-Laws as in effect on the date hereof on its corporate website, www.iberdrola.com (a copy of which are attached to these Common Terms of Merger as an Annex for purposes of the provisions of Section 31.8 of the Structural Modifications Law).

In turn, it is stated for the record that that Article 5 of the By-Laws of Iberdrola, regarding share capital, will be amended by the amount that Iberdrola believes is needed to cover the exchange for Iberdrola Renovables' shares pursuant to the exchange ratio established in Section 3 of these Common Terms of Merger with treasury shares (as a result of the Buyback Program), newly-issued shares or a combination of both. For such purpose, Iberdrola's Board of Directors will if appropriate submit the relevant proposal for amendment of the By-Laws to the shareholders at the General Shareholders' Meeting of Iberdrola at which the merger is approved, without prejudice to other proposed by-law amendments based on the ongoing review and updating of the corporate governance system, all upon the terms of the current Companies Law.

14. IMPACTS OF THE MERGER ON EMPLOYEMENT, IMPACT ON GENDER WITHIN THE MANAGEMENT BODIES, AND IMPACT ON CORPORATE SOCIAL RESPONSIBILITY

For purposes of the provisions of Section 31.11 of the Structural Modifications Law, included below are the considerations taken into account by the Boards of Directors of Iberdrola and Iberdrola Renovables in order to state that the merger covered by these Common Terms of Merger will not have any impact on employment, gender within the management bodies, or corporate social responsibility of the absorbing company (i.e., Iberdrola.

14.1. Possible Impacts of the Merger with Respect to Employment

If the merger covered by these Common Terms of Merger comes to fruition, Iberdrola, in its capacity as absorbing company, will be responsible for all of the human and material resources currently held by Iberdrola Renovables, well as the policies and procedures that it has been observing regarding personnel management. Therefore, and pursuant to the provisions of Article 44 of the Workers' Statute (*Estatuto de los Trabajadores*), which governs business

successions, Iberdrola will subrogate to the labor rights and obligations of the employees of Iberdrola Renovables.

At the same time, it is stated for the record that the companies participating in the merger will comply with their obligations to provide information and, if applicable, to consult with the legal representatives of the workers of each of them in accordance with the provisions of labor regulations. Notice of the planned merger will also be given to public entities where appropriate, and in particular to the General Social Security Revenue Office (*Tesorería General de la Seguridad Social*).

14.2. Possible Impact on Gender within Management Bodies

It is not expected that the merger will produce especially significant changes in the structure of the absorbing company's management body from the viewpoint of their distribution by gender. Likewise, the merger will not change the policy governing these issues at Iberdrola.

14.3. Impact of the Merger on the Company's Social Responsibility

Pursuant to Iberdrola's Corporate Governance System (and particularly Iberdrola's Regulations of the Board of Directors and Regulations of the Corporate Social Responsibility Committee), all those functions relating to Iberdrola's Corporate Social Responsibility, and specifically those consisting of *"[p]eriodically review[ing] the Social Responsibility System, focusing especially on Corporate Governance and Compliance Policies and propos[ing] to the Board of Directors, for approval or submission to the shareholders at a General Shareholders' Meeting, such amendments and updates as contribute to its development and ongoing improvement*" as well as "*[s]upervis[ing] compliance with statutory requirements and with the regulations of the Company's Corporate Governance System*" correspond to the Corporate Social Responsibility Committee.

In turn, it should be noted that Iberdrola Renovables' status as a company in which Iberdrola holds an 80% interest entails that its internal regulations regarding corporate social responsibility contain principles similar in essence to those of Iberdrola.

In view of the foregoing, it should not be expected that Iberdrola's corporate social responsibility policies will change as a result of the merger covered by these Common Terms of Merger.

15. APPOINTMENT OF INDEPENDENT EXPERT

Pursuant to the provisions of Section 34.1 of the Structural Modifications Law, the Boards of Directors of the participating companies will ask the Commercial Registry of Biscay (where the absorbing company is registered) to appoint a single independent expert to prepare a report regarding these Common Terms of Merger and regarding the assets contributed by Iberdrola Renovables to Iberdrola as a result of the Merger.

16. MERGER COMMITTEE OF IBERDROLA RENOVABLES

It is stated for the record that these Common Terms of Merger are the result of a process of analysis and decision-making carried out by the management bodies of both Iberdrola

and Iberdrola Renovables. As regards the latter company, such analysis has been entrusted to an ad hoc informational and consultative committee within the Board of Directors without executive duties but having informational, advisory and proposal-making powers for the sole purposes of the merger by absorption of Iberdrola Renovables by Iberdrola.

Such committee (the creation of which was the subject of a notice of significant event sent to the CNMV on March 8, 2011 (registration number 139,849)) is made up of three (3) independent Directors and is called the "Merger Committee."

17. GOVERNMENT APPROVALS

The effectiveness of the planned merger, and thus its registration with the commercial registries, is subject to acquisition of the approvals that might be required in Spain and in other jurisdictions in which both companies are present.

Compliance with this term shall be verified by the appropriate verification resolution of the Boards of Directors of Iberdrola and Iberdrola Renovables.

18. COMPLIANCE WITH THE PUBLICATION AND INFORMATION OBLIGATIONS OF THE BOARDS OF DIRECTORS OF IBERDROLA AND IBERDROLA RENOVABLES WITH RESPECT TO THE COMMON TERMS OF MERGER

In compliance with the provisions of Section 32 of the Structural Modifications Law, these Common Terms of Merger will be submitted by the Boards of Directors of Iberdrola and Iberdrola Renovables for deposit with the Commercial Registries of Biscay and Valencia, respectively.

In addition, pursuant to the provisions of Section 33 of the Structural Modifications Law, the Boards of Directors of Iberdrola and Iberdrola Renovables will prepare respective reports providing a detailed explanation and rationale regarding the legal and financial aspects of the Common Terms of Merger, with special reference to the share exchange rate, any particular valuation difficulties, and the impact of the Merger on shareholders, creditors and employees.

This report, together with the other documents referred to in Section 39 of the Structural Modifications Law, will be made available to the shareholders, bondholders and special rights holders, as well as the worker representatives, of Iberdrola and Iberdrola Renovables, for examination at the corresponding registered office at the time of the respective publication of the call to the General Shareholders' Meeting at which the merger will be decided.

Pursuant to the provisions of Section 30 of the Structural Modifications Law, the directors of Iberdrola and Iberdrola Renovables whose names appear below sign and approve three (3) counterparts of these Common Terms of Merger, all identical in text and presentation, which have been approved by the Boards of Directors of Iberdrola and of Iberdrola Renovables at their respective meetings held on March 22, 2011.

.

BOARD OF DIRECTORS OF IBERDROLA, S.A.

Mr. José Ignacio Sánchez Galán
Chairman & CEO

Mr. Víctor de Urrutia Vallejo
Vice-Chairman

Mr. Ricardo Álvarez Isasi
Member

Mr. José Ignacio Berroeta Echevarría
Member

Mr. Julio de Miguel Aynat
Member

[No signature appears as not physically present at the meeting of the Board of Directors]

Mr. Sebastián Battaner Arias
Member

Mr. Xabier de Irala Estévez
Member

Mr. Iñigo Víctor de Oriol Ibarra
Member

Ms. Inés Macho Stadler
Member

Mr. Braulio Medel Cámara
Member

Mr. José Luis Olivas Martínez
Member

Ms. Samantha Barber
Member

Ms. María Helena Antolín Raybaud
Member

Mr. Santiago Martínez Lage
Member

Pursuant to Section 30 of the Structural Modifications Law, it is expressly stated for the record that the Director Mr. Xabier de Irala Estévez was not physically present at the meeting of the Board of Directors of Iberdrola at which these Common Terms of Merger were approved, and that he was represented by the Chairman & Chief Executive Officer, who, on his behalf and following his instructions, voted in favor of approving these Common Terms of Merger.

It is for this reason that his signature does not appear in this document.

BOARD OF DIRECTORS OF IBERDROLA RENOVABLES, S.A.

[Abstains from signing due to a conflict of interest]

Mr. José Ignacio Sánchez Galán
Chairman

[Abstains from signing due to a conflict of interest]

Mr. Javier Sánchez-Ramade Moreno
Vice-Chairman

Mr. Xabier Viteri Solaun
Chief Executive Officer

Mr. Manuel Amigo Mateos
Member

[Abstains from signing due to a conflict of interest]

Mr. Gustavo Buesa Ibañez
Member

Mr. Alberto Cortina Koplowitz
Member

[His signature does not appear because he was not physically present at the meeting of the Board of Directors]

Mr. Luis Chicharro Ortega
Member

[Abstains from signing due to a conflict of interest]

Mr. Carlos Egea Krauel
Member

Mr. Julio Fermoso García
Member

[His signature does not appear because he was not physically present at the meeting of the Board of Directors]

Mr. Juan Manuel González Serna
Member

[His signature does not appear because he was not physically present at the meeting of the Board of Directors]

Mr. Aurelio Izquierdo Gómez
Member

Mr. Manuel Moreu Munaiz
Member

[Abstains from signing due to a conflict of interest]

Mr. Emilio Ontiveros Baeza
Member

[Abstains from signing due to a conflict of interest]

Mr. José Sáinz Armada
Member

Don José Luis San Pedro Guerenabarrena
Member

Pursuant to Section 30 of the Structural Modifications Law, it is expressly stated for the record that, following best corporate governance practices, all of the proprietary Directors of Iberdrola Renovables appointed at the request of Iberdrola (with the exception of Mr. Aurelio Izquierdo Gómez and Mr. Carlos Egea Krauel, who were not physically present at the meeting of the Board of Directors of Iberdrola Renovables at which these Common Terms of Merger were approved, being represented by Mr. José Ignacio Sánchez Galán), i.e., Messrs. José Ignacio Sánchez Galán, Javier Sánchez-Ramade Moreno, Alberto Cortina Koplowitz, Julio Fermoso García, José Sainz Armada and José Luis San Pedro Guerenabarrena, have not participated in the deliberations and have abstained from taking part in the votes of the Board of Directors of Iberdrola Renovables relating to these Common Terms of Merger, due to an understanding that they might be affected by potential conflict of interest.

For this reason, the signatures of Messrs. José Ignacio Sánchez Galán, Javier Sánchez-Ramade Moreno, Alberto Cortina Koplowitz, Carlos Egea Krauel, Julio Fermoso García, Aurelio Izquierdo Gómez, José Sainz Armada and José Luis San Pedro Guerenabarrena do not appear in these Common Terms of Merger.

It is also stated for the record that the Director Mr. Manuel Moreu Munaiz was not physically present at the meeting of the Board of Directors of Iberdrola Renovables at which these Common Terms of Merger were approved, having been represented by Mr. Luis Chicharro Ortega, who, on behalf and in accordance with the instructions thereof, voted to approve these Common Terms of Merger. For this reason, his signature also does not appear in this document.

Finally, it is stated for the record that Mr. Xabier Viteri Solaun, executive Director of Iberdrola Renovables, has joined in the unanimous decision of the Company's independent Directors, and has therefore signed these Terms of Merger.

ANNEX – BY-LAWS OF IBERDROLA, S.A.

BY-LAWS OF IBERDROLA, S.A.

03/14/11

IBERDROLA

CONTENTS

TITLE I. THE COMPANY AND ITS SHARE CAPITAL

Chapter I. General Provisions

Article 1. Corporate Name

The Company is named Iberdrola, S.A., and shall be governed by these By-Laws [*Estatutos Sociales*], legal provisions relating to corporations and other applicable laws and regulations.

Article 2. Corporate Purpose

1. The purpose of the Company is:
   a) To carry out all manner of activities, construction work and services in and of themselves or with respect to the business of production, transmission, switching and distribution or supply of electric power or electricity by-products and applications thereof, and the raw material or energy needed for the generation thereof; energy, engineering, information-technology, telecommunications and Internet-related services; water treatment and distribution; the integral provision of urban and gas supply, as well as other gas storage, regasification, transportation or distribution activities; which will be carried out indirectly through the ownership of shares or equity interests in other companies that will not engage in the supply of gas.
   b) The distribution, representation and marketing of all manner of goods and services, products, articles, merchandise, software programs, industrial equipment and machinery, tools, utensils, spare parts and accessories.
   c) The investigation, study and planning of investment and corporate structuring projects, as well as the promotion, creation and development of industrial, commercial or service companies.
   d) The provision of services assisting or supporting companies and businesses in which it has an interest or which are within its corporate group, for which purpose it may provide appropriate guarantees and bonds in favor thereof.
2. The aforementioned activities may be carried out in Spain as well as abroad, and may be carried out, in whole or in part, either directly by the Company or through the ownership of shares or equity interests in other companies, subject in all cases and at all times to applicable legal provisions for each industry, especially the electricity industry.

Article 3. Duration of the Company

The duration of the Company shall be indefinite, its operations having commenced on the date of formalization of its deed of incorporation.

Article 4. Registered Office and Branches

1. The registered office of the Company shall be in Bilbao (Biscay), at calle del Cardenal Gardoqui, number eight (8), and it may establish branches, agencies, local offices and delegations in Spain and abroad pursuant to applicable legal provisions.
2. Such registered office may be transferred to another location within the same municipal area by resolution of the Board of Directors, which may also make decisions regarding the creation, elimination or transfer of the branches, agencies, local offices and delegations mentioned in the preceding paragraph.

Chapter II. Share Capital and Shares

Article 5. Share Capital

The share capital is four billion three hundred sixty-six million six hundred forty-seven thousand (4,366,647,000) euros, represented by five billion eight hundred twenty-two million one hundred ninety-six thousand (5,822,196,000) ordinary shares having nominal value of 0.75 euros each, and numbered consecutively from one (1) to five billion eight hundred twenty-two million one hundred ninety-six thousand (5,822,196,000), both inclusive, belonging to a single class and series, which are fully subscribed and paid-up.

Article 6. Representation of the Shares

1. The shares shall be represented in book-entry form, and as regards their nature as book entries, they shall be governed by securities market rules and regulations and other applicable legal provisions. Admission to the oficial listing thereof may be requested on domestic as well as foreign stock exchanges pursuant to applicable legislation.
2. The Company shall acknowledge as a shareholder any party which appears entitled thereto in the entries of the corresponding book-entry registries.
3. Modifications to features of shares represented by book entries, once formalized in accordance with the provisions of the Companies Law [Ley de Sociedades Anónimas] and the regulations of the securities market, shall be published in the Official Bulletin of the Commercial Registry [*Boletín Oficial del Registro Mercantil*] and in one of the newspapers of wider circulation in Biscay.

Article 7. Capital Calls

1. If shares have not been entirely paid up, this circumstance shall be reflected in the corresponding book entry.
2. Capital calls must be paid within the period fixed by the Board of Directors, within legal limits, if any, and in cases of arrears, the Board shall adopt appropriate resolutions pursuant to applicable legal provisions.

3. A shareholder who is delinquent in the payment of capital calls may not exercise the right to vote. The amount of such shareholder's shares shall be deducted from share capital for calculating a quorum. Such shareholder shall also not have the right to receive dividends or the pre-emptive right to subscribe to new shares or convertible debentures.

   Once the amount of the capital calls and interest thereon has been paid, the shareholder may make a claim for payment of unexpired dividends, but may not make a claim for pre-emptive rights if the period for the exercise thereof has already lapsed.

Article 8. Shareholder Status

1. A share confers upon its legitimate holder the status of shareholder, and vests such holder with the rights granted by Law and by these By-Laws.
2. The shares shall be indivisible. Co-owners of one or more shares must designate a single person for the exercise of shareholder rights, and shall be jointly and severally liable to the Company for all obligations arising from their status as shareholders.
3. In the case of beneficially-owned shares [*usufructo de acciones*], the bare owner shall be qualified as the designated shareholder, with the beneficial owner having the right in all cases to the dividends issued by the Company during the period of beneficial ownership.

   In the event of a pledge of shares, the exercise of shareholder rights belongs to the owner thereof.
4. Ownership of shares entails absolute compliance with the By-Laws and submission to duly adopted decisions made within the authority of the decision-making bodies and management of the Company.

Chapter III. Increase and Reduction in Share Capital

Article 9. Increase in Capital Stock

1. The share capital may be increased by resolution of the shareholders acting at a General Shareholders' Meeting with the requirements established for such cases by the Companies Law then in effect and in accordance with the various methods authorized thereby. The increase may be effected by the issuance of new shares or by an increase in the nominal value of existing shares, and the par of exchange for the increase may consist of cash contributions (including the set-off of loans), non-cash contributions or the conversion of reserves into capital. The increase may be effected in part with a charge against new contributions and in part with a charge against reserves.
2 Unless expressly provided otherwise in the resolution, if the increase in capital stock is not fully subscribed within the period established for such purpose, the capital shall be increased by the amount of subscriptions which have occurred.

Article 10. Authorized Capital

1. The shareholders acting at a General Shareholders' Meeting may, in accordance with the requirements established for amendment of the By-Laws and within the limits and conditions fixed by Law, delegate to the Board of Directors, with powers of substitution, if any, the power to approve an increase in share capital on one or more occasions. When the shareholders delegate this power to the Board of Directors, they may also grant it the power to exclude pre-emptive rights with respect to the issuance of shares subject to the delegation, within the terms and requirements established by Law.
2. The shareholders may also delegate to the Board of Directors, with powers of substitution, if any, the power to carry out the previously-adopted resolution to increase the share capital, within the periods set forth by Law, indicating the date or dates of execution and determining the conditions for the increase in all areas not provided for by the shareholders. The Board of Directors may make use of such delegation in whole or in part, or may refrain from using it, in view of market conditions, the condition of the Company itself or any particularly relevant fact or circumstance which the Board believes justifies such decision. A report of such decision shall be made to the shareholders at the first General Shareholders' Meeting held after the end of the period granted for the use of such delegation.

Article 11. Pre-emptive Rights, and the Exclusion Thereof

1. In capital increases with the issuance of new shares, whether ordinary or preferred, and with a charge to cash contributions, the existing shareholders may, when permitted by Law, and within the period granted to them for this purpose by the Board of Directors, which shall not be less than fifteen (15) days from the publication of the announcement of the subscription offer for the new issuance in the Official Bulletin of the Commercial Registry, exercise the right to subscribe to a number of shares proportional to the nominal value of the shares they hold at that time.
2. The shareholders acting at a General Shareholders' Meeting or, if applicable, the Board of Directors, may, in furtherance of the corporate interests, exclude pre-emptive rights in whole or in part in such cases and under such conditions as are provided by Law. In particular, the corporate interests may justify the exclusion of pre-emptive rights when needed to facilitate (i) the placement of new shares in foreign markets which will allow access to sources of financing; (ii) the gathering of resources by using techniques based on the book-building likely to maximize the issue price per share; (iii) the inclusion of industrial, technological or financial partners; (iv) the implementation of loyalty and compensation programs covering Directors, managers or employees, and (v) in general, the performance of any transaction which is advisable for the Company.
3. Pre-emptive rights shall not apply when the capital increase is made with a charge to non-cash contributions or when it is due to the conversion of debentures into shares or the takeover of another company or a portion of the split-off assets of another Company.

Article 12. Reduction in Capital Stock

1. In accordance with procedures provided for by law, a reduction in capital stock may be carried out by means of a reduction in the nominal value of shares, a retirement or pooling thereof in order to exchange them and, in all cases, the purpose thereof may be to return contributions, cancel capital calls, create or increase reserves, re-establish equilibrium between the capital and the assets of the Company diminished due to losses, or several of such purposes simultaneously.
2. In the event of a capital reduction in order to return contributions, payment to the shareholders may be made totally or partially in kind, provided that the conditions set forth in paragraph five of Article Fifty-Nine of the By-Laws have been met.
3. In accordance with the provisions of the Companies Law, the shareholders acting at a General Shareholders' Meeting may resolve to reduce capital in order to retire a particular group of shares, provided that such group is defined based on substantive, homogenous and non-discriminatory criteria. In such event, the measure must be approved by majority vote of the shareholders pertaining to the affected group as well as by majority vote of the rest of the shareholders remaining with the Company. The amount to be paid by the Company may not be less than the arithmetic mean of the closing prices of the Company's shares on the Continuous Market of the Stock Exchanges during the month prior to the adoption of the resolution reducing capital stock.

Chapter IV. Issuance of Debentures and Other Securities

Article 13. Issuance of Debentures

1. The shareholders acting at a General Shareholders' Meeting may, as provided by law, delegate to the Board of Directors the power to issue simple or convertible and/or exchangeable debentures. The Board of Directors may make use of such delegation on one or more occasions for a maximum period of five (5) years.
2. In addition, the shareholders acting at a General Shareholders' Meeting may authorize the Board of Directors to determine the time at which the approved issuance should take place, as well as to set other conditions not provided for in the shareholders' resolution.

Article 14. Convertible and/or Exchangeable Debentures

1. Convertible and/or exchangeable debentures may be issued with a fixed (determined or determinable) or variable exchange ratio.
2. The resolution authorizing issuance shall provide whether the power to convert or exchange belongs to the debtholder and/or the Company or, if applicable, whether the conversion will occur automatically at a particular time.

Article 15. Other Securities

1. The Company may issue notes, warrants, preferred stock and other negotiable securities different from the ones provided for in the preceding articles.
2. The shareholders' acting at a General Shareholders' Meeting may delegate to the Board of Directors the power to issue such securities. The Board of Directors may make use of such delegation on one or more occasions for a máximum period of five (5) years.
3. The shareholders may also authorize the Board of Directors to determine the time at which the approved issuance should be carried out, as well as to set other terms not provided for in the shareholders' resolution, in accordance with applicable legal provisions.
4. The Company may also provide a guarantee of securities issued by its subsidiaries.

TITLE II. GOVERNANCE OF THE COMPANY

Chapter I. The General Shareholders' Meeting

Article 16. The General Shareholders' Meeting

1. The shareholders, meeting at a duly called General Shareholders' Meeting, shall decide, by the majorities required in each case, on the matters which may be decided at a General Shareholders' Meeting.
2. Resolutions which are duly adopted at a General Shareholders' Meeting shall bind all shareholders, including shareholders who are absent, dissenting, abstain from voting and who lack the right to vote, without prejudice to the rights they may have to challenge such resolutions.
3. The General Shareholders' Meeting is governed by the provisions of these By-Laws, its own Regulations and the provisions of Law.

Article 17. Powers of the Shareholders Acting at a General Shareholders' Meeting

1. The shareholders at a General Shareholders' Meeting shall decide the matters assigned thereto by these By-Laws, the Regulations for the General Shareholders' Meeting or the Law, and particularly regarding the following:
   a) Appointment and removal of Directors, as well as ratification of Directors designated by interim appointment to fill vacancies.
   b) Approval, if applicable, of the establishment of systems for compensation of the Company's Directors and senior managers, consisting of the delivery of shares or of rights therein, or a compensation that takes as its reference the value of the shares.
   c) Appointment and removal of Auditors.
   d) Review of corporate management and approval, if appropriate, of the financial statements from the prior fiscal year and the proposed allocation of the profits or losses thereof.

e) Increase or reduction in share capital, as well as delegation to the Board of Directors of the power to increase capital.

f) Issuance of debentures and other negotiable securities and delegation to the Board of Directors of the power for the issuance thereof.

g) Authorization for the derivative acquisition of the Company's own shares.

h) Approval and amendment of the Regulations for the General Shareholders' Meeting.

i) Amendment of the By-Laws.

j) Merger, split-off, transformation of the Company, dissolution and overall assignment of assets and liabilities.

2. In addition, the shareholders acting at a General Shareholders' Meeting shall decide any matter submitted to them by the Board of Directors.

Article 18. Ordinary and Extraordinary General Shareholders' Meeting

1. The shareholders acting at an ordinary General Shareholders' Meeting, which shall be previously called for such purpose, must meet within the first six (6) months of each fiscal year in order to review corporate management, approve financial statements from the prior fiscal year, if appropriate, and decide upon the allocation of profits or losses from such fiscal year. Resolutions may also be adopted at the ordinary General Shareholders' Meeting regarding any other matter within the power of the shareholders, provided that such matter appears on the agenda and that the General Shareholders' Meeting has been convened with the required share capital in attendance.
2. Any General Shareholders' Meeting not provided for in the foregoing paragraph shall be deemed an extraordinary General Shareholders' Meeting and shall be held at any time of the year, provided that the Board of Directors deems such meeting to be appropriate.

Article 19. Call of the General Shareholders' Meeting

1. The General Shareholders' Meeting must be formally called by the Board of Directors through an announcement published in the Official Bulletin of the Commercial Registry and in one of the newspapers of wider circulation in Biscay as much in advance as required by the regulations in effect at any time.
2. The Board of Directors must call a General Shareholders' Meeting in the following events:
   a) In the event set forth in paragraph one of Article Eighteen of the By-Laws.
   b) If the meeting is requested, in the manner provided for by Law, by shareholders who hold or represent at least five (5%) percent of the share capital, which request sets forth the matters to be dealt with. In this event, the Board of Directors shall call for the General Shareholders' Meeting to be held within the statutorily prescribed deadline. The Board of Directors must include the requested matters in the agenda.
   c) When a tender offer is made for the securities of the Company, in order to report to the shareholders regarding the tender offer and to deliberate and decide upon the matters submitted for their consideration. Any shareholder or shareholders owning voting shares representing at least one (1%) percent of share capital shall have the right to request the inclusion of matters in the agenda of the General Shareholders' Meeting which must be called for this purpose.
3. The announcement of the call to meeting must contain all statements required by Law under such circumstances and must set forth the day, place and time of the meeting upon first call and all matters to be dealt with. The announcement may also, if appropriate, set forth the date on which the General Shareholders' Meeting shall proceed upon second call.
4. Shareholders representing at least five (5%) percent of the share capital may request the publication of a supplement to the call of the General Shareholders' Meeting including one or more items in the agenda.
5. The shareholder's rights mentioned in the preceding paragraphs two, letter c) and four must be exercised by duly authenticated notice that must be received at the company's registered office within five (5) days of the publication of the call to meeting. The supplement to the call to meeting mentioned in such paragraphs must be published within the statutorily prescribed deadline.
6. The shareholders at the General Shareholders' Meeting may not deliberate on or decide matters that are not included in the agenda, unless otherwise provided by law.
7. The Board of Directors may require that a Notary Public attend the General Shareholders' Meeting and prepare the minutes thereof. In any event, the Boardmust require the presence of a Notary under the circumstances provided by Law.

Article 20. Shareholders' Right to Receive Information

1. From the date of publication of the call of the General Shareholders' Meeting through and including the seventh day prior to the date provided for the first call to meeting, the shareholders may request in writing the information or clarifications that they deem are required, or ask written questions that they deem pertinent, regarding the matters contained in the agenda. In addition, upon the same prior notice and in the same manner, the shareholders may request information or clarifications or ask written questions regarding information accessible to the public which has been provided by the Company to the Spanish National Securities Market Commission [*Comisión Nacional del Mercado de Valores*] since the holding of the last General Shareholders' Meeting.
2. During the holding of the General Shareholders' Meeting, the shareholders may verbally request the information or clarifications that they deem appropriate regarding the matters contained in the agenda.

3. The Board of Directors shall be required to provide the information requested pursuant to the two preceding paragraphs in the form and within the period provided by these By-Laws, the Regulations for the General Shareholders' Meeting and the Law, except in cases in which it is legally improper, including, specifically, those cases in which, in the opinion of the Chairman, publication of the information would prejudice the interests of the Company. This last exception shall not apply when the request is supported by shareholders representing at least one-fourth of the share capital.
4. The call of the ordinary General Shareholders' Meeting shall set forth the means whereby any shareholder may obtain from the Company, without charge and on an immediate basis, the documents that must be submitted for approval by the shareholders at such ordinary General Shareholders' Meeting, as well as the Management Report and the Auditors' Report.
5. When the shareholders are to deal with an amendment to the By-Laws, besides the statements required in each case by Law, the notice of the call must make clear the right of all shareholders to examine at the Company's registered office the complete text of the proposed amendment and the report thereon and to request that such documents be delivered or sent to them without charge.
6. In all cases in which the Law so requires, such information and supplemental documentation as is mandatory shall be made available to the shareholders.

Article 21. Establishment of a Quorum for the General Shareholders' Meeting

1. The ordinary as well as the extraordinary General Shareholders' Meeting shall be validly established with the mínimum quorum required by applicable legislation in effect at all times, taking into account the matters appearing on the agenda.
2. Notwithstanding the provisions of the foregoing paragraph, shareholders representing two-thirds of subscribed capital with voting rights must be in attendance at the first call of the General Shareholders' Meeting, and shareholders representing sixty (60%) percent of such capital must be in attendance at the second call, in order to adopt resolutions regarding a change in the corporate purpose, transformation, total split-off, dissolution of the Company and amendment of this second paragraph of this article.
3. The absence of shareholders occurring once a quorum for the General Shareholders' Meeting has been established shall not affect the validity of the meeting.
4. If the attendance of shareholders representing a particular percentage of share capital or the consent of specific interested shareholders is required pursuant to applicable legal or by-laws provisions in order to validly adopt a resolution regarding one or more items on the agenda of the General Shareholders' Meeting, and such percentage is not reached or such shareholders are not present in person or by proxy, the shareholders shall be limited to deliberation and decision regarding those items on the agenda which do not require such percentage of capital or the presence of such shareholders in order to be decided.

Article 22. Right to Attend

1. All holders of voting shares may attend the General Shareholders' Meeting and take part in deliberations thereof, with the right to be heard and to vote.
2. 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. This circumstance must be evidenced by means of the appropriate attendance card or validation certificate issued by the entity or entities in charge of book-entry registries, or in any other form allowed by applicable legislation.
3. The members of the Board of Directors must attend the General Shareholders' Meeting. The absence of any of such members shall not affect the validity of the General Shareholders' Meeting.
4. Managers, experts and other persons with an interest in the efficient running of corporate affairs may be authorized to attend the General Shareholders' Meeting by the Chairman thereof. In addition, the Chairman of the General Shareholders' Meeting may grant the press, financial analysts and any other person the Chairman deems appropriate access to such General Shareholders' Meeting, although the shareholders acting thereat may revoke such authorization.

Article 23. Right to Be Represented at the Meeting

1. 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, if the requirements and formalities established in these By-Laws, the General Shareholders' Meeting and the Law are met.
2. Proxies shall be given in writing or by postal or electronic correspondence, in which case the provisions of Article Twenty-Eight of the By-Laws for the issuance of votes shall apply to the extent not incompatible with the nature of the proxy.
3. The Chairman of and the Secretary for the General Shareholders' Meeting shall have the widest powers to recognize the validity of a document or media evidencing representation by proxy.
4. A proxy is always revocable. Attendance at the General Shareholders' Meeting of the shareholder granting the proxy, whether in person or due to having cast a vote from a distance, shall have the effect of revoking the proxy, regardless of the date thereof.

Article 24. Place and Time of the Meeting

1. The General Shareholders' Meeting shall be held at the place indicated in the call to meeting in the municipality where the registered office of the Company is located.

2. 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.
3. If no place is indicated in the call to meeting, it shall be deemed that the meeting shall take place at the Company's registered office.
4. The shareholders may agree to extend their meeting for one or more consecutive days at the proposal of the Directors or at the proposal of shareholders in attendance representing at least one-fourth of the share capital. Regardless of the number of sessions, the General Shareholders' Meeting shall be deemed to be a single meeting, and a single set of minutes shall be prepared for all of the sessions. The Shareholders may also temporarily suspend the meeting under the circumstances and in the manner set forth in the Regulations for the General Shareholders' Meeting.

Article 25. Chairman, Secretary and Presiding Committee *[Mesa]* of the General Shareholders' Meeting

1. The Chairman of the Board of Directors or, in the absence thereof, the Vice Chairman, shall act as the Chairman of the General Shareholders' Meeting; if there are several Vice Chairmen, they shall act in the order set forth in paragraph three of Article Forty-Six of these By-Laws; in the absence of the foregoing, the longest-serving Director shall serve, and in the absence of all of the above, the shareholder designated for such purpose by the shareholders themselves shall serve.
2. The Secretary of the Board of Directors and, in his absence, the Vice-Secretary of the Board of Directors, shall act as the Secretary for the General Shareholders' Meeting; in the absence of both, the Director with the least amount of time in such position shall serve and, in the absence of all of the above, the shareholder designated for such purpose by the shareholders themselves shall serve.
3. The Chairman and the Secretary, together with the other members of the Board of Directors in attendance, shall constitute the Presiding Committee [*Mesa*] of the General Shareholders' Meeting.

Article 26. List of Attendees

1. Once the Presiding Committee has been formed, and prior to beginning with the agenda, a list of attendees shall be prepared which sets forth the nature or representation of each attendee and the number of their own or other parties' shares present. At the end of the list, there shall be a determination of the number of shareholders present (including those voting from a distance) in person or by proxy at the meeting, as well as the amount of capital they own, with a specification as to which capital corresponds to shareholders with the right to vote. Pursuant to the provisions of the Regulations of the Commercial Registry, the list may be made up of an index file or be prepared in electronic form.
2. Once the list has been prepared, the Chairman shall declare whether or not the requirements for the valid formation of a General Shareholders' Meeting have been met. Immediately thereafter, if appropriate, the Chairman shall declare the General Shareholders' Meeting to be validly convened. Questions or claims arising with respect to these matters shall be resolved by the Chairman.
3. If a Notary Public has been required to prepare the minutes of the meeting, the Notary Public shall ask and make clear in the minutes whether there are reservations or objections regarding the statements of the Chairman regarding the number of shareholders in attendance and the capital which is present.

Article 27. Deliberations and Voting

1. The Chairman shall: direct the meeting such that deliberations are carried out pursuant to the agenda; accept or reject new proposals relating to matters on the agenda; direct the deliberations, granting the floor to shareholders who so request it, and taking the floor away or refusing to grant it when the Chairman deems that a particular matter has been sufficiently debated, is not included in the agenda or hinders the progress of the meeting; indicate the time for voting; calculate the votes, with the assistance of the Secretary for the General Shareholders' Meeting; proclaim the results thereof; temporarily suspend the General Shareholders' Meeting; close the meeting; and, in general, exercise all powers, including those of order and discipline, which are required to properly hold the General Shareholders' meeting.
2. The Chairman, even when present at a session, may entrust management of debate to a Director the Chairman deems appropriate or to the Secretary, who shall carry out these duties on behalf of the Chairman, and the Chairman may retake them at any time. In the event of temporary absence or supervening disability, the appropriate person pursuant to the provisions of paragraph one of Article Twenty-Five shall assume the duties of Chairman.
3. Resolutions shall be voted by the shareholders at the General Shareholders' Meeting pursuant to the provisions of the following articles and the Regulations for the General Shareholders' Meeting.

Article 28. Casting of Votes from a Distance

1. Shareholders may cast their vote regarding proposals relating to the items included in the agenda by mail or by electronic communication. In both cases, they shall be deemed present for purposes of the establishment of a quorum at the General Shareholders' Meeting.
2. In order to vote by mail, shareholders must send to the Company the attendance, proxy-granting and voting card, duly executed and signed, issued in their favor by the entity or entities in charge of the book-entry registry.
3. Votes by electronic communication shall be cast using a recognized electronic signature or other type of guarantee that the Board of Directors deems best ensures the authenticity and identification of the shareholder exercising the right to vote.

4. Votes cast by either of the means set forth in the preceding paragraphs must be received by the Company before midnight on the day immediately prior to the date provided for the holding of the General Shareholders' Meeting upon first call or upon second call, as applicable. Otherwise, the vote shall be deemed not to have been cast in respect of the call to Meeting regarding which the aforementioned deadline is not met.
5. The Board of Directors is empowered to elaborate upon the foregoing provisions by establishing the rules, means and procedures adjusted to current techniques in order to organize the casting of votes and grant of proxies by electronic means, following the rules and regulations issued for such purpose, if applicable.

   Specifically, the Board of Directors may (i) establish rules for the use of guarantees other than electronic signatures for casting electronic votes pursuant to the provisions of paragraph three above, and (ii) reduce the advance period set forth in paragraph four above for receipt by the Company of votes cast by postal or electronic communication.

   In any event, the Board of Directors shall adopt the measures needed to avoid possible deception and to ensure that the person casting a vote or granting a proxy by postal or electronic communication has the right to do so pursuant to the provisions of Article Twenty-Two of the By-Laws and the provisions of the Regulations for the General Shareholders' Meeting.

   The implementing rules adopted by the Board of Directors pursuant to the provisions of this sub-section shall be published on the Company's website.
6. A vote cast by postal or electronic communication shall be revoked either by physical attendance at the General Shareholders' Meeting or by express revocation thereof by the same means used to cast such vote.
7. Remote attendance at the General Shareholders' Meeting by means of data transmission and simultaneously and distance electronic voting during the holding of the General Shareholders' Meeting may be admitted if it is so established in the Regulations for the General Shareholders' Meeting, subject to the requirements set forth therein.

Article 29. Approval of Resolutions

1. The shareholders, acting at an ordinary or extraordinary General Shareholders' Meeting, shall adopt resolutions with the majorities of votes cast in person or by proxy required by these By-Laws or by the Companies Law. Each voting share, whether its holder is present in person or by proxy at the General Shareholders' Meeting, shall grant the holder the right to one vote.
2. The approval of a resolution shall require the favorable vote of one-half plus one of the voting shares whose holders are present in person or by proxy at the General Shareholders' Meeting. The foregoing does not affect situations in which these By-Laws or the Law require a greater majority.
3. Notwithstanding the provisions of the foregoing paragraph, no shareholder may cast a number of votes greater tan those corresponding to shares representing ten (10%) percent of share capital, even if the number of shares held exceeds such percentage of capital. This limitation does not affect votes corresponding to shares with respect to which a shareholder is holding a proxy as a result of the provisions of Article Twenty-Three of these By-Laws, provided, however, that with respect to the number of votes corresponding to the shares of each shareholder represented by proxy, the limitation set forth above shall apply.
4. The limitation set forth in the foregoing paragraph shall also apply to the maximum number of votes that may be collectively or individually cast by two or more shareholders which are entities or companies belonging to the same group. Such limitation shall also apply to the number of votes that may be cast collectively or individually by an individual and the shareholder entity, entities or companies controlled by such individual. A group shall be deemed to exist under the circumstances set forth in Section Four of the Securities Market Law, and an individual shall be deemed to control one or more entities or companies, under the circumstances of control set forth in such Section Four.
5. Shares deprived of voting rights pursuant to the application of the foregoing paragraphs shall be deducted from the shares in attendance at the General Shareholders' Meeting for purposes of determining the number of shares upon which the majorities needed for the approval of resolutions submitted to the shareholders shall be calculated.

Article 30. Conflicts of Interest

1. Shareholders participating in a merger or split-off with the company or who are called to subscribe to an increase in capital with the exclusion of pre-emptive rights or to acquire by overall assignment all of the Company's assets, may not exercise their voting rights for the approval of such resolutions at the General Shareholders' Meeting.
2. The provisions of the foregoing paragraph shall also be applicable when the resolutions affect, (i) in the case of an individual shareholder, the entities or companies controlled by such individual, and (ii) in the case of shareholders which are legal entities, the entities or companies belonging to its group (in the sense indicated in paragraph four of Article Twenty-Nine), even when these latter companies or entities are not shareholders.
3. If the shareholder prohibited from voting as set forth above attends the General Shareholders' Meeting, such shareholder's shares shall be deducted from the shares in attendance at the General Shareholders' Meeting for purposes of determining the number of shares upon which the majority needed for approval of the resolution with respect to which there is a conflict shall be calculated.

Article 31. Documentation of Resolutions

1. Documentation of shareholder resolutions, the conversion thereof into a public instrument and the registration thereof with the Commercial Registry shall be carried out pursuant to the provisions of Law and the Regulations of the Commercial Registry.

2. The total or partial certificates needed to evidence shareholder resolutions shall be issued and signed by the Secretary of the Board of Directors or by the Vice-Secretary with the approval of the Chairman or, if applicable, of one of the Vice-Chairmen.

Chapter II. Management of the Company

Section 1. General Provisions

Article 32. Structure of the Company's Management

1. Management of the Company is vested in a Board of Directors, its Chairman, an executive committee called the Executive Committee [*Comisión Ejecutiva Delegada*] and, if any and if agreed to by the Board of Directors, a Chief Executive Officer [*Consejero Delegado*].
2. Each of these bodies shall have the powers set forth in these By-Laws and in the Regulations of the Board of Directors, without prejudice to the provisions of Law.

Section 2. The Board of Directors

Article 33. Regulation of the Board of Directors

1. The Board of Directors shall be governed by the provisions set forth in the By-Laws, the Regulations of the Board of Directors and the Law.
2. The Regulations of the Board of Directors shall take into account and adapt the principles and standards contained in the most widely recognized Good Governance recommendations at all times to the specific circumstances and needs of the Company. This statement is for guidance purposes and does not imply a lessening of the self-regulatory powers and duties of the Board of Directors.

Article 34. Powers of the Board of Directors

1. The Board of Directors has the power to adopt resolutions regarding all matters not assigned by these By-Laws or the Law to the shareholders acting at the General Shareholders' Meeting.
2. As a general rule, the Board of Directors, which has the widest powers and authority to manage, direct, administer and represent the Company, shall entrust the day-to-day management of the Company to the representative management decision-making bodies and shall focus its activity on the general duty of supervision and on consideration of those matters which are of particular importance to the Company.

   In particular, the Board of Directors, acting upon its own initiative or at the proposal of the corresponding internal decision-making body, shall deal with the matters set forth below (as an example only).

   a) Draw up the Company's Annual Financial Statements, Management Report and Proposal for the Allocation of Profits or Losses, as well as the consolidated Financial Statements and Management Report and prepare the financial information that the Company must periodically make public due to its status as listed company.

   b) Designate Directors to fill vacancies by interim appointment and propose to the shareholders the appointment, ratification, re-election or removal of Directors.

   c) Designate and renew internal positions within the Board of Directors and the members of and positions on the Committees established within the Board.

   d) Set, pursuant to these By-Laws, the compensation policy and the compensation of Directors, at the proposal of the Nominating and Compensation Committee.

   e) Approve the appointment and removal of senior managers of the Company, as well as set the compensations or indemnifications, if any, payable to them in the event of removal, all at the proposal of the Chief Executive Officer, if any, and with the report of the Nominating and Compensation Committee.

   f) Approve the compensation policy as well as the basic terms and conditions of the contracts with the Company's senior managers, based on the proposal of the Chief Executive Officer, if any, which shall be submitted to the Board by the Nominating and Compensation Committee.

   g) Prepare the dividend policy and submit the corresponding proposed resolutions on the allocation of profits or losses to the shareholders at the General Shareholders' Meeting, as well as decide upon the payment of interim dividends.

   h) Decide upon proposals submitted to it by the Executive Committee, the Chief Executive Officer or the Committees of the Board of Directors.

   i) Declare its position regarding all tender offers for the Company's securities.

   j) Submit to the shareholders acting at the General Shareholders' Meeting the proposed amendments to the Regulations for the General Shareholders' Meeting that it deems appropriate in order to improve the operation thereof and the exercise of shareholder rights.

   k) Approve and amend, pursuant to the provisions thereof, the Regulations of the Board of Directors governing its internal organization and operation.

   l) Prepare the annual corporate governance report.

   m) Call the General Shareholders' Meeting.

n) Carry out resolutions approved by the shareholders at a General Shareholders' Meeting and perform any duties that the shareholders have assigned to it.

o) Define the structure of general powers of the Company to be granted by the Board itself or by the representative management decision-making bodies mentioned in the first paragraph of sub-section two of this Article.

p) Make decisions regarding any other matter within its authority which, in the judgment of the Board of Directors, is deemed to be in the interests of the Company, or which the Regulations of the Board of Directors reserve to the Board as a whole.

3. The Board of Directors, within the scope of its authority relating to the general duty of supervision, acting on its own initiative or at the proposal of the appropriate internal decision-making body, shall also deal with the matters set forth below (as an example only):

a) Prepare the Company's strategy and general lines of policy, draft programs and state objectives in order to carry out all business activities included in the corporate purpose. Specifically, the Board of Directors shall approve: (i) the annual budget; (ii) the investment and financing policy; (iii) the definition of the structure of the Iberdrola Group and the coordination, within legal limits, of the overall strategy of such Group in the interests of the Company and of the companies belonging thereto; (iv) the corporate governance policy; (v) the corporate social responsibility policy and (vi) the policy to be adopted by the Company in connection with treasury stock and, especially, the limits thereto.

b) Promote and supervise the management of the Company, as well as the fulfillment of established objectives.

c) Establish the risk control and management policy, identify the principal risks to the Company and organize appropriate internal monitoring and information systems, as well as carry out a periodic monitoring of such systems.

d) Set the foundations of the corporate organization in order to ensure the greatest efficiency thereof and effective supervision by the Board of Directors.

e) Set policy regarding the provision of information to shareholders and to the markets in general under the standards of transparency and truthfulness of the information.

Article 35. Representation of the Company

1. Representation of the Company both in and out of court shall be the purview of the Board of Directors, its Chairman, the Executive Committee and, if any and if approved by the Board of Directors, a Chief Executive Officer.

2. The Board of Directors and the Executive Committee shall have the power to represent the Company when acting collectively. The Chairman, and the Chief Executive Officer, if any, shall have the power to represent the Company when acting individually.

3. The resolutions of the Board of Directors or the Executive Committee shall be carried out by its Chairman or by the Director designated in the resolution, either of whom may act individually.

Article 36. Composition and Appointment of the Board of Directors

1. The Board of Directors shall be composed of a minimum of nine (9) Directors and a maximum of fifteen (15), who shall be appointed or ratified at the General Shareholders' Meeting, subject to applicable legal provisions. The determination of the number of Directors shall be the purview of the shareholders acting at the General Shareholders' Meeting, for which purpose the shareholders may establish such number either by express resolution or indirectly, through the filling or non-filling of vacancies or the appointment or non-appointment of new Directors within the minimum and maximum numbers mentioned above. Notwithstanding the foregoing, the Board of Directors shall propose to the shareholders at the General Shareholders' Meeting the number of Directors that, according to the circumstances affecting the Company and taking into account the maximum and minimum numbers referred to above, best suits the Good Governance recommendations with a view to ensuring the proper representation and effective operation of the Board.

   The foregoing shall be deemed to be without prejudice to the right of proportional representation to which the shareholders are entitled under the provisions of the Companies Law.

2. The following may not be appointed as Directors:

a) Domestic or foreign companies competing with the Company in the energy or other industries, or the directors or senior managers thereof, or the persons, if any, who are proposed by such companies in their capacity as shareholders.

b) Persons holding the position of director in more than four (4) companies with shares trading on domestic or foreign securities exchanges.

c) Persons who, during the two (2) years prior to their appointment, have occupied high-level positions in the government which are incompatible with the simultaneous performance of the duties of a director of a listed company under national or autonomous community legislation, or positions of responsibility with entities regulating the energy industry, the securities markets or other industries in which the Company operates.

d) Persons who are under any other circumstance of incompatibility or prohibition governed by provisions of a general nature, including those who have, in any manner, interests opposed to those of the Company.

Article 37. Types of Directors

1. The following shall be deemed:

a) Executive Directors: those Directors who perform senior management duties or are employees of the Company or of its Group.

b) External Proprietary Directors (representing a major shareholder): those Directors: (i) who own a shareholding interest that is greater than or equal to that legally regarded as significant at any time or who have been appointed owing to their status as shareholders, although their shareholding interest does not reach such amount; or (ii) whose appointment has been proposed to the Company by shareholders of the type described in the preceding letter (i).

c) External Independent Directors: those Directors who, having been appointed because of their personal and professional qualities, may carry out their duties without being conditioned by relationships with the Company, its significant shareholders or its managers.

d) Other External Directors: those external Directors who do not have status as proprietary or independent directors.

The Regulations of the Board of Directors may further elaborate upon and develop these concepts.

2. The Board of Directors shall be composed such that the external or non-executive Directors, with the presence of the independent Directors, represent a majority over the executive Directors. This is a mandatory instruction for the Board of Directors itself, which must follow it in the exercise of its powers to propose appointments of Directors to the shareholders and to make interim appointments of Directors to cover vacancies, and merely constitutes guidance for the shareholders.

3. The status of each Director shall be explained by the Board to the shareholders at the General Shareholders' Meeting at which the appointment thereof must be made or ratified, and shall be confirmed or, if applicable, revised annually in the annual corporate governance report after verification by the Nominating and Compensation Committee.

Article 38. Designation of Positions

1. The Board of Directors shall elect from among its members, after a report of the Nominating and Compensation Committee, a Chairman and, if it so decides, one or more Vice-Chairmen, at the proposal of the Chairman. The Board of Directors may also appoint one or more Honorary Chairmen of the Company.

2. At the proposal of the Chairman and after a report of the Nominating and Compensation Committee, the Board of Directors shall appoint a Secretary and, if applicable, a Vice-Secretary, who need not be Directors. In the absence of the Secretary and the Vice-Secretary, the Director appointed by the Board of Directors from among those attending the meeting in question shall act as such.

   In addition, the Board of Directors shall appoint a Corporate Counsel if such position is required under applicable law. The Secretary or the Vice-Secretary, if any, may perform the duties of Corporate Counsel if they are attorneys-at-law and satisfy the other requirements established by applicable law and it is so determined by the Board of Directors.

3. The Chairman, Vice-Chairmen and, if applicable, the Secretary and Vice-Secretary of the Board of Directors who are re-elected as members of the Board of Directors by the shareholders, shall continue to perform the duties they previously carried out within the Board of Directors, without the need for a new election and without prejudice to the Board of Directors' power of revocation with respect to such positions.

Article 39. Meetings of the Board of Directors

1. The Board of Directors shall meet with the frequency it deems appropriate, but at least once a month unless the Chairman, in his sole judgment, deems it appropriate to suspend any of such sessions. The Board shall also meet in the cases provided for in the Regulations of the Board of Directors. Meetings shall take place at the Company's registered office or at the place, in Spain or abroad, indicated in the call to meeting.

2. 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 shall be authorized under the signature of the Chairman, or of the Secretary or Vice-Secretary, by order of the Chairman. Notice of the call shall be given as much in advance as is necessary for the Directors to receive it no later than the third day prior to the date of the meeting, except in the case of emergency meetings. Excepted from the foregoing shall be those instances in which the Regulations of the Board of Directors prescribe that notice of specific length be given. The call to meeting shall always include, unless this requirement may be dispensed with upon sufficient grounds, the agenda for the meeting and, if appropriate, an attachment containing any information deemed necessary.

3. Without prejudice to the foregoing, the Board of Directors shall be deemed to have validly met without the need for a call if all of the Directors present in person or by proxy unanimously agree to hold the meeting as a plenary meeting and to the items of the agenda to be dealt with.

4. Meetings of the Board of Directors may also be held in several places connected by a conference system which permits the recognition and identification of the attendees, permanent communication among the attendees regardless of their location, and participation in discussion and the casting of votes, all in real time. Attendees at any of such places shall be deemed to have attended the same meeting for all purposes relating to the Board of Directors. The meeting shall be deemed to have been held where the majority of the Directors are located and, if they are located in different places in equal numbers, where the Director chairing the meeting is located.

5. If no Director is opposed thereto, voting by the Board may occur in writing without a meeting. In this instance, the Directors may deliver to the Chairman (or to the Secretary or Vice-Secretary acting on the Chairman's behalf) their votes and the considerations they wish to appear in the minutes, using the same methods mentioned in paragraph two above. Resolutions adopted by this procedure shall be recorded in minutes prepared pursuant to the provisions of Law.

Article 40. Quorum for the Meeting and Majorities Required to Adopt Resolutions

1. In order for resolutions within the authority of the Board of Directors to be valid, at least one-half plus one of the Directors must be present in person or by proxy at the meetings at which they are adopted, except in the case set forth in the last paragraph of this article.

2. All of the Directors may cast their vote and give their proxy in favor of another Director. The proxy granted shall be a special proxy for the Board meeting in question, and may be communicated by any of the means set forth in paragraph two of the preceding article.

3. The Chairman shall organize the debate, stimulating the participation of all of the Directors in the deliberations of the Board.
4. Resolutions shall be adopted by a majority of votes cast in person or by proxy, except in the case of a permanent delegation of powers and the appointment of Directors to exercise such powers, which shall require the favorable vote of two-thirds of the Directors. The foregoing shall not apply in those instances in which the By-Laws, the Regulations of the Board of Directors or the Law provide for a greater majority. In the event of a tie, the Chairman shall have the tie-breaking vote.

Article 41. Formalization of Resolutions

1. Resolutions shall be recorded in minutes signed by the Chairman and the Secretary, or by the person acting in their stead.
2. Total or partial certifications, which are required to record the resolutions of the Board of Directors, shall be issued and signed by the Secretary or the Vice-Secretary of the Board of Directors with the approval of the Chairman or, if applicable, of one of the Vice-Chairmen.

Section 3. Internal Decision-Making Bodies and Positions of the Board of Directors

Article 42. Committees of the Board of Directors

1. The Board of Directors must create and maintain an Executive Committee, an Audit and Compliance Committee and a Nominating and Compensation Committee.
2. The Board of Directors may also create other Committees or Commissions of purely internal scope with powers as determined by the Board of Directors.

Article 43. Executive Committee

1. There shall be an executive committee permanently operating as the representative of the Board of Directors, which committee shall be called the Executive Committee, and which shall have all of the powers inherent to the Board of Directors, unless otherwise determined by the Board of Directors and except as those powers may not be delegated pursuant to legal or by-laws restrictions. The Executive Committee shall be composed of the Directors designated by favorable vote of two-thirds of the Directors, and renewals shall occur at the times, in the manner and in the number determined by the Board of Directors, which shall also establish rules for the operation thereof.
2. The Executive Committee shall be composed of the number of Directors decided by the Board of Directors, with a minimum of five (5) Directors and a maximum of eight (8). In all cases, the Executive Committee shall include the Chairman of the Board of Directors, who shall preside over meetings of the Executive Committee, the Vice-Chairman or Vice-Chairmen, and the Chief Executive Officer, if any. 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.
3. The Executive Committee shall meet at least two (2) times 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 the sole judgment of the Chairman. The Executive Committee 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 drawing up of the financial statements, the presentation of the balance sheets at the General Shareholders' Meeting and those powers which are given by the shareholders to the Board of Directors without the power of delegation. 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.
4. Resolutions of the Executive Committee shall be adopted by majority of the Directors sitting on the Committee who are present at the meeting in person or by proxy. In the event of a tie, the Chairman shall have the tie-breaking vote.
5. The provisions of Section Two of this Chapter of the By-Laws regarding the operation of the Board of Directors shall apply to the Executive Committee, to the extent they are not incompatible with the nature thereof.

Article 44. Audit and Compliance Committee

1. The Board of Directors shall create a permanent Audit and Compliance Committee, which shall be composed of a minimum of three (3) Directors 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 Audit and Compliance Committee shall have a Chairman and a Secretary appointed by the Board of Directors from among the members of such Committee.

   The members of the Audit and Compliance Committee shall carry out their duties for a maximum period of four (4) years, and may be re-elected. 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.
2. In all events, the Audit and Compliance Committee shall have the power to:
   a) Report to the General Shareholders' Meeting with respect to matters raised therein by shareholders regarding its powers.
   b) Propose appointments of the Company's Auditors to the Board of Directors for submission to the General Shareholders' Meeting.
   c) Supervise the management of the Internal Audit Area, which will be functionally controlled by the Chairman of the Audit and Compliance Committee.
   d) Know the process for gathering financial information and associated internal systems for monitoring risks relevant to the Company.

e) 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.

f) Report in advance on the Company's annual corporate governance report and ensure compliance with legal requirements and those of the Codes of Professional Conduct and Good Governance adopted by the Board of Directors.

g) Exercise such other powers, if any, as may be assigned to it by these By-Laws, the Regulations of the Board of Directors or the Board of Directors.

3. For purposes of 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 four (4) times per year, 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.

4. The Audit and Compliance 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 to the ordinary General Shareholders' Meeting.

5. The foregoing rules shall be developed by the Board of Directors into corresponding Regulations of the Committee, always favoring independence in the operation of the Committee.

Article 45. Nominating and Compensation Committee

1. 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 the information, advisory and proposal-making powers within its scope of action as set forth in paragraph two of this Article. The Nominating and Compensation 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 external Directors. The Board of Directors shall also appoint the Chairman thereof from among the Directors sitting on such Committee, as well as its Secretary, who need not be a Director.

   Unless otherwise decided by the Board of Directors, the Directors sitting on the Nominating and Compensation Committee shall hold their positions for so long as they remain Directors of the Company and so long as they continue to be 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.

2. The Nominating and Compensation Committee shall have 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.

   In particular, the Nominating and Compensation Committee shall have the power to:

   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 necessary qualifications and assessing the time and dedication required for the proper performance of their duties.

   b) Bring to the Board of Directors proposals for designation of independent Directors for the interim appointment thereof to fill a vacancy or, as the case may be, for submission of such proposals to a decision by 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 on the proposals made by the Board of Directors for designation of the other Directors for the interim appointment thereof to fill a vacancy or, as the case may be, for submission of such proposals to a decision by the shareholders at the General Shareholders' Meeting, as well as on proposals for re-election or withdrawal of such Directors by the shareholders at the General Shareholders' Meeting.

   c) Report on proposed appointments to internal positions within the Board of Directors and propose to the Board of Directors the members who should make up each of the Committees.

   d) Propose to the Board of Directors the system and amount of annual Director compensation, 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 these By-Laws.

   e) Report to the Board of Directors regarding the appointment and/or removal of senior managers of the Company, as well as regarding the compensations or indemnifications, 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.

   f) 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.

   g) Report on incentive plans and pension supplements.

   h) Periodically review the compensation programs, evaluating the adequacy and results thereof.

   i) Exercise such other powers, if any, as are assigned to it by these By-Laws, the Regulations of the Board of Directors or the Board of Directors.

3. For purposes of 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.

The Committee shall validly meet when one-half plus one of the Directors sitting on the Committee are present in person or by proxy, and shall adopt its resolutions by majority of votes. In the case of a tie, the Chairman shall have the tie-breaking vote.

4. The foregoing rules shall be developed by the Board of Directors into corresponding Regulations of the Committee.

Article 46. Chairman and Vice-Chairman or Vice-Chairmen

1. The Chairman of the Board of Directors shall be considered the President of the Company and of all of the decision-making bodies of which the Chairman is a member, which he shall permanently represent with the broadest powers, being authorized in urgent cases to adopt such measures as the Chairman deems advisable in the interests of the Company.
2. The Chairman, who holds the senior management of the Company and is the representative thereof, shall exercise the following powers in addition to the powers conferred by these By-Laws and the Law:
   a) To call and preside over meetings of the Board of Directors and the Executive Committee in the manner established by these By-Laws, setting the agenda for meetings and directing discussion and debate.
   b) To preside over the General Shareholders' Meeting and direct the discussion and debate therein.
   c) To bring to the Board of Directors those proposals which the Chairman deems appropriate for the efficient running of the Company, particularly those corresponding to the operation of the Board of Directors itself and other corporate decision-making bodies, as well as proposing the appointment of internal positions within the Board of Directors.
   d) To represent the Company before public entities and any industry or employers' bodies.
3. In the event of the absence, sickness or disability of the Chairman of the Board of Directors, the Chairman shall be replaced by the Vice-Chairman, if any; if there are several, the person replacing the Chairman shall be the Vice-Chairman that is expressly appointed by the Board; in default of the foregoing, the Vice-Chairman having the longest length of service and, if equal lengths of service, the oldest; and if there is no Vice-Chairman, the longest-serving Director and, in case of equal lengths of service, the oldest.

Article 47. Chief Executive Officer

1. The Board of Directors, at the proposal of the Chairman, after a report of the Nominating and Compensation Committee and with the favorable vote of two-thirds of the Directors, may appoint a Chief Executive Officer from among the Directors, with the powers it deems appropriate and which may be delegated pursuant to these By-Laws and the Law.
2. The Chief Executive Officer shall propose to the Board of Directors, for its approval after a report of the Nominating and Compensation Committee, the definition and reorganization of the Company's organizational structure, the appointment and removal of senior managers, and the compensations or indemnifications, if any, payable thereto in the event of removal. In addition, the Chief Executive Officer shall propose to the Nominating and Compensation Committee, for submission by it to the Board of Directors, the compensation policy as well as the basic terms and conditions of the contracts with the senior managers of the Company.

Section 4. Rules Applicable to Directors

Article 48. General Duties of Directors

1. In the performance of his duties, a Director shall act in good faith and with the diligence of a prudent businessman and a faithful representative, and shall comply with the duties prescribed by the By-Laws, the Regulations of the Board of Directors and the Law, acting in furtherance of the corporate interests.
2. The Regulations of the Board of Directors shall elaborate upon the specific obligations of Directors stemming from the duties of confidentiality, non-competition and faithfulness, with special focus on conflict of interest situations.

Article 49. Terms of Office and Filling of Vacancies

1. 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. In particular, the Directors must submit their resignation from the position and formalize their withdrawal upon the occurrence of any of the instances of incompatibility, lack of competence or prohibition against performing the duties of director provided by Law, the By-Laws or the Regulations of the Board of Directors.
2. Directors may be re-elected to one or more terms of five (5) years.
3. Vacancies which occur may, pursuant to Law, be filled by the Board of Directors on an interim basis until the next General Shareholders' Meeting, whereat the shareholders shall confirm the appointments or elect the persons who should replace Directors which are not ratified, or it shall withdraw the vacant positions.

Article 50. Director Compensation

1. The Company shall allocate as an expense an amount equal to a maximum of two (2%) percent of consolidated group profits obtained during the fiscal year for the following purposes:
   a) To compensate the Directors based on the offices held, and dedication to and attendance of meetings of the corporate decision-making bodies.
   b) To endow a fund to meet the obligations of the Company regarding pensions, the payment of life insurance premiums and the payment of indemnifications in favor of current and former Directors.

The allocation of the maximum limit of two (2%) percent shall only occur if profits for the fiscal year are sufficient to cover legal and other mandatory reserves and the issuance to the shareholders of a dividend of at least four (4%) percent of the share capital.

2. Independently of the provisions of the foregoing paragraph, and subject always to the approval of the shareholders, the compensation of Directors may also consist of the delivery of shares or options thereon, as well as a payment which takes as its reference the value of the Company's shares.
3. All rights and duties arising from membership on the Board of Directors shall be compatible with all other rights, duties and indemnification to which the Director may be entitled by reason of other employment or profesional relationships, if any, that such Director may have with the Company. The fixed and variable compensations and the indemnifications arising from the corresponding contracts shall be included in and paid with a charge to the by-law allocation accorded to the Board of Directors in the preceding paragraph one.

Article 51. Powers of Information and Inspection

1. A Director shall have the broadest powers to obtain information regarding any aspect of the Company, to examine its books, records, documents and other records of corporate transactions, to inspect its facilities, and to communicate with the senior managers of the Company.
2. The exercise of the powers of information shall first be channeled through the Chairman, the Chief Executive Officer, if any, or the Secretary of the Board of Directors.

Section 5. Annual Corporate Governance Report and Website

Article 52. Annual Corporate Governance Report

1. The Board of Directors shall, on an annual basis and following a report by the Audit and Compliance Committee, annually approve a corporate governance report for the Company which shall include all specifications provided for by law and any other specifications which the Board of Directors deems appropriate to include therein.
2. The annual corporate governance report shall be approved prior to the publication of the call of the Company's ordinary General Shareholders' Meeting for the fiscal year to which such report refers, and shall be made available to the shareholders together with other documents relating to the General Shareholders' Meeting.
3. In addition, public notice shall be given of the annual corporate governance report as provided in the securities markets rules and regulations.

Article 53. Website

The Company shall maintain a website for shareholders' and investors' information, which shall include the documents and information provided for by Law, and at least the following:

1. The current By-Laws, as well as the amendments thereto made in the last twelve (12) months.
2. The current Regulations for the General Shareholders' Meeting.
3. The current Regulations of the Board of Directors and, if applicable, the current Regulations of the Committees of the Board of Directors.
4. The sustainability report or annual report for the last two (2) closed fiscal years, which will be published after preparation thereof for submission to the shareholders at the General Shareholders' Meeting.
5. The current Internal Regulations for Conduct in the Securities Markets.
6. The annual corporate governance report for the last closed fiscal year.
7. The information regarding the call to meeting, the agenda, the proposed resolutions, and any other relevant information that the shareholders may need in order to vote, starting upon publication of the first notice of the call to any ordinary or extraordinary General Shareholders' Meeting.
8. The information on the proceedings of the General Shareholders' Meetings held during the current and the prior fiscal years, and particularly, on the agenda, the composition of the General Shareholders' Meeting at the time when it is convened, and the resolutions adopted, with a statement of the number of votes cast and the direction of such votes on each of the proposals included in the agenda.
9. The existing channels of communication between the Company and the shareholders and, in particular, explanations pertinent to the exercise of a shareholder's right to receive information, indicating the postal and e-mail addresses to which the shareholders may direct their requests, which channels shall have been established for each General Shareholders' Meeting from the publication of the first notice of the call to meeting until the holding thereof.
10. The means and procedures for granting a proxy to attend a General Shareholders' Meeting, established for each Meeting from the moment of the call to meeting until the holding thereof.
11. The means and procedures for casting votes from a distance, including, where applicable, the forms required to evidence attendance and the casting of votes by means of data transmission at the General Shareholders' Meeting, established for each Meeting from the moment of the call to meeting until the holding thereof.
12. All relevant events of which notice was given to the National Securities Market Commission during the current fiscal year and the last closed fiscal year.

TITLE III. NEUTRALIZATION OF LIMITATIONS IN THE EVENT OF TENDER OFFERS

Article 54. Removal of Voting Limitations

The limitation on the maximum number of votes that may be cast by a single shareholder contained in Article Twenty-Nine (paragraphs three to five) and the voting prohibition of Article Thirty which is imposed upon shareholders affected by conflicts of interests, shall have no effect upon the occurrence of the following circumstances:

a) When the Company is the target of a public tender offer aimed at the share capital as a whole; and

b) When, as a result of the public tender offer, an individual or a legal entity, or several of them acting jointly, acquire an interest equal to two-thirds of the voting capital of the Company, provided the full consideration thereof consists only of cash; or, alternatively,

c) When, as a result of the public tender offer, an individual or a legal entity, or several of them acting jointly, acquire an interest equal to three-quarters of the voting capital of the Company, provided that the consideration thereof consists, in whole or in part, of securities, without giving the recipient an alternative right to receive such consideration wholly in cash.

Article 55. Effectiveness of the Removal

1. The removal of the limitation mentioned in the above paragraph shall be effective from the date of publication of the result of the settlement of the offer in the Listing Bulletin [*Boletín de Cotización*] of the Bilbao Stock Exchange.

2. The Directors of the Company shall have the power – and the duty – to execute the corresponding public instrument formalizing the by-law amendment referred to in paragraph one above and to seek registration thereof with the Commercial Registry.

Article 56. Amendments to Articles in Title III and Related Provisions

All resolutions intended to eliminate or amend the provisions contained in this Title, in Article Twenty-Nine (paragraphs three to five), and in Article Thirty shall require the affirmative vote of three-fourths of the share capital in attendance at a General Shareholders' Meeting.

TITLE IV. ANNUAL FINANCIAL STATEMENTS, DISTRIBUTION OF PROFITS, DISSOLUTION AND LIQUIDATION

Chapter I. Annual Financial Statements

Article 57. Fiscal Year and Drawing-up of Annual Financial Statements

1. The fiscal year shall commence on January 1 of each year and shall end on December 31.

2. The Annual Financial Statements and the Management Report shall be prepared in compliance with the structure, principles and guidelines contained in current applicable provisions.

3. Within the first three (3) months of the year, the Board of Directors shall draw up the Annual Financial Statements, the Management Report and the Proposed Allocation of Profits or Losses and, if applicable, the consolidated Financial Statements and Management Report.

   The Annual Financial Statements and the Management Report must be signed by all the Directors. If the signature of any of them is missing, an indication of such circumstance shall be inserted into each of the documents where it is so missing, with express reference to the reason therefore.

Article 58. Auditors

1. The Annual Financial Statements and the Management Report of the Company, as well as the consolidated Annual Financial Statements and Management Report, must be reviewed by Auditors.

2. The Auditors shall be appointed by the shareholders acting at a General Shareholders' Meeting prior to the end of the fiscal year to be audited, for a fixed initial period that shall not be less than three (3) years nor greater than nine (9), to be counted from the date of commencement of the first fiscal year to be audited; the Auditors may be re-elected by the shareholders, upon the terms provided for by Law, once the initial period has expired.

3. The Auditors shall prepare a detailed report on the results of their actions pursuant to the legal provisions governing the Auditing of Financial Statements.

Article 59. Approval of Financial Statements and Allocation of Profits/Losses

1. The Annual Financial Statements of the Company and the consolidated Financial Statements shall be submitted for approval of the shareholders at the General Shareholders' Meeting.

2. The shareholders shall decide at the General Shareholders' Meeting upon the allocation of profits or losses for the fiscal year in accordance with the approved balance sheet.

3. Once such payments as are provided for by these By-Laws or by Law have been made, dividends may only be distributed with a charge against the profits for the fiscal year or against unappropriated reserves, if the book value of net assets is not less than the share capital, or does not become so as a result of the distribution.

4. If the shareholders resolve to distribute dividends, they shall establish the time and form of payment thereof. The establishment of these standards and of any others that may be required or appropriate to carry out the resolution may be delegated to the Board of Directors.

5. The shareholders may resolve at the General Shareholders' Meeting that the dividend be paid totally or partially in kind, provided that:
   a) The assets or securities to be distributed are homogeneous;
   b) They are listed on an official exchange at the time the resolution is made effective, or the Company duly guarantees the liquidity thereof within a maximum period of one year; and
   c) They are not distributed for a lesser value than the value set forth for them in the balance sheet of the Company.
6. The distribution of dividends to shareholders shall be made in proportion to their paid-up capital.

Article 60. Filing of the Approved Financial Statements

The Board of Directors shall file the Annual Financial Statements and the Management Report of the Company, as well as the consolidated Financial Statements and Management Report, together with the corresponding Reports prepared by the Auditors and all other mandatory documents, in such manner and within such periods as are prescribed by Law.

Chapter II. Dissolution and Liquidation of the Company

Article 61. Grounds for Dissolution

The Company shall be dissolved upon the occurrence of any of the events set forth in the Companies Law.

Article 62. Liquidation of the Company

1. From the moment the Company declares itself to be in liquidation, the Board of Directors shall cease to hold office and the Directors shall become liquidators of the Company. They shall make up a collective body which must be composed of an odd number of members. If necessary for such purpose, the Director having the least length of service since appointment shall cease to hold office.
2. During the liquidation period, the provisions of these By-Laws governing the calling and holding of General Shareholders' Meetings shall be complied with, and the shareholders at the General Shareholders' Meeting shall be informed of the progress of the liquidation, so that the shareholders may adopt thereat such resolutions as they deem appropriate.
3. All liquidating operations shall be carried out with due observance of applicable law.

Article 63. Supervening Assets and Liabilities

1. If corporate property appears after the entries relating to the Company have been cancelled, the liquidators shall assign to the former shareholders the additional share to which they may be entitled, for which purpose such property shall be first converted into cash where necessary.

   After the passage of six (6) months from the date on which the liquidators were required to comply with the provisions of the foregoing, without the former shareholders having been assigned the additional share, or in the absence of liquidators, any interested party may file a petition with the Court of First Instance of the Company's last registered office for the appointment of a person to replace the liquidators in the performance of their duties.
2. The former shareholders shall be jointly and severally liable for all unpaid corporate liabilities up to the amount of what they may have received as their share in liquidation, without prejudice to the liability of the liquidators in the event of fraudulent or negligent conduct.
3. In order to comply with formal requirements relating to legal acts performed prior to the cancellation of the entries of the Company, or whenever necessary, the former liquidators may formalize legal acts in the name of the defunct Company following its cancellation in the registry. In the absence of liquidators, any interested party may file a petition for formalization by the Court of First Instance of the place where the last registered office of the Company was located.

TITLE V. FINAL PROVISIONS

Sole Final Provision. Jurisdiction for the Resolution of Disputes

In connection with all litigious disputes that may arise between the Company and the shareholders with regard to the corporate affairs, both the Company and the shareholders waive the right to resort to their own jurisdiction and expressly submit to the jurisdiction of the courts of the place where the Company's registered office is located, except in those cases in which another jurisdiction is imposed by law.

ANNEX II - REPORT OF THE BOARD OF DIRECTORS OF IBERDROLA RENOVABLES, S.A. REGARDING THE COMMON TERMS OF MERGER

REPORT OF THE DIRECTORS

OF

IBERDROLA RENOVABLES, S.A.

REGARDING

THE COMMON TERMS OF MERGER

BETWEEN

IBERDROLA, S.A.

(AS ABSORBING COMPANY)

AND

IBERDROLA RENOVABLES, S.A.

(AS ABSORBED COMPANY)

Valencia, April 13, 2011

TABLE OF CONTENTS

1. INTRODUCTION

On March 22, 2011, the Boards of Directors of Iberdrola, S.A. (hereinafter, "**Iberdrola**") and Iberdrola Renovables, S.A. (hereinafter, "**Iberdrola Renovables**") agreed to prepare, approve and sign Common Terms of merger regarding the merger through absorption of Iberdrola Renovables by Iberdrola (hereinafter, the "**Merger**" and the "**Common Terms of Merger**," respectively).

In compliance with the provisions of Section 32 of Law 3/2009, of April, on structural changes to corporations (hereinafter, the "**Structural Modifications Law**"), various specimens of the Common Terms of Merger were submitted for deposit with the Commercial Registries corresponding to Iberdrola and Iberdrola Renovables, i.e., Biscay and Valencia, with the respective deposits being made on March 25, 2011 and March 29, 2011, respectively, as published in the Official Gazette of the Commercial Registry (Boletín Oficial del Registro Mercantil) (BORME), numbers 68 and 69, dated April 7, 2011 and April 8, 2011.

In addition, pursuant to the provisions of Section 33 of the Structural Modifications Law, the directors of both Iberdrola and Iberdrola Renovables must prepare respective reports providing a detailed explanation and rationale regarding the legal and financial aspects of the Common Terms of Merger, as well as the impact of the Merger on shareholders, creditors and employees.

In view of the foregoing, the directors of Iberdrola Renovables, other than the Proprietary Directors ("*Consejeros dominicales*") appointed at the request of Iberdrola, prepared and signed this report on the Common Terms of Merger for purposes of compliance with the provisions of Section 33 et. seq. of the Structural Modifications Law (hereinafter, the "**Report**").

2. STRATEGIC RATIONALE FOR THE MERGER

Pursuant to the Draft Common Terms of Merger, the Boards of Directors of Iberdrola and Iberdrola Renovables have decided to support the merger of both companies (initially proposed by Iberdrola) based on the following rationale:

(i) The renewable energy sector has changed significantly since the public offering for shares of Iberdrola Renovables (the "**IPO**").

The Merger will combine assets of two large companies and will allow Iberdrola to more directly engage in an activity intrinsic to its corporate purpose. In addition, Iberdrola's shareholder base will be strengthened by the inclusion of shareholders from Iberdrola Renovables.

(ii) At the same time, with the proposed integration of Iberdrola Renovables' shareholders into Iberdrola, Iberdrola Renovables' shareholders will benefit from Iberdrola's larger size, the liquidity of its securities, and the lower volatility of its shares.

This integration will reduce or eliminate the future risk of cannibalization of shareholders when both companies compete for equity from the same shareholders and investors. Finally, Iberdrola Renovables' shareholders will become shareholders in Iberdrola, a much more profitable company than Iberdrola Renovables, the dividend policy of which currently involves a distribution of its net profits which variesy between 50% and 60%, and which has also by means of set in motion the shareholder remuneration system called "Iberdrola Flexible Dividend".

Without prejudice to the foregoing, it should be noted that the integration of the merging companies' shareholders will not deprive the current shareholders of Iberdrola Renovables from continuing to benefit from the activities that it is carrying out in the renewable energy sector, as this activity will continue to be carried out by Iberdrola, and are expected to have a significant weight in its results.

(iii) Furthermore, it should be kept in mind that at the time of the IPO, the development and operation of generation assets from renewable sources were activities with low visibility in the markets and a small number of competitors. In addition, the goals set upon agreeing to list Iberdrola Renovables at the end of 2007 have been met, or have changed in recent years due to the evolution of the markets and the renewable energies industry:

a. The IPO was carried out to emphasize the value of and give visibility to the Iberdrola group's renewable energy division. Currently, the renewable energy sector is well represented in the capital markets and is subject to appropriate recognition, following and analysis (e.g., Enel Green Power, Terna Energy and EDP Renováveis), thanks in part to the investor communication effort carried out by Iberdrola Renovables since the IPO.

b. At the time of the IPO, it was expected that there would be a possibility of future increases in the share capital of Iberdrola Renovables in order to finance organic growth. However, the current financial crisis has reduced the possibilities of obtaining outside funds, and the acquisition of equity is thus more feasible and efficient at a company of larger size and liquidity.

c. Brand recognition. The IPO was carried out in order to, among other reasons, give Iberdrola Renovables a position in the market that would foster the international growth of the Iberdrola group. Today, the Iberdrola group as a whole is internationally valued and recognized as a leading producer of clean energy.

Within the new context of the industry, both companies are now convinced that activities in the renewable energy sector can be more properly and effectively carried out with reliance upon the shareholders within Iberdrola Renovables and the other companies of the Iberdrola group that carry out similar and complementary activities in this industry. In addition, upon completion of the Merger, they can dedicate more operational and financial resources to this activity.

d. Facilitate the exploitation of opportunities for growth in new technologies (such as, for example, offshore wind and thermosolar technologies). Given their state of development, the exploitation and enhancement of the value of these new technologies require initial investments in significant amounts, which requires that the entity intending to exploit them have a significant volume of financial resources, the contribution of guarantees, and a large diversification of risk.

Over more than three (3) years of Iberdrola Renovables' existence as a listed company, this company has required both financial resources as well as operational support in order to undertake certain projects. These resources and support have been provided on numerous occasions by Iberdrola under the Framework Agreement signed by both entities on November 5, 2007.

If the Merger is carried out with the reintegration of Iberdrola Renovables into Iberdrola, such support would not be required, as the projects previously developed by Iberdrola Renovables will now be carried out by a larger and stronger company. In turn, its larger size and strength will allow Iberdrola to undertake projects that Iberdrola Renovables would previously have found difficult to carry out itself, due to its balance sheet, financial and human resource limitations.

(iv) It would also be appropriate to keep in mind that the proposed Merger entails synergies in their administration, allowing for simplification thereof, eliminating duplicative organizational work, reducing management costs and, among other things, centralizing within Iberdrola the obligations to provide information to the market and to third parties). It is expected that this group of measures will translate into cost savings of approximately 20 million euros per year beginning in 2012.

(v) Upon implementation of the Merger, and assuming that the exchange ratio is paid for in part by newly-issued shares of Iberdrola, the integration of the shareholder base of Iberdrola and Iberdrola Renovables will entail a higher number of Iberdrola shares trading on the stock markets (i.e., larger size and depth of the free float). It can reasonably be expected that this circumstance will reduce the volatility of Iberdrola's securities and increase its liquidity.

(vi) If the proposed transaction is completed, the capital markets can be accessed for outside funds from a corporate platform with greater weight and a stronger capacity for dialogue with financial players than is currently represented by Iberdrola Renovables.

3. LEGAL ASPECTS OF THE COMMON TERMS OF MERGER

3.1 STRUCTURE OF THE TRANSACTION: MERGER BY ABSORPTION

The legal structure chosen to integrate the businesses of Iberdrola and Iberdrola Renovables is a merger upon the terms of Sections 22 et. seq. of the Structural Modifications Law, as well as Articles 226 to 234 of the Regulations of the Commercial Registry.

Specifically, the planned merger will be implemented through the absorption of Iberdrola Renovables (absorbed company) by Iberdrola (absorbing company), with the termination of the former by dissolution without liquidation and the en bloc transfer of all of its assets to the latter, which shall acquire by universal succession all of the rights and obligations of Iberdrola Renovables. As a result of the Merger, the shareholders of Iberdrola Renovables other than Iberdrola shall receive shares of Iberdrola in exchange. A detailed examination of the impact of the Merger on Iberdrola Renovable's shareholders and creditors is provided in Sections 5.1 and 5.2, respectively, of this Report.

3.2 ANALYSIS OF THE LEGAL ASPECTS OF THE COMMON TERMS OF MERGER

The Common Terms of Merger have been prepared pursuant to the provisions of Sections 30 and 31 of the Structural Modifications Law, and therefore include mention that such provisions make up the minimum content thereof. The Common Terms of Merger also touches on aspects (other than those required by the law) that, due to the importance thereof, the Boards of Directors preparing it have deemed appropriate to include.

The legal aspects of the Common Terms of Merger are analyzed in detail below.

3.2.1 Identification of the Companies Participating in the Merger

Pursuant to the provisions of item 1 of Section 31 of the Structural Modifications Law, Section 2 of the Common Terms of Merger identify the companies participating in the Merger by stating the names, corporate types, and registered offices of both the absorbing company (Iberdrola) as well as the absorbed company (Iberdrola Renovables).

The identifying information for the registration of Iberdrola and Iberdrola Renovables with the Commercial Registries of Biscay and Valencia, respectively, as well as their corresponding tax identification numbers, are also listed.

The choice of Iberdrola as absorbing company is due not only to its larger size and market capitalization, or to the fact that Iberdrola holds an 80% stake in Iberdrola Renovables, but also due to the strategic sense of the transaction, which consists of, among other things, obtaining a larger company to carry out projects in the renewable energy sector, as stated in Section 2.(iii).d above.

3.2.2 Share Exchange Ratio

Pursuant to the requirements of Article 31.2 of the Structural Modifications Law, Section 3 of the Common Terms of Merger states the exchange ratio for the Merger.

The exchange ratio has been determined based on the actual value of the corporate assets of Iberdrola and Iberdrola Renovables, and will be 0.30275322 shares of Iberdrola, each having a par value of ZERO POINT SEVENTY-FIVE (€0.75) EURO per share, for each share of Iberdrola Renovables, each having a par value of ZERO POINT FIFTY (€0.50) EURO per share.

It is hereby noted that this exchange ratio has been calculated taking into account the extraordinary distribution of a cash dividend of one euro twenty cents (€1.20) gross for each share with right of receipt that the Board of Directors of Iberdrola Renovables has agreed at its meeting of March 22, 2011 and proposed to the General Meeting of Shareholders of this company and referenced in paragraph 3.2.12.1.b) below.

Section 4.3 of this Report contains an economic analysis of the exchange ratio of the Merger.

3.2.3 Methods for Covering the Exchange Ratio

3.2.3.1 Introduction. Shares to be used in the exchange

For a better understanding of the following sections, it is appropriate to first determine the number of shares that Iberdrola must deliver to the current shareholders of Iberdrola Renovables in consideration for the net assets acquired by universal succession within the framework of the Merger.

Thus, taking into account:

a) that the share capital of Iberdrola Renovables is made up of a total of FOUR BILLION TWO HUNDRED AND TWENTY-FOUR MILLION SIXTY-FOUR THOUSAND NINE HUNDRED (4,224,064,900) shares;

b) that neither the THREE BILLION THREE HUNDRED AND SEVENTY-NINE MILLION TWO HUNDRED FIFTY-ONE THOUSAND NINE HUNDRED TWENTY (3,379,251,920) shares of Iberdrola Renovables owned by Iberdrola (representing some 80% of the share capital thereof), nor the SIXTEEN MILLION THREE HUNDRED ONE THOUSAND ONE HUNDRED SEVENTY-EIGHT (16,301,178) shares held as of the date of this Report as treasury shares by Iberdrola Renovables (and also assuming that both figures are unchanged through the registration of the Merger with the Commercial Registry) will be used in the exchange; and

c) the exchange ratio referred to in Section 3.2.2 above,

one should conclude that Iberdrola must deliver TWO HUNDRED FIFTY MILLION EIGHT HUNDRED THIRTY-FOUR THOUSAND SIX HUNDRED FIFTEEN

SHARES AND EIGHTY SIX HUNDREDTHS OF A SHARE (250,834,615.86) to the group of current shareholders of Iberdrola Renovables in order to cover the exchange.

However, given the indivisibility of the shares and the inability to issue or deliver fractions of a share, in order to properly carry out the exchange, the total number of shares of Iberdrola Renovables remaining on the market and that participate in the exchange must be a multiple of the exchange ratio. As long as the number of shares of Iberdrola Renovables in the market at the time of the exchange (i.e., assuming that the above numbers do not change, 828,511,802) is not a multiple of the exchange ratio, the companies participating in the Merger have decided to establish a mechanism so that the number of Iberdrola shares to deliver to the shareholders of Iberdrola Renovables pursuant to the exchange is a whole number.

This mechanism will consist of the appointment of an entity which will act as an "odd-lot agent," waiving the fraction of the last share of Iberdrola to which it may be entitled as a shareholder of Iberdrola Renovables so that the total number of Iberdrola shares to be delivered to the shareholders of Iberdrola Renovables is a whole number.

Along these lines, it is stated for the record that Iberdrola and Iberdrola Renovables have held conversations with various entities which may perform the function of "odd-lot agent" ("**Odd-Lot Agent**"), and that some of these entities, in the event that they are appointed as Odd Lot Agent, have irrevocably waived the fraction of the last share of Iberdrola to which it might be entitled (as a shareholder of Iberdrola Renovables by virtue of the odd-lots which would be acquired). By way of example, if one assumes that the above numbers do not change, the Odd-Lot Agent will waive a fraction of share of Iberdrola equal to 0.86 so that the number of Iberdrola shares to be delivered to the shareholders of Iberdrola Renovables is equal to TWO HUNDRED FIFTY MILLION EIGHT HUNDRED THIRTY-FOUR THOUSAND SIX HUNDRED FIFTEEN (250,834,615) shares.

Therefore, pursuant to the above figures (after the aforementioned waiver), Iberdrola would need TWO HUNDRED FIFTY MILLION EIGHT HUNDRED THIRTY-FOUR THOUSAND SIX HUNDRED FIFTEEN (250,834,615) shares of Iberdrola to cover the exchange.

3.2.3.2 Methods to Cover the Exchange Ratio

Section 5 of the Common Terms of Merger provides that Iberdrola will cover the exchange of Iberdrola Renovables shares set pursuant to the exchange ratio provided in Section 3 of the Common Terms of Merger with treasury or newly-issued shares or a combination of both.

Along these lines, the Board of Directors of Iberdrola has ultimately chosen to cover the exchange with treasury shares, and if such number is insufficient to fully cover such ratio, including newly-issued shares.

For such purpose, Iberdrola's Board of Directors plans to propose to the shareholders at the General Shareholders' Meeting of this company that they accept in full the exchange

of shares of Iberdrola Renovables by means of the delivery of treasury shares of Iberdrola.

However, in the event that such treasury shares are insufficient, it is also planned to propose a capital increase to Iberdrola's shareholders, the essential terms of which are referred to in Section 6 below.

Set forth below are the main terms and conditions under which Iberdrola is acquiring the treasury shares needed to cover the exchange ratio (in whole or in part), as well as those corresponding to the capital increase, if any, required to cover such exchange ratio:

- **Buyback Program**

On March 11, 2011, Iberdrola's Board of Directors resolved to carry out a share buyback program pursuant to the authorization granted by the shareholders of such company at the General Shareholders' Meeting held on March 26, 2010 and pursuant to the provisions of Commission Regulation (EC) No. 2273/2003 of December 22, 2002 (the "**Buyback Program**"). The resolution adopted by the Board of Directors was subsequently amended by virtue of another resolution adopted on March 22, 2011 to increase the maximum number of shares to acquire within the scope of the Buyback Program, while maintaining the remaining terms.

The share Buyback Program will be carried out on the following terms:

(i) In the implementation of the Buyback Program, Iberdrola may acquire up to a maximum of TWO HUNDRED FIFTY MILLION NINE HUNDRED THOUSAND (250,900,000) shares representing up to 4.30937% of its share capital prior to the Merger.

(ii) The shares will be purchased at market price pursuant to the price and volume conditions set forth in Article 5 of Commission Regulation (EC) No. 2273/2003 of December 22, 2003.

(iii) The Buyback Program will remain in effect until the occurrence of the exchange, which is expected to take place no later than July 31, 2011.

Notwithstanding the foregoing, Iberdrola reserves the right to end the Buyback Program in the event that Iberdrola acquires the shares needed to cover the exchange or decides to increase capital for such purpose prior to the stated end of the effective date.

Finally, it is stated for the record that on closure of the stock market session for 8 April 20111, Iberdrola had acquired a total of FIFTY TWO MILLION EIGHT HUNDRED AND SEVENTY FOUR THOUSAND SIX HUNDRED (52,874,600) Iberdrola shares with which it plans to cover the exchange ratio referred to in Section 0 above. However, given that the Buyback Program will remain in effect until the effectiveness of the

[1] Last date prior to this report on which Iberdrola has forwarded to the NATIONAL SECURITIES MARKET COMMISSION a communication of a significant event publishing the operations carried out by Iberdrola under the Buyback Program.

exchange of Iberdrola Renovables shares for Iberdrola shares (which is expected to occur no later than July 31, 2011), it is expressly stated for the record that Iberdrola, in light of market conditions in effect from time to time, will continue to acquire its own shares until reaching a number that will allow it to fully cover the above-referenced exchange ratio.

- **Capital Increase**

In the event that Iberdrola has to partially cover the exchange ratio with newly-issued shares, it would increase its share capital by means of the issuance of new shares with a par value of SEVENTY-FIVE (€0.75) EURO CENTS each, belonging to the same and only class as the current shares of Iberdrola, and represented by book-entries.

In view of: (a) the number of Iberdrola shares needed to cover the exchange ratio (i.e., TWO HUNDRED FIFTY MILLION EIGHT HUNDRED THIRTY-FOUR THOUSAND SIX HUNDRED FIFTEEN (250,834,615) shares), assuming that this figure remains unchanged until the registration of the Merger with the Commercial Registry; as well as (b) the total treasury shares acquired by Iberdrola under the Buyback Program on closure of the stock market session for 8 April 2011 (i.e., FIFTY TWO MILLION EIGHT HUNDRED AND SEVENTY FOUR THOUSAND SIX HUNDRED (52,874,600 shares); the maximum number of shares which, where appropriate, Iberdrola's share capital would have to be increased by to fully cover the exchange ratio as of the date of this Report would be ONE HUNDRED AND NINETY SEVEN MILLION NINE HUNDRED AND SIXTY THOUSAND AND FIFTEEN SHARES (197,960,015 shares).

In any event, as stated above, by application of Section 26 of the Structural Modifications Law, there will be no exchange of either the shares of Iberdrola Renovables held by Iberdrola (currently representing 80% of the share capital) or the treasury shares of Iberdrola Renovables (which as of the date of this Report amount to SIXTEEN MILLION THREE HUNDRED ONE THOUSAND ONE HUNDRED SEVENTY-EIGHT (16,301,178) shares), which will be cancelled.

In addition, should the share capital increase described in this section be carried out, the Share Premium (as defined below) would be calculated in accordance with section 6.2 below.

Both the par value of such shares as well as the corresponding Share Premium will be entirely paid-up as a result of the transfer en bloc of the assets of Iberdrola Renovables to Iberdrola, which will acquire all of the rights and obligations of such company by universal succession.

It is hereby stated for the record that, pursuant to the provisions of Section 304.2 of the Restated Text of the Companies Law, approved by the sole section of Royal Legislative Decree 1/2010, of July 2 (the "**Companies Law**"), if the capital increase referred to herein takes place, the current shareholders of Iberdrola will not have any pre-emptive right to subscribe the new shares issued upon the absorption of Iberdrola Renovables.

3.2.4 Share Exchange Procedure

Furthermore, pursuant to the provisions of Section 31.2 of the Structural Modifications Law, the procedure for exchanging the shares of Iberdrola Renovables for shares of Iberdrola is summarized in Section 6 of the Common Terms of Merger, and will occur in the following manner:

a) Upon approval of the Merger by the shareholders acting at the General Shareholders' Meetings of both companies, the submission if required of the documentation referred to in Sections 26.1 d), 41.1 c) et.seq sections of Royal Decree 1310/2005, of November 4, to the National Securities Market Commission (*Comisión Nacional del Mercado de Valores*) (hereinafter, the "**CNMV**"), and the registration of the Merger instrument with the Commercial Registry of Biscay (after qualification by the Commercial Registry of Valencia with a statement –by means of a note signed by the relevant Registrar– of the non-existence of any obstacles to registration of the planned Merger), the exchange of Iberdrola Renovables shares for Iberdrola shares will proceed.

b) The exchange will take place as from the date indicated in the announcements to be published in widely-circulated newspapers in the provinces of Biscay and Valencia, respectively, in the Official Gazettes (Boletines Oficiales) of the Spanish stock exchanges and in the Official Gazette of the Commercial Registry. The financial institution indicated in such announcements will be appointed to act as exchange agent for such purposes.

   For these purposes the exchange agent will carry out the duties of the "Odd-lot Agent".

c) The exchange of Iberdrola Renovables shares for Iberdrola shares will be implemented through the institutions participating in the Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal (Iberclear) ("**Iberclear**") acting as depositaries thereof pursuant to the provisions set forth in the book-entry system in accordance with the provisions of Royal Decree 116/1992, of February 14, and with the application of the provisions of Section 117 of the Companies Law to the extent applicable.

d) Shareholders holding shares representing a fraction of the number of shares of Iberdrola Renovables set as the exchange ratio may acquire or transfer shares in order to exchange them in accordance with such exchange ratio. Without prejudice thereto, the companies participating in the Merger will establish mechanisms, including the appointment of an "odd-lot agent", to facilitate the exchange for those shareholders of Iberdrola Renovables holding a number of shares that does not allow them to receive a whole number of Iberdrola shares under the agreed exchange ratio, as indicated in section 3.2.3.1 above.

e) The shares of Iberdrola Renovables will be cancelled as a result of the Merger.

3.2.5 Merger Balance Sheets and Valuation of the Assets and Liabilities to be Transferred

Section 4.1 of the Common Terms of specifies that the balance sheets of Iberdrola and Iberdrola Renovables, respectively, ended on December 31, 2010 shall be deemed the merger balance sheets for purposes of Section 36.1 of the Structural Modifications Law, as well as that as of such date there were none of the circumstances provided for in Section 36.2 of the Structural Modifications Law requiring a modification of the figures contained in such balance sheets of Iberdrola and Iberdrola Renovables.
Such balance sheets have been prepared by the respective Boards of Directors on February 22, 2011 (in the case of Iberdrola) and February 21, 2011 (in the case of Iberdrola Renovables), duly verified by the auditors of both companies (i.e., Ernst & Young, S.L.), and will be subject to the approval of the shareholders at the General Shareholders' Meetings of each of the companies deciding upon the Merger, prior to the adoption of the merger resolution itself.

In addition, for purposes of the provisions of Section 31.10 of the Structural Modifications Law, Section 4.2 of the Common Terms of Merger states that the terms upon which the Merger will take place have been determined taking into account the annual financial statements of the merging companies corresponding to the fiscal year ended on December 31, 2010, as the fiscal year of Iberdrola and Iberdrola Renovables coincides with the calendar year.

In order to comply with the provisions of Section 31.9 of the Structural Modifications Law, Section 4.3 of the Common Terms of Merger states that, upon implementation of the transaction, the assets and liabilities transferred by Iberdrola Renovables to Iberdrola will be recorded by Iberdrola in the amount corresponding thereto in the consolidated annual financial statements of the group as of the effective date of this Merger for accounting purposes, i.e., January 1, 2011.

Furthermore, Section 4.3 of such Common Terms of Merger emphasized that, as of the date of formulation and signing, Iberdrola Renovables was immersed in a process of implementation of a new corporate and governance structure of the group of its subsidiaries which included the creation of one or more subholding companies that would assume the effective management and administration of the renewable energy businesses in Spain and in the rest of the world and which continues as of the date of this Report.

After describing the valuation of the various assets and liabilities, it concludes that the value of the net assets transferred by Iberdrola Renovables to Iberdrola is approximately ELEVEN BILLION THREE HUNDRED SEVENTY-ONE MILLION THREE HUNDRED EIGHTY-NINE THOUSAND (€11,371,389,000.00) EUROS.

3.2.6 Ancillary Obligations and Special Rights

Section 10 of the Common Terms of Merger expressly states that there are no ancillary obligations, special shares or other special rights other than the shares in Iberdrola Renovables for purposes of Section 31.3 and 3.4 of the Structural Modifications Law.

At the same time, it is stated that the Iberdrola shares delivered to the shareholders of Iberdrola Renovables under the Merger contemplated in the Common Terms of Merger will not give the holders thereof any special rights.

3.2.7 Benefits Extended to Directors or Independent Experts

Pursuant to Section 31.5 of the Structural Modifications Law, Section 11 of the Common Terms of Merger states that no benefits of any type will be extended to the directors of either of the entities participating in the Merger or to the independent expert participating in the Merger.

3.2.8 Date as From Which the Shares to be Delivered in Exchange Will Give the Right to Participate in the Corporate Earnings of Iberdrola

Section 9 of the Common Terms of Merger provides that, as from the date of issuance or delivery thereof, the Iberdrola shares delivered to cover the exchange (whether treasury shares or shares issued by Iberdrola within the context of any capital increase approved in accordance with the provisions of Section 5 of the Common Terms of Merger) will give the holders thereof the right to participate in Iberdrola's earnings upon the same terms as the other Iberdrola shares outstanding on such date.

The same section states that such shares will in turn have the right to receive the dividend that Iberdrola plans to distribute upon the effectiveness of the Merger and that, by way of guidance, is expected to become effective during the month of July 2011, with a charge to the profits from the fiscal year ended December 31, 2010. Such shares will also benefit from the implementation of the "Iberdrola Flexible Dividend" system referred to in Section 8.2 of the Common Terms of Merger in the event it is approved by the General Shareholders' Meeting of Iberdrola.

With these statements, Section 9 of the Common Terms of Merger complies with the provisions of Section 31.6 of the Structural Modifications Law.

3.2.9 Date of Accounting Effects of the Merger

Pursuant to Section 31.7 of the Structural Modifications Law, Section 9 of the Common Terms of Merger sets January 1, 2011 as the date from which the transactions of Iberdrola Renovables shall be deemed for accounting purposes to have taken place on behalf of Iberdrola.

This means that the Merger will have retroactive effect for accounting purposes in accordance with the General Chart of Accounts (Plan General de Contabilidad) approved by Royal Decree 1514/2007, of November 16, according to the interpretation thereof by the Instituto de Contabilidad y Auditoría de Cuentas (Accounting and Auditing Institute).

3.2.10 By-Law Amendments

To comply with the requirements of Section 31.8 of the Structural Modifications Law, Section 13 of the Common Terms of Merger expressly states that Iberdrola, as absorbing company, will continue to be governed by its By-Laws as in effect on the date hereof on its corporate website, www.iberdrola.com (a copy of which are attached to the Common Terms of Merger).

It is also stated that Article 5 of the By-Laws of Iberdrola, regarding share capital, will be amended by the amount that Iberdrola believes is needed to cover the exchange for Iberdrola Renovables' shares pursuant to the exchange ratio established in Section 3 of the Common Terms of Merger with treasury shares (as a result of the Buyback Program) or, if the number thereof is insufficient to fully cover such ratio, with newly-issued shares.

For such purpose, the Board of Directors will if appropriate submit the relevant proposal for amendment of the By-Laws to the shareholders at the General Shareholders' Meeting at which the Merger is approved, without prejudice to other proposed by-law amendments based on the ongoing review and updating of the Corporate Governance System; all upon the terms of the current Companies Law.

3.2.11 Impact on employment, gender and corporate social responsibility

Section 14 of the Common Terms of Merger sets forth the possible consequences of the Merger on employment, as well as its possible impact on gender within the management bodies and the impact, if any, on the social responsibility of the company. The Common Terms of Merger thus complies with the provisions of Section 31.11 of the Structural Modifications Law.

Section 5 of this Report analyzes the impact of the Merger on shareholders, creditors and employees of the participating companies.

3.2.12 Other Statements in the Common Terms of Merger

Apart from the minimum statements required by law, the Common Terms of Merger deal with other issues included for purposes of relevancy or importance in the opinion of the Boards of Directors of Iberdrola and Iberdrola Renovables, which conceived of and planned the transaction. In summary, they deal with the following items:

3.2.12.1 Dividends and other forms of shareholder compensation

Section 8 of the Common Terms of Merger describes the distributions and payments of dividends planned by Iberdrola and Iberdrola Renovables, as well as other forms of shareholder compensation contemplated by the merging companies, all of which has been taken into account in the formulation thereof, as well as in the determination of the exchange ratio for the Merger.

- **Iberdrola Renovables**

Iberdrola Renovables plans to carry out the following dividend distributions:

a) If the proposed resolution formulated by the Board of Directors at its meeting of February 21, 2011 is approved by the shareholders at the General Shareholders' Meeting of Iberdrola Renovables, Iberdrola Renovables will distribute a cash dividend with a charge to the results of fiscal year 2010 in the gross amount of two point five (€0.025) euro cents per share with the right to receive it.

   By way of guidance, it is expected that this dividend will be paid on June 21, 2011, and in any event prior to registration of the Merger between Iberdrola and Iberdrola Renovables with the Commercial Registry of Biscay.

b) In addition, it is expected that Iberdrola Renovables will make a special distribution of a cash dividend in the gross amount of one point twenty (€1.20) euro per share with the right to receive it, subject to: i) the shareholders of Iberdrola Renovables approving the proposed resolution formulated by Iberdrola Renovables' Board of Directors at its meeting of March 22, 2011, and ii) the shareholders of Iberdrola and Iberdrola Renovables approving the Merger.

   In such event, the payment of the above-referenced special dividend (in the gross amount of one point twenty (€1.20) euro per share) will be made, by way of guidance, on June 21, 2011.

- **Iberdrola**

In accordance with the proposal formulated by the Board of Directors at its meeting of February 22, 2011, amended and subject to the approval of the General Shareholders' Meeting of Iberdrola by means of a resolution, also of the Board of Directors, of April 12, 2011, this company is expected to pay a dividend, in the event of approval by the General Meeting of shareholders, and on the successful conclusion of the Merger, the payment of which will be made during the month of July 2011 with a charge to the results from fiscal year 2010, in the gross amount of three (€0.03) euro cents per share with the right to receive it, from which amount will be deducted applicable withholding taxes at the time of payment thereof.

Pursuant to the provisions of Section 7 of the Common Terms of Merger, the shareholders of Iberdrola Renovables who become shareholders of Iberdrola as a result of the Merger will be entitled to this dividend.

Section 8.2 of the Common Terms of Reference described the proposed resolution formulated by Iberdrola's Board of Directors at its meeting of February 22, 2011, consisting of an increase in unrestricted capital for the free-of-charge allocation of new shares to the shareholders of Iberdrola within the framework of the shareholder compensation system referred to as the "Iberdrola Flexible Dividend," which will be submitted for the approval of the shareholders at the General Shareholders' Meeting under item six on the agenda thereof.

Pursuant to such proposal, this system will allow Iberdrola's shareholders to receive all or a part of their compensation in unrestricted shares of Iberdrola or in cash (in the latter case, through the sale of the free-of-charge allocation rights to which they are entitled on the market or pursuant to a fixed-price purchase commitment to be assumed by Iberdrola in the event that the proposed resolution is ultimately approved at the General Shareholders' Meeting).

If the proposal regarding the "Iberdrola Flexible Dividend" is approved by the shareholders at the General Shareholders' Meeting of Iberdrola, the delivery of new unrestricted shares or the receipt of cash amounts will occur in two implementations of the increase in unrestricted capital, which would take place during the months of July or August of fiscal year 2011, in the case of the first implementation, and if there is a second implementation, around the months of December 2011 or January 2012.

The reference market value determining the total number of shares to be issued on the first installment of the capital increase, which in any case is subject to the approval of Iberdrola's shareholders, will be determined by Iberdrola's Board of Directors at the time of approval of the relevant proposed resolution. However, taking into account the current share capital of Iberdrola and the market conditions as of the date of this Report, it is expected that the price of the purchase commitment that would be assumed by Iberdrola with respect to the free-of-charge allocation rights to be received by Iberdrola's shareholders in the first implementation of the capital increase would be the gross amount of at least fifteen (€0.15) euro cents per right. Keep in mind that this amount is provided merely for guidance purposes. The definitive amount of the fixed price of the commitment to be assumed by Iberdrola with respect to the free-of-charge allocation rights will be timely communicated on occasion of the first implementation of the increase in unrestricted capital.

Pursuant to the provisions of Section 7 of the Common Terms of Merger, the shareholders of Iberdrola Renovables becoming shareholders of Iberdrola as a result of the Merger will benefit from implementations of the "Iberdrola Flexible Dividend" system, as they will take place after the Merger.

3.2.12.2 Tax regime

Section 12 of the Common Terms of Merger states that the Merger is subject to the special tax regime established in Chapter VIII of Title VII and the second additional provision of the Restated Text of the Corporate Income Tax Law approved by Royal Legislative Decree 4/2004, of March 5, providing for the making of the relevant notices for such purpose.

3.2.12.3 Appointment of independent expert

It has been deemed appropriate to indicate in the Common Terms of Merger (see Section 15) that, pursuant to Section 34.1 of the Structural Modifications Law, the Board of Directors of the participating companies have chosen to ask the Commercial Registry of Biscay to appoint a sole independent expert to prepare a report regarding the

Common Terms of Merger, all in accordance with the provisions of Section 34 of the Structural Modifications Law and Articles 349.2 and 338 of the Regulations of the Commercial Registry.

In this regard, it is hereby stated that on March 23, 2011, the mentioned Commercial Registry of Biscay appointed KPMG Auditores, S.L., as independent expert, which accepted the appointment on said date.

3.2.12.4 Merger Committee

Section 16 of the Common Terms of Merger states that the document itself is the result of a process of analysis and decision-making carried out by the management bodies of both Iberdrola and Iberdrola Renovables. As regards the latter company, such analysis has been entrusted to an ad hoc informational and consultative committee within the Board of Directors without executive duties but having informational, advisory and proposal-making powers for the sole purposes of the Merger by absorption of Iberdrola Renovables by Iberdrola.

Such committee (the creation of which was the subject of a notice of significant event sent to the CNMV on March 8, 2011 (registration number 139,849)) is made up of three (3) independent Directors and is called the "Merger Committee."

3.2.12.5 Government approvals

Section 17 of the Common Terms of Reference refers to the approvals that might be required in Spain and in other jurisdictions in which Iberdrola and Iberdrola Renovables are present, and to which the effectiveness of the Merger is subject.

3.3 LEGAL PROCEDURE FOR THE MERGER BY ABSORPTION

To better understand the merger process, it is appropriate to identify and briefly explain the principal milestones, in chronological order, and to mention the significant precepts of the laws that govern it.

3.3.1 Approval and Signing of the Common Terms of Merger

As a mandatory starting point for the merger process, the law requires the preparation by the directors of the participating companies of common terms of merger (Sections 30 et. seq. of the Structural Modifications Law).

The Common Terms of Reference covered by this Report, which contains the bases and structure of the transaction, was drafted, approved and signed by the Board of Directors of Iberdrola and Iberdrola Renovables at meetings held on March 22, 2011. However, as stated in the Common Terms of Reference, it was not signed by proprietary Directors of Iberdrola Renovables appointed at the request of Iberdrola, as it was understood that they would be affected by a potential conflict of interest, for which reason they also did not participate in the deliberations and abstained from voting on such Common Terms of Merger.

On March 23, original specimens of the Common Terms of Merger were submitted for deposit with the Commercial Registries of Biscay and Valencia, with the deposit made on March 25 and 29, 2011, as published in the BORME numbers 68 and 69, dated April 7 and 8, 2011.

3.3.2 Independent Expert Report regarding the Common Terms of Merger

Pursuant to the provisions of Section 34 of the Structural Modifications Law and Articles 338 and 349 of the Regulations of the Commercial Registry and similar provisions, on March 23, 2011, Iberdrola and Iberdrola Renovables submitted a joint request with the Commercial Registry of Biscay for the appointment of a common independent expert to issue a single report regarding the Common Terms of Reference.

KPMG AUDITORES, S.L. was appointed on March 23, 2011 and accepted the position on that same date. On April 11, 2011, KPMG AUDITORES, S.L. issued the mandatory report regarding the Common Terms of Merger, a copy of which is annexed to this Report.

3.3.3 Report of the Directors regarding the Common Terms of Merger

Following the mandate of Section 33 of the Structural Modifications Law, the directors of Iberdrola Renovables have prepared this Report, in which they provide a detailed explanation and rationale regarding the legal and economic aspects of the Common Terms of Merger, with particular reference to the share exchange ratio as well as the impact of the Merger on the shareholders, creditors and employees of Iberdrola Renovables. The Board of Directors of Iberdrola Renovables has approved this Report on the date hereof, with no participation in deliberations and with the abstention from voting of proprietary Directors appointed at the request of Iberdrola due to the understanding that they might be affected by a potential conflict of interest.

Likewise, pursuant to Section 33 of the Structural Modifications Law, the directors of Iberdrola approved a report yesterday, April 12 2011, setting forth their respective justification and rationale for the Common Terms of Merger.

3.3.4 Documentation Equivalent to a Prospectus

Neither the issuance nor the listing of the new shares of Iberdrola that might be issued on occasion of the Merger by absorption between Iberdrola and Iberdrola Renovables will require the publication of a prospectus (*folleto informativo*), but rather the submission to the CNMV of the "equivalent information" referred to in article 26 of Royal Decree 1310/2005 and that it made available to the shareholders on a timely basis.

Apart from this Report, such equivalent information will basically include the following documents:

a) the rest of the documentation made available to the shareholders on occasion of the call to the respective General Shareholders' Meetings of Iberdrola and Iberdrola Renovables relating to Section 3.4 above; and

b) documents in which the investment banks advising Iberdrola have expressed their opinion (fairness opinions) regarding the fairness of the exchange ratio for Iberdrola's shareholders from a financial perspective;

c) documents in which the investment banks advising Iberdrola Renovables have expressed their opinion (fairness opinions) regarding the fairness within the framework of the Merger of the consideration to be received by the shareholders of Iberdrola Renovables from a financial perspective.

3.3.5 Call to the General Shareholders' Meetings of Iberdrola Renovables and Iberdrola

The Board of Directors of Iberdrola Renovables has also resolved on the date hereof to call an ordinary General Shareholders' Meeting to be held in Valencia on May 30, 2011, on first call, or if the required quorum is not reached, on second call, the next day, May 31, 2011.

For its part, the Board of Directors of Iberdrola resolved yesterday to call its ordinary General Shareholders' Meeting to be held in Bilbao on May 27, 2011, on first call, or if the required quorum is not reached, on second call, the next day, May 28, 2011.

The agenda for the call to the General Shareholders' Meeting of Iberdrola Renovables includes the following items, among others:

(i) Any information regarding significant changes in the assets or liabilities of Iberdrola and Iberdrola Renovables occurring between the date of the Common Terms of Merger and the holding of such General Shareholders' Meeting at which the Merger will be decided.

(ii) The approval of the Common Terms of Merger.

(iii) The approval as the merger balance sheet for the purposes established in articles 36 et.seq of the Structural Modifications Law, of the balance sheet of Iberdrola Renovables as of December 31, 2010 finalized by the Board of Directors at its meeting of February 21, 2011.

(iv) The deliberations on and approval, if any, of the resolution to merge Iberdrola and Iberdrola Renovables by means of the absorption of the latter by the former, causing the termination without liquidation of Iberdrola Renovables and the transfer en bloc of it assets to Iberdrola by universal succession, with an express provision that the exchange be covered by means of the delivery of treasury shares of Iberdrola and, if applicable, by means of new shares of Iberdrola pursuant to the conditioned capital increase referred to above, all in accordance with the provisions of the Common Terms of Merger.

(v) The adherence of the transaction to the special tax regime provided for in Chapter VIII of Title VII of the restated text of the Corporate Income Tax Law.

(vi) Providing acquiescence as required to the resolutions which, where appropriate, the General Shareholders' Meeting of Iberdrola adopt and which involve or may involve amendment to the By-Laws of same and its developing rules.

In turn, in accordance with the Common Terms of Merger, the items on the agenda for Iberdrola's ordinary General Shareholders' Meeting include the deliberation on and approval, if appropriate, of the resolutions for merger by absorption of Iberdrola Renovables by Iberdrola, as well as a conditioned increase in its share capital in the nominal amount of ONE HUNDRED AND FORTY EIGHT MILLION FOUR HUNDRED AND SEVENTY THOUSAND AND ELEVEN EUROS AND TWENTY FIVE CENTS (€ 148,470,011.25) by the issuance of ONE HUNDRED AND NINETY SEVEN MILLION NINE HUNDRED AND SIXTY THOUSAND AND FIFTEEN (197,960,015) shares, each with a nominal value of 0.75 euros, of the same class and series as those in circulation to cover the exchange ratio, subsequent amendment of article 5 of the By-laws and express provision of the possibility of incomplete subscription of the increase.

The documents described in Section 3.4 below will be made available upon publication of the calls to the respective General Shareholders' Meetings.

3.3.6 Merger Resolutions and Publication of Notices

Pursuant to Section 40 of the Structural Modifications Law, the Merger must be approved by the shareholders at the General Shareholders' Meetings of Iberdrola and Iberdrola Renovables strictly in accordance with the Common Terms of Merger.

Once the resolution on merger by absorption of Iberdrola and Iberdrola Renovables has been adopted, the text thereof shall be published in the Official Gazette of the Commercial Registry, in a widely-circulated newspaper in the province of Biscay, and in another widely-circulated newspaper in the province of Valencia, as required by Section 43 of the Structural Modifications Law. Such notices shall include: (a) the right of the shareholders and creditors of Iberdrola and Iberdrola Renovables to obtain the full text of the resolution adopted and the Merger balance sheet, as well as (b) the creditors' right of objection.

Pursuant to Section 44 of the Structural Modifications Law, upon publication of the last of the notices, a mandatory period of one (1) month shall commence for objections to the Merger by the creditors and bondholders of Iberdrola and Iberdrola Renovables whose claims arose prior to the publication of the Common Terms of Merger, have not expired at such time, and until they are provided with security for such claims, provided that, in the case of the bondholders, the Merger has not been approved at the relevant bondholders' meeting. Creditors with claims that are already sufficiently secured will not have the right of objection.

3.3.7 Execution and Registration of the Merger Instrument

Once the relevant merger resolutions have been adopted, the notices have been published, and the legal deadline has passed without any creditor having exercised the

creditor's right of objection, or the claims thereof if exercised having been duly paid or secured, the relevant instrument of Merger by absorption of Iberdrola Renovables by Iberdrola will be executed.

Prior to registration of the merger instrument, the Commercial Registrar of Valencia will make a notation in the instrument stating that there are no obstacles to registration of the planned Merger. This instrument will thereafter be submitted for registration with the Commercial Registry of Biscay and the Commercial Registry of Valencia will be asked to cancel the registry entries for Iberdrola Renovables.

3.3.8 Implementation of the Exchange and Admission to Trading

Upon registration of the Merger instrument with the Commercial Registry of Biscay (after having been qualified by the Commercial Registry of Valencia with a notation signed by the relevant Registrar that there are no obstacles to registration of the planned Merger), the exchange of the shares of Iberdrola Renovables for shares of Iberdrola will take place upon the terms set forth in the Common Terms of Merger and in Section 0 of this Report.

Immediately thereafter, and only if Iberdrola has issued new shares to cover the exchange ratio to the extent not covered by treasury shares, a request shall be made to the CNMV, the governing bodies of the markets and Iberclear for the admission to trading of such newly-issued shares.

3.4 INFORMATION REGARDING THE PLANNED TRANSACTION

Pursuant to the provisions of Section 39 of the Structural Modifications Law, the following documents regarding the Merger shall be made available to Iberdrola Renovables' shareholders, bondholders and special rights holders, as well as its worker representatives, for examination at the registered office:

a) the Common Terms of Merger;

b) the reports of the directors of Iberdrola and Iberdrola Renovables regarding the Common Terms of Merger;

c) the report of the independent expert;

d) the annual financial statements and management reports of Iberdrola and Iberdrola Renovables for the last three fiscal years, together with the corresponding auditors' reports;

e) the Merger balance sheet of Iberdrola and Iberdrola Renovables;

f) the current by-laws of Iberdrola and Iberdrola Renovables; and

g) the full text of the proposals corresponding to the items on the agenda of the call of the General Meeting of Shareholders of Iberdrola, S.A., whose first call is scheduled for next May 27, 2011, which, if approved, shall be submitted to acquiescence of the General Shareholders' Meeting of Iberdrola Renovables, S.A., along with the mandatory reports of the Board of Directors of Iberdrola,

S.A. in relation to those of such proposals that are so required or that would otherwise have been considered appropriate; and

h) the identity of the directors of Iberdrola and Iberdrola Renovables, respectively, and the date as from which they took office.

For purposes of the provisions of Section 39.1.7 in fine of the Structural Modifications Law, it is hereby stated for the record that, given that it is not possible at the time of approval of this Report to determine the exact amount by which Iberdrola's capital will be increased (and therefore, the amendment to be made with respect to Article 5 of its By-Laws), it is impossible to include the changes to be made thereto. However, it is stated for the record, as in Section 13 of the Common Terms of Merger, that the Board of Directors of Iberdrola will if necessary submit the relevant proposed resolution for amendment of the by-laws for the approval of the shareholders of Iberdrola approving the Merger, without prejudice to other proposed by-law amendments based on the ongoing review and updating of its Corporate Governance System, all upon the terms of the current Companies Law.

Pursuant to the provisions of Section 39 of the Structural Modifications Law, the shareholders and workers representatives of Iberdrola and Iberdrola Renovables are entitled to request the free delivery or sending of all of these documents by any means allowed by law.

Pursuant to the provisions of article 528.2 of the Companies Law and regulations in development thereof, as from the dates of the respective calls to meeting, the proposed resolutions, together with the rationale thereof and the reports that are required or made available by decision of the Board, may also be viewed on the corporate websites of (www.iberdrola.com) and Iberdrola Renovables (www.iberdrolarenovables.es)http://www.cintra.es/, along with the other information determined by the respective Corporate Governance Systems of Iberdrola and Iberdrola Renovables.

4. ECONOMIC ASPECTS OF THE COMMON TERMS OF MERGER

4.1 Merger Balance Sheets, Annual Financial Statements and Changes

Section 4.1 of the Common Terms of Merger specifies that the balance sheets of Iberdrola and Iberdrola Renovables, respectively, as of December 31, 2010, shall be deemed to be the merger balance sheets for purposes of Section 36.1 of the Structural Modifications Law.

Such balance sheets have been formulated by the respective Board of Directors on February 21, 2011 (in the case of Iberdrola Renovables) and February 22, 2011 (in the case of Iberdrola), duly verified by the auditors of both companies, and will be submitted for the approval of the shareholders at the General Shareholders' Meetings of each of the companies that must decide on the Merger prior to the adoption of the proposed merger resolution under item one on the agenda.

In addition, for purposes of the provisions of Section 31.10 of the Structural Modifications Law, Section 4.2 of the Common Terms of Merger state that the terms upon which the Merger will be carried out have been determined taking into consideration the annual financial statements of the merging companies for the fiscal year ended on December 31, 2010, as the fiscal years of Iberdrola and Iberdrola Renovables coincide with the calendar year.

Such merger balance sheets and annual financial statements will be made available to the shareholders, bondholders and special rights holders, as well as the workers' representatives, together with the other documents referred to in Section 39.1 of the Structural Modifications Law, at the time of publication of the call to the General Shareholders' Meetings of Iberdrola and Iberdrola Renovables that are to decide on the Merger.

It is stated for the record that, with respect to the possibility set forth in Section 36.2 of the Structural Modifications Law to change certain valuations in order to pick up changes in fair value that might not appear on the books, such possibility has not been required with respect to the valuations contained in the balance sheets of Iberdrola and Iberdrola Renovables as of December 31, 2010.

4.2 SHARE EXCHANGE RATIO

As stated in Section 3 of the Common Terms of Merger, the exchange ratio for the Merger is 0.30275322 shares of Iberdrola, with a par value of SEVENTY-FIVE (€0.75) EURO CENTS each, for each share of Iberdrola Renovables, with a par value of FIFTY (€0.50) EURO CENTS each.

This exchange ratio has been calculated taking into account, among other matters referred to in section 4.3 below, the extraordinary distribution of a cash dividend of one euro and twenty cents (€1.20) gross per share with right of receipt which the Board of Directors of Iberdrola Renovables has resolved in its meeting of 22 March 2011 to

propose to the General Shareholders' Meeting of this company and which is referred to in section 3.2.12.1.b) above.

4.3 RATIONALE FOR THE EXCHANGE RATIO

Pursuant to the provisions of Section 25 of the Structural Modifications Law, the exchange rate has been determined based on the actual value of the equity of Iberdrola Renovables and Iberdrola.

The following have been taken into consideration in the calculation of the above-referenced exchange ratio: (a) the dividends that both companies plan to distribute and the other forms of shareholder compensation referred to in Section 3.2.12.1 above, (b) the capital increase and sale of treasury shares by Iberdrola last March 14, 2011, and (c) the shares held in treasury by Iberdrola Renovables (as of the date of this Report, SIXTEEN MILLION THREE HUNDRED ONE THOUSAND ONE HUNDRED SEVENTY-EIGHT (16,301,178) shares).

As stated in the Common Terms of Merger, the shareholders of Iberdrola Renovables will be entitled to receive the dividends which both companies are expected to distribute and to participate in the shareholder remuneration system referred to in the previous section and in the terms mentioned therein.

At the request of and for Iberdrola Renovables' Board of Directors, Credit Suisse Securities (Europe) Limited and Merrill Lynch Capital Markets España, S.A., S.V., the financial advisors of Iberdrola Renovables and its Merger Committee, issued fairness opinions on March 22, 2011 stating to the Board of Directors of Iberdrola Renovables that the consideration to be received for the shares of Iberdrola Renovables apart from the majority shareholder (i.e. Iberdrola) within the framework of the Merger, which includes the exchange of shares at the ratio referred to in above section, is fair from a financial perspective for the shareholders of Iberdrola Renovables other than Iberdrola.

In turn, it is stated for the record that at the request of and for Iberdrola's Board of Directors HSBC Bank plc and Citigroup Global Markets Limited, Spain Branch, the financial advisors of Iberdrola with respect to the merger process, issued fairness opinions on March 22, 2011 along the lines that such exchange ratio is fair for Iberdrola from a financial perspective.

The standard used by Iberdrola's Board of Directors to determine the actual value of the equity of Iberdrola Renovables and Iberdrola was the stock market listing of one and the other company.

However, if it is reasonable considering the quotation of Iberdrola Renovables at the time of the announcement of the transaction - TWO POINT SEVEN ZERO SEVEN EURO (2.707 Euros) at March 7, 2011 (last full day of listing before the communication to the market of the Merger as a proposal by Iberdrola to Iberdrola Renovables), Iberdrola's stock market listing should be adjusted for the impact on the capitalization derived from the stake of Qatar Holding Luxemburgo II S.à r.l. ("**Qatar Holding**"') in the shareholding of the company through a capital increase to the

exclusion of pre-emptive rights and the purchase of shares in treasury stock (transactions made at a discount of 4.784 % on the list price of Iberdrola's shares at the close of the trading session corresponding to the March 10, 2011 and 5.5 % to the quoted price of Iberdrola's shares at the close of the trading session for the March 11, 2011). To quantify the impact of the holding of Qatar Holding, an adjusted list price has been established for Iberdrola on March 7, 2011 of FIVE POINT NINE HUNDRED AND FORTY SEVEN EURO (5.947 Euros), calculated as a weighted average of the existing shares prior to the capital increase and the sale of treasury stock with the list price of Iberdrola at the time the transaction was announced on the same date and of the shares offered to the new investor with the purchase price.

The use of the stock exchange quotation criteria (corrected in the case of Iberdrola) is justified as being the criterion most commonly applied in mergers of listed companies when, as is the case, it comes to securities with a degree of appreciable liquidity. The valuation with reference to the list price is, in addition, the method which is usually considered as preferential to determine the actual value in the case of listed securities (for example, in article 504.2 of the Capital Companies Act, for the purposes of determining the fair value of the shares to be issued in capital increases with the abolition of the pre-emptive right, it is presumed that the same is the result of the stock exchange listing "unless otherwise justified").

For the calculation of the consideration offered and the implied premium, has both the type of an exchange as dividends and other shareholder remunerations to which every shareholder of Iberdrola Renovables will be entitled have been taken into account. Similarly, for the calculation of the consideration offered and the implied premium the valuation of Iberdrola (applied at the exchange ratio) and Iberdrola Renovables at each moment in time, has been taken into account.

In this way, if for the reference valuation of Iberdrola their quoted market price at the close of the trading day of the stock at March 7, 2011 is used, adjusted by the capital increase and sale of treasury stock at a discount to give entry to Qatar Holding to the equity, as has been stated above, the consideration offered to the shareholders of Iberdrola Renovables, represents a premium of 11.8 % on the price of Iberdrola Renovables on the same day.

The historical evolution of the consideration offered and the premium implied has also been analysed, in accordance with the evolution of the market prices, weighted by the volume negotiated, in different periods since the stock market flotation of Iberdrola Renovables and which results as follows:

Period	**Implied Premium**
Closing Price on 7.03.2011	11.8%
Average previous month 7.03.2011	14.0%
Average three months prior to 7.03.2011	13.6%
Average six months prior to 7.03.2011	16.5%
Average from the Initial Public Offering of Iberdrola Renovables	(5.2%)

Source: Factset. Weighted averages by volume in each analysed period

Similarly, the Board of Directors of Iberdrola Renovables, assisted by its Merger Commission, has also analyzed other valuation methods for the determination of the real value of the assets of Iberdrola and Iberdrola Renovables, among which are:

(i) Objective prices of variable income analysts

The objective prices reflect the estimates of future listings of the shares and the objective prices of variable income analysts that cover both the actions of Iberdrola Renovables such as Iberdrola and which are not affected by the announcement of the Merger have been analysed and reviewed.

(ii) Multiples of comparable listed companies

Another method used to evaluate the assets of Iberdrola Renewable and Iberdrola has consisted of the analysis of the relative valuations (listing multiples) of a selection of comparable listed companies, for both Iberdrola Renovables and Iberdrola. The main listing multiples which have been taken into consideration for this analysis, among others, have been the Business Value on EBITDA and Business Value on Invested Capital

iii) Previous transactions

As an additional reference, previous transactions in which a majority shareholder would have acquired a minority but significant stake in a subsidiary company, both being listed, have been analysed.

In summary, Iberdrola Renovables' Board of Directors believes that there is sufficient justification for the exchange ratio proposed in the Common Terms of Merger and that it is fair for the shareholders of Iberdrola Renovables other than its majority shareholder (i.e., Iberdrola), given that it has been calculated upon the basis of a reasonable consideration from a financial perspective for said shareholders.

This has been confirmed by the fairness opinions issued by Credit Suisse Securities (Europe) Limited and Merrill Lynch Capital Markets España, S.A., S.V., as the financial advisors of Iberdrola Renovables and its Merger Commission for this transaction, to the Board of Directors of this company.

In this regard, KPMG AUDITORES, S.L., the independent expert appointed by the Commercial Registry of Biscay, which is referred to in section 3.3.2 above, has issued a report addressed to the Boards of Directors of Iberdrola and Iberdrola Renovables, a copy of which is annexed to this Report.

4.4 NET BOOK VALUE OF THE ASSETS OF IBERDROLA RENOVABLES TO BE TRANSFERRED TO IBERDROLA

Pursuant to the balance sheet of Iberdrola Renovables as of the effective date of the Merger for accounting purposes, i.e., January 1, 2011, and as indicated in Section 4.3.3 of the Common Terms of Merger, the value of Iberdrola Renovables' equity to be received by Iberdrola is approximately ELEVEN BILLION THREE HUNDRED AND SEVENTY-ONE MILLION THREE HUNDRED EIGHTY-NINE THOUSAND (11,371,389,000.00) euros.

5. IMPACT OF THE MERGER ON SHAREHOLDERS, CREDITORS AND EMPLOYEES

5.1 IMPACT ON SHAREHOLDERS

The shareholders of Iberdrola Renovables will cease to have such status as a result of the Merger, becoming shareholders of Iberdrola. This will occur through the allocation of Iberdrola shares to the shareholders of Iberdrola Renovables (other than Iberdrola) in proportion to their respective stake in the share capital of Iberdrola Renovables, in accordance with the established exchange ratio (see supra Section 3.2.2.). The exchange will be carried out upon the terms set forth in Section 3.2.4 above, and therefore requires no special action on the part of Iberdrola Renovables' shareholders.

As from the effectiveness of the Merger, Iberdrola Renovables will be extinguished in order to become a part of Iberdrola, with the result that its current Corporate Governance System will cease to be effective. The by-laws governing Iberdrola (and that will therefore govern the relations between the former shareholders of Iberdrola Renovables and the absorbing company) will be those in effect on the date hereof on its corporate website, www.iberdrola.com, a copy of which is attached to the Common Terms of Merger as an annex thereto, all of that without prejudice to the amendments of the aforementioned by-laws which may result from the resolutions which are proposed to be adopted by the Board of Director of Iberdrola to the Ordinary General Shareholders' Meeting of Iberdrola which is scheduled to be held on May 27, 2011, or if the required quorum is not reached, on second call, the next day, May 28, 2011, according to item 13 on the agenda.

Finally, it should be pointed out that the Merger will give to Iberdrola Renovables' shareholders the rights and duties to which they are entitled by law and the by-laws in their capacity as shareholders, on equal terms with the current shareholders of Iberdrola.

5.2 IMPACT ON CREDITORS

The Merger will entail the transfer to Iberdrola by universal succession and in a single act of all of the goods, rights and obligations constituting the assets of Iberdrola Renovables. The obligations that Iberdrola has incurred with its creditors prior to the Merger shall remain unaltered. The legal relations of Iberdrola Renovables, which include those incurred with its creditors, shall remain in effect although the owner thereof becomes Iberdrola (except for those in which a change in ownership entails

termination thereof, which shall cease to be effective). Therefore, Iberdrola will become the debtor in the obligations that Iberdrola Renovables has incurred with its creditors.

Finally, it should be recalled that, as from the time of publication of the notice of the merger resolution, the creditors and bondholders of Iberdrola Renovables whose claims have not lapsed and which arose prior to the date of publication of the Common Terms of Merger may, for a period of one (1) month and until such claims are secured, exercise their right to object to the Merger upon the terms of Section 44 of the Structural Modifications Law. Creditors whose claims have already been sufficiently secured will not have the right of objection.

5.3 IMPACT ON EMPLOYEES

After the Merger, Iberdrola, in its capacity as absorbing company, will be responsible for all of the human and material resources currently owned by Iberdrola Renovables, as well as the policies and procedures that it has been observing regarding personnel management. Therefore, and pursuant to the provisions of Article 44 of the Workers' Statute (Estatuto de los Trabajadores), which governs business succession, Iberdrola will subrogate to the labor rights and obligations of the employees of Iberdrola Renovables.

In turn, Iberdrola Renovables will comply with its obligations to provide information and to consult with the legal representatives of its workers pursuant to the provisions of labor regulations. Notice of the Merger will also be given to public entities where appropriate, and in particular to the General Social Security Revenue Office (*Tesorería General de la Seguridad Social*).

6. CAPITAL INCREASE OF IBERDROLA

6.1 RATIONALE FOR THE REPORT

Finally, and as stated above in Section 3.2.3 , Iberdrola contemplates the possibility of increasing its share capital in the nominal amount of ONE HUNDRED AND FORTY EIGHT MILLION FOUR HUNDRED AND SEVENTY THOUSAND AND ELEVEN EUROS AND TWENTY FIVE CENTS (148,470,011.25 euros) by means of the issuance of ONE HUNDRED AND NINETY SEVEN MILLION NINE HUNDRED AND SIXTY THOUSAND AND FIFTEEN (197,960,015) shares that, where appropriate, will be used to cover the relevant portion of the exchange ratio set forth in Section 3 of the Common Terms of Merger. The corresponding proposed increase will be submitted for the deliberation and approval of the General Shareholders' Meeting of Iberdrola which shall resolve on the Merger.

From Iberdrola's viewpoint, the increase and resulting by-law amendment will be subject to the provisions of Sections 285 et. seq. of the Companies Law. For purposes of Sections 285 and 296 of such law, the Board of Directors must make a specific pronouncement of its rationale upon the terms set forth below.

In addition, the Board of Directors of Iberdrola Renovables shares and makes such rationale its own to the extent required; and does so to the extent that the By-Laws of Iberdrola form a part of the Common Terms of Merger, which must be submitted for the consideration of the shareholders at the General Shareholders' Meeting of Iberdrola Renovables.

6.2 REPORT ON THE RATIONALE FOR THE CAPITAL INCREASE

As described in detail above, a total of TWO HUNDRED FIFTY MILLION EIGHT HUNDRED THIRTY-FOUR THOUSAND SIX HUNDRED FIFTEEN (250,834,615) shares would be required for delivery in exchange for the EIGHT HUNDRED TWENTY-EIGHT MILLION FIVE HUNDRED ELEVEN THOUSAND EIGHT HUNDRED TWO (828,511,802) shares of Iberdrola Renovables that might actually be involved in the exchange.

As stated in Section 3.2.3 above, Iberdrola will cover the exchange of shares of Iberdrola Renovables with treasury shares and, if the number thereof is insufficient to fully cover such ratio (i.e., if it is less than TWO HUNDRED FIFTY MILLION EIGHT HUNDRED THIRTY-FOUR THOUSAND SIX HUNDRED FIFTEEN (250,834,615) shares), with newly-issued shares as well.

In view of the foregoing, Iberdrola's Board of Directors will use for the exchange all the shares acquired in the Buyback Program, which as of the closing of the stock market session of April 8, 2011 was FIFTY TWO MILLION EIGHT HUNDRED AND SEVENTY FOUR THOUSAND SIX HUNDRED (52,874,600) shares.

In this regard, it is stated for the record that, in accordance with section 3.2.3.2 above, Iberdrola has stated its intention to continue to acquire own shares under the Buyback Program until reaching a number of Iberdrola shares which is sufficient to cover the exchange ratio in full.

Without prejudice to the above, it is also stated for the record that, if it is not possible to fully cover the exchange ratio with the treasury shares held by Iberdrola, Iberdrola's Board of Directors will propose to the General Shareholders' Meeting of this company an increase in its share capital in the nominal amount of ONE HUNDRED AND FORTY EIGHT MILLION FOUR HUNDRED AND SEVENTY THOUSAND AND ELEVEN EUROS AND TWENTY FIVE CENTS (148,470,011.25 euros) by means of the issuance of ONE HUNDRED AND NINETY SEVEN MILLION NINE HUNDRED AND SIXTY THOUSAND AND FIFTEEN (197,960,015) shares with a par value of SEVENTY-FIVE EURO CENTS (0.75 euros) each, belonging to the same single series as the current shares of Iberdrola in circulation, and which will be represented by book-entries, with an express provision for the possibility of an incomplete subscription of the increase.

With the aim of achieving the implementation as indicated in the immediately preceding paragraph, the Board of Directors of Iberdrola has considered it appropriate that the increase is conditioned insofar as the number of shares of Iberdrola in treasury stock is

less than the number of shares required to cover the exchange resulting from the Merger (the "**Condition Precedent**").

On the other hand, it is hereby recorded that the share issue premium (the "**Share Premium**") is considered as the amount corresponding to the difference between:

(a) the net book value of the equity received from Iberdrola Renovables by Iberdrola by virtue of the Merger adjusted by (y) the stake in Iberdrola in Iberdrola Renovables at the time of the implementation of the capital increase, as well as treasury held by the latter company at the time of the execution of the capital increase; and (z) the proportion which the number of new shares to be issued and subscribed by virtue of the increase represents over the total number of shares of Iberdrola to deliver in the exchange ("**NE contributed**"); and

(b) the nominal value of the new shares issued by Iberdrola in the implementation of the increase ("**NV New Shares**").

The following is a formula for the calculation of the Share Premium:

Share Premium = NE contributed - NV New Shares

Where:

NE contributed = NEIBR Adjusted * (N New Shares/ N Exchange Shares)

where, in turn:

NEIBR Adjusted = Free Float IBR * NEIBR r

where, likewise:

Free Float IBR = 1 - (Stake IBE / SCIBR Adjusted)

where, in turn:

Stake IBE =	Number of shares of Iberdrola Renovables owned by Iberdrola.
SCIBR Adjusted =	Total number of shares of Iberdrola Renovables in circulation discounting the treasury stock shares held by this company.

NEIBR = Net equity of Iberdrola Renovables as of 1 January 2011.

N New Shares =	Number of new shares of Iberdrola to be issued on execution of the capital increase.
N Exchange	Number of shares of Iberdrola which shall be delivered to

Shares = cover the exchange of shares of Iberdrola Renovables.

For illustrative purposes, it is hereby recorded that, if it complies to the existing data at the date of issuance of this Report, in addition to the calculation formula described above, and the capital increase is executed for the amount stipulated in paragraph 6.1 above, the Share Premium amounts to EUR 1,618,588,296.2805. This figure is taken from the following calculations:

1. **Free Float IBR =** 1 - (Stake. IBE / SCIBR adjusted) **= 0.196900742707625**

Where:

- Stake IBE = 3,379,251,920 shares
- CSIBR adjusted = 4,224,064,900 - 16,301,178 = 4,207,763,722 shares

2. **NEIBR = 11,371,389,000 euros**

3. **NEIBR Adjusted** = Free Float IBR * NEIBR = **2,239,034,939.71732 euros**

Where:

- Free Float IBR = 0.196900742707625
- NEIBR= 11,371,389,000

4. **NE contributed** = NEIBR Adjusted * (N New Shares/N Exchange Shares) = **1,767,058,307.5305 euros**

Where:

- NEIBR Adjusted = 2,239,034,939.71732 euros
- N New Shares = 197,960,015 shares
- N Exchange Shares = 250,834,615 shares

5. **Share Premium** = NE contributed - NV New Shares = **1,618,588,296.2805 euros**

Where:

- NE contributed = 1,767,058,307.5305 euros
- NV New Shares = 148,470,011.25 euros

The incomplete subscription established in article 311 of the Companies Law is expected, inter alia, for the following reasons:

(a) from the time of the closure of market trading for April 8, 2011 until the time of verifying fulfilment, where appropriate, of the Condition Precedent, the number of shares acquired by Iberdrola under the Buyback Program may have increased, meaning, therefore, that the number of shares that may be necessary to issue by means of the capital increase referred to in this Report is finally less ONE HUNDRED AND NINETY SEVEN MILLION NINE HUNDRED AND SIXTY THOUSAND AND FIFTEEN (197,960,015); and

(b) in accordance with the provisions of article 26 of the Structural Modifications Law, the shares of Iberdrola Renovables in the possession of the latter company, Iberdrola or any person acting on his own name but on behalf of Iberdrola Renovables or Iberdrola, will not be exchanged and, consequently, shall be subject to amortisation.

Both the par value of such shares as well as the corresponding Share Premium shall be fully paid-up as a result of the transfer en bloc of the assets of Iberdrola Renovables to Iberdrola, which shall acquire all of the rights and obligations of such company by universal succession.

The conclusions from the report of KPMG AUDITORES, S.L., in its capacity as independent expert, are included in Section 5 of said report, a copy of which is annexed to this Report.

It is hereby stated for the record that, pursuant to the provisions of Section 304.2 of the Companies Law, the shareholders of Iberdrola will not enjoy any pre-emptive right to subscribe the new shares issued with respect to the absorption of Iberdrola Renovables.

Finally, the capital increase of Iberdrola, if it occurs, will involve an amendment to the share capital figure and the number of shares into which it is divided appearing in Article 5 of the current By-Laws of Iberdrola.

7. CONCLUSIONS

Based on all of the foregoing, the members of the Board of Directors of Iberdrola Renovables (excluding the proprietary Directors appointed at the behest of Iberdrola) express their belief that:

(i) the Merger between Iberdrola and Iberdrola Renovables referred to in the Common Terms of Merger covered by this Report is beneficial for both entities, and thus for their respective shareholders; and

(ii) the exchange ratio proposed in the Common Terms of Merger is justified and fair from a financial perspective for the shareholders of both entities, as corroborated by both the financial advisors of the companies participating in the Merger as well as the independent expert appointed by the Commercial Registry.

* * *

Valencia, April 13, 2011

[Abstains from signing due to a conflict of interest]

Mr. José Ignacio Sánchez Galán
Chairman

[Abstains from signing due to a conflict of interest]

Mr. Javier Sánchez-Ramade Moreno
Vice-Chairman

Mr. Xabier Viteri Solaun
Chief Executive Officer

Mr. Manuel Amigo Mateos
Member

[Abstains from signing due to a conflict of interest]

Mr. Gustavo Buesa Ibañez
Member

Mr. Alberto Cortina Koplowitz
Member

[His signature is missing due to the fact of not having been physically present at the meeting of the Board of Directors]

Mr. Luis Chicharro Ortega
Member

[Abstains from signing due to a conflict of interest]

Mr. Carlos Egea Krauel
Member

Mr. Julio Fermoso García
Member

[Abstains from signing due to a conflict of interest]

Mr. Juan Manuel González Serna
Member

Mr. Aurelio Izquierdo Gómez
Member

Mr. Manuel Moreu Munaiz
Member

[Abstains from signing due to a conflict of interest]

Mr. Emilio Ontiveros Baeza
Member

[Abstains from signing due to a conflict of interest]

Mr. José Sáinz Armada
Member

Mr. José Luis San Pedro Guerenabarrena
Member

Following best corporate governance practices, all of the proprietary Directors of Iberdrola Renovables appointed at the request of Iberdrola (except from Mr. Carlos Egea Krauel, who was not physically present at the meeting of the Board of Directors at which this Report on the Common Terms of Merger was approved, having been represented by Mr. José Ignacio Sánchez Galán), i.e., Messrs. José Ignacio Sánchez Galán, Javier Sánchez-Ramade Moreno, Alberto Cortina Koplowitz, Julio Fermoso García, Aurelio Izquierdo Gómez, José Sainz Armada and José Luis San Pedro Guerenabarrena, have not participated in the deliberations and have abstained from taking part in the votes of the Board of Directors of Iberdrola Renovables relating to this Report on the Common Terms of Merger, due to an understanding that they might be affected by potential conflict of interest.

For this reason, the signatures of Messrs. José Ignacio Sánchez Galán, Javier Sánchez-Ramade Moreno, Alberto Cortina Koplowitz, Julio Fermoso García, Aurelio Izquierdo Gómez, José Sainz Armada and José Luis San Pedro Guerenabarrena do not appear in this Report on the Common Terms of Merger.

Finally, it is stated for the record that Mr. Xabier Viteri Solaun, executive Director of Iberdrola Renovables, has joined in the unanimous decision of the Company's independent Directors, and has therefore signed this Report on the Common Terms of Merger.

ANNEX.- REPORT OF INDEPENDENT EXPERT REGARDING THE COMMON TERMS OF THE MERGER

(Free translation of the report originally issued in Spanish.
In the event of discrepancy, the Spanish-language version prevails)

Iberdrola, S.A.
Iberdrola Renovables, S.A.

Independent expert report in relation to the appointment of KPMG Auditores, S.L. by the Mercantile Registry of the Province of Vizcaya for the preparation of a single report on the Common Merger Project concerning the merger by take-over of Iberdrola Renovables, S.A. (the non-surviving company) by Iberdrola, S.A. (the surviving company) and the equity contributed by the non-surviving companies.

KPMG Auditores, S.L.
This report contains 21 pages

To the Board of Directors of:
Iberdrola, S.A.
Iberdrola Renovables, S.A.

(Free translation of the report originally issued in Spanish.
In the event of discrepancy, the Spanish-language version prevails)

Pursuant to article 34 of Law 3/2009 of 3 April on structural modifications to mercantile companies (hereinafter the "LMESM"), on 23 March 2011 KPMG Auditores, S.L. was appointed as independent expert by Mr. Carlos Alonso Olarra, Mercantile Registrar of Vizcaya, in relation to case number 45/11, to issue a single report on the common merger project concerning the merger by take-over of Iberdrola Renovables, S.A. (hereinafter Iberdrola Renovables, the Non-surviving Company or IBR) by Iberdrola, S.A. (hereinafter "Iberdrola"," the Surviving Company" or "IBE", jointly along with Iberdrola Renovables, hereinafter referred to as "the Companies"), as well as the net assets contributed to the Surviving Company by the Non-surviving Company, which will cease to exist. On 23 March 2011 KPMG Auditores, S.L. accepted the aforementioned appointment, and issued its proposal for professional services in relation to this transaction on 31 March 2011.

1 The operation

1.1 Identification of the merging companies

Surviving Company

- Iberdrola, S.A.
  - Registered office: Calle Cardenal Gardoqui, no. 8, 48008 Bilbao.
  - Registered data: entered into the Vizcaya Mercantile Registry, in volume BI-233, sheet 156, page number BI-167A, entry number 923.
  - Tax identification number: A-48010615

Non-surviving Company

- Iberdrola Renovables, S.A.
  - Registered office: Calle Menorca no. 19, planta 13ª, 46023 Valencia.
  - Registered data: entered into the Valencia Mercantile Registry, in volume 8,919, book 6,205, sheet 119, page number V-130.102
  - Tax identification number: A-83028035

1.2. General description of the merger and share exchange ratio

At their respective meetings held on 22 March 2011 the boards of directors of Iberdrola and Iberdrola Renovables (with the abstention, in the latter case, of the directors representing Iberdrola) agreed to subscribe the common merger project for both companies (hereinafter the Merger Project), pursuant to articles 30, 31 and related articles of the LMESM.

According to the aforementioned Merger Project, the share exchange ratio for the merging companies, determined based on the actual value of the net equity of IBE and IBR, will be 0.30275322 Iberdrola shares, of seventy-five Euro cents (€0.75) nominal value each, for each Iberdrola Renovables share of fifty Euro cents (€0.50) nominal value each, as well as, as required, a cash payment under the terms of article 25 of the LMESM with respect to the so-called "share fractions".

The following have also been considered when calculating the share exchange ratio: (i) the dividends that the Companies expect to distribute and other shareholder remuneration, as detailed in section 1.3 of this report; (ii) the share capital increase and sale of treasury shares by Iberdrola on 14 March 2011; and (iii) the treasury shares held by Iberdrola Renovables (which represented approximately 0.386% of its share capital at the date on which the Merger Project was approved).

In accordance with the Merger Project, the operation will involve the absorption of Iberdrola Renovables by Iberdrola. Iberdrola Renovables will be wound up without liquidation and will cease to exist, while its equity will be transferred en bloc to Iberdrola which will acquire all the rights and obligations of Iberdrola Renovables by universal succession.

The Merger Project establishes that Iberdrola will use treasury shares, newly issued shares or a combination of both in the Iberdrola Renovables share exchange. If Iberdrola uses newly issued shares in the share exchange, IBE will increase its share capital by the required amount by issuing new shares of seventy-five Euro cent (€0.75) nominal value each, of the same class and series as the current Iberdrola shares, represented by book entries. Notwithstanding the above, the Merger Project establishes that, pursuant to article 26 of the LMESM, the IBR shares currently held by IBE (representing 80% of share capital at the date on which the Merger Project is approved) and the treasury shares held by IBR (representing approximately 0.386% of the share capital at the date of the Merger Project) will not be exchanged, but rather will be redeemed.

As stipulated in the Merger Project, should the above-mentioned share capital increase go ahead, the difference between the net book value of the equity received by Iberdrola as a result of the merger and the nominal value of the new shares issued by Iberdrola and given to the shareholders of Iberdrola Renovables, adjusted to take into consideration the percentage of the total shares delivered in the exchange represented by the new shares issued, will be considered the share premium. Both the nominal value of the aforementioned shares and the corresponding share premium will be fully paid following the transfer en bloc of the net equity of Iberdrola Renovables to Iberdrola, which will acquire all of IBR's rights and obligations via universal succession.

Pursuant to article 304.2 of the revised Spanish Companies Act, approved by Legislative Royal Decree 1, 2010 of 2 July 2010 (hereinafter the LSC), should the above-mentioned share capital increase go ahead, the Iberdrola shareholders will not have any pre-emptive rights with respect to subscription of the new shares issued by Iberdrola as a result of the merger.

1.3 Dividends that the Companies plan to distribute and other shareholder remuneration systems

1.3.1 Iberdrola

If at their general meeting the shareholders of Iberdrola approve the proposal prepared by the Iberdrola board of directors at their meeting on 22 February 2011 (the amended version of which is expected to be approved by the Board on 12 April 2011 in line with the draft agreement issued by that body and provided to us), Iberdrola will distribute a dividend following the merger of three Euro cents (€0.03) gross per share with profit-sharing rights. This dividend is expected to be paid in July 2011 with a charge to 2010 profits. Any shares which may be issued by Iberdrola in the context of the share capital increase described in the preceding section, or delivered by Iberdrola as part of the share exchange, will confer to their holders, as of the date on which they are issued or delivered (as applicable), profit-sharing rights in Iberdrola under the same terms and conditions of the remaining Iberdrola shares outstanding at that date. These shares will also carry the rights to receive the abovementioned dividend of three Euro cents (€0.03) gross per share.

At the above-mentioned meeting held on 22 February 2011, the Iberdrola board of directors also agreed to prepare a proposal to be submitted for approval by the Company's shareholders at their general meeting, comprising an issue of bonus shares to allocate new shares free of charge to the shareholders of the Company, as part of the "Iberdrola flexible dividend" remuneration system. According to the information included in the Merger Project, this system will allow Iberdrola shareholders to opt to receive all or part of their remuneration in the form of bonus shares of the Company or in cash. If the remuneration is received in cash, payment will be made through the sale in the market of rights to the bonusº shares allocated free of charge, or as part of the commitment to be undertaken by IBE to make purchases at a fixed price if the aforementioned proposal is eventually approved by its shareholders at their general meeting. Based on the existing share capital at the date of the Merger Project and the market conditions at that date, Iberdrola estimated that the price at which it would undertake to purchase the bonus shares allocated free of charge for the first share capital increase through the issue of bonus shares (of the two initially planned) would be at least fifteen Euro cents (€0.15) per right. In accordance with the Merger Project, the Iberdrola Renovables shareholders which will become Iberdrola shareholders following the merger will also benefit from the aforementioned "Iberdrola flexible dividend" programme, as the first increase will be carried out after the merger.

1.3.2 Iberdrola Renovables

If at their general meeting the shareholders of Iberdrola Renovables approve the proposal prepared by the Iberdrola board of directors at their meeting on 22 February 2011, Iberdrola Renovables will distribute a dividend, with a charge to 2010 profits of two point five Euro cents (€0.025) per share with profit-sharing rights. According to the information set forth in the Merger Project, payment of this dividend is expected to be made on 21 June 2011 (approximate date) and, in any case, prior to the date on which the Iberdrola-Iberdrola Renovables merger is entered into the Mercantile Registry. Consequently, only the Iberdrola Renovables shareholders would have the right to collect this dividend.

Furthermore, If the proposal prepared by the Iberdrola Renovables board of directors in their session of 22 March 2011 is approved by the Company's shareholders, Iberdrola Renovables will also distribute an extraordinary dividend of one Euro and twenty cents (€1.20) gross per share with profit-sharing rights. This distribution is expected to be made on 21 June 2011. Consequently, only the Iberdrola Renovables shareholders would have the right to collect this extraordinary dividend, which is also expected to be paid before the Iberdrola-Iberdrola Renovables merger is entered into the Vizcaya Mercantile Registry.

The extraordinary dividend mentioned in the preceding paragraph is subject to approval of the merger by the shareholders of Iberdrola and Iberdrola Renovables at their respective general meetings.

1.4 Methods used by Iberdrola to calculate the merger share exchange

1.4.1 Shares to be used in the exchange

According to the information set forth in the Merger Project, the number of shares to be delivered by Iberdrola to the current Iberdrola Renovables shareholders in consideration for the net equity absorbed from the latter as a result of the merger will be estimated considering the share exchange ratio mentioned in section 1.2 above, as well as the following issues:

- The share capital of Iberdrola Renovables comprises a total of four thousand two hundred and twenty-four million sixty-four thousand nine hundred (4,224,064,900) shares, assuming that this number will not change before the merger is officially recorded; and
- Pursuant to article 26 of the LMESM, the Iberdrola Renovables shares held by Iberdrola (which, at the date of this report, total 3,379,251,920 shares and represent 80% of the Iberdrola Renovables share capital) and the treasury shares held by Iberdrola Renovables (which total 16,301,178 at the date of the Merger Project, representing approximately 0.386% of share capital) will not be included in the exchange, but rather will be redeemed (once again assuming that neither figure changes before the merger is entered into the Mercantile Registry).

Consequently, as the number of Iberdrola Renovables shares expected to be included in the exchange will be eight hundred and twenty-eight million, five hundred and eleven thousand eight hundred and two (828,511,802) shares, and considering the above-mentioned share exchange ratio, Iberdrola should deliver to the current Iberdrola Renovables shareholders two hundred and fifty million, eight hundred and thirty-four thousand, six hundred and fifteen point eight six (250,834,615.86) shares in the exchange.

Nevertheless, given that Iberdrola shares are not divisible and that shares cannot be issued or delivered in fractions, the total number of Iberdrola Renovables shares involved in the exchange would have to be a multiple of the share exchange ratio. As the estimated number of Iberdrola Renovables shares to be included in the exchange is not a multiple of the share exchange ratio, the Companies will establish a mechanism to ensure that the number of Iberdrola shares to be given to the Iberdrola Renovables shareholders as part of the exchange is a whole number. This mechanism will take the form of the appointment of an entity as a "share fractions broker", which irrevocably waives a fraction of an Iberdrola share to which it would have the right as an Iberdrola Renovables shareholder so that the total number of Iberdrola shares to be given to the Iberdrola Renovables shareholders is a whole number. This number has been estimated at two hundred and fifty million eight hundred and thirty-four thousand six hundred and fifteen (250,834,615) shares.

1.4.2 Programme for the repurchase of Iberdrola shares

According to the information included in the Merger Project, Iberdrola will use treasury shares, newly issued shares or a combination of both in the Iberdrola Renovables share exchange. According to the draft reports prepared by the boards of directors of the Companies on the Merger Project, the Iberdrola board has opted to use treasury shares in the share exchange. In the event that there are insufficient treasury shares to do so (i.e. fewer than two hundred and fifty million eight hundred and thirty-four thousand six hundred and fifteen (250,834,615) shares), newly issued shares will also be used.

In their meeting on 11 March 2011 the board of directors therefore agreed to implement a programme to repurchase shares, pursuant to the authorisation conferred by the shareholders at their general meeting on 26 March 2010 and in accordance with Commission Regulation (EC) No 2273/2003, of 22 December 2003. The terms of this repurchase programme were partially amended through an agreement by the Iberdrola board of directors dated 22 March 2011 to increase the maximum number of shares to be acquired through this programme (the rest of the terms and conditions were unaffected by this agreement). The Iberdrola share repurchase programme is summarised below:

(i) Iberdrola may acquire up to a maximum of two hundred and fifty million nine hundred thousand (250,900,000) shares, representing up to 4.30937% of its share capital prior to the merger.

(ii) These shares will be purchased at market price, in accordance with the price and volume conditions set forth in article 5 of Commission Regulation (EC) No 2,273/2003 of 22 December 2003.

(iii) The repurchase programme will remain in force until the exchange takes place, which is estimated to be no later than 31 July 2011. Nevertheless, Iberdrola reserves the right to terminate the aforementioned programme in the event that, prior to the scheduled expiry date, Iberdrola has acquired the shares required for the exchange, or has decided to increase its share capital for this purpose.

At the close of the trading day on 8 April 2011[1], Iberdrola had acquired a total of fifty-two million eight hundred and seventy-four thousand six hundred (52,874,600) treasury shares under the repurchase programme. However, as the above-mentioned programme will, in theory, remain in force until the exchange of Iberdrola Renovables shares for Iberdrola shares effectively takes place, the Merger Project stipulates that Iberdrola will, subject to prevailing market conditions at any given date, continue to acquire treasury shares until a sufficient number have been obtained for the share exchange.

[1] This date was chosen as a reference as, according to the draft reports from the Companies' directors on the Merger Project, it was the last available date on which the National Securities Market Commission was issued with a material corporate events report publishing the operations carried out by Iberdrola under the repurchase programme.

1.4.3 Iberdrola share capital increase

According to the information included in the draft reports issued by the boards of directors of the Companies with respect to the Merger Project, if Iberdrola must use newly issued shares as part of its participation in the share exchange, IBE will increase its share capital by issuing new shares of seventy-five Euro cents (€0.75) nominal value each, of the same class and series as the current Iberdrola shares and represented by book entries. In compliance with article 304.2 of the Spanish Companies Act, there will be no pre-emptive subscription rights for IBE's shareholders. Therefore, considering: (i) the number of Iberdrola shares required for the share exchange (i.e. two hundred and fifty million eight hundred and thirty-four thousand six hundred and fifteen (250,834,615) shares); and (ii) the total shares acquired by Iberdrola at the close of the trading day on 8 April 2011 under the repurchase programme (i.e. fifty-two million, eight hundred and seventy-four thousand six hundred (52,874,600) shares); the maximum number of new shares which may be required for issue by Iberdrola for the share exchange would, at the date of this report, be one hundred and ninety-seven million, nine hundred and sixty thousand and fifteen (197,960,015) shares. According to the information set forth in the draft report issued by the Iberdrola board of directors with respect to the Merger Project, the corresponding proposed agreement on the share capital increase mentioned in this paragraph will expressly include the possibility of an incomplete subscription.

In any case, as mentioned above, pursuant to article 26 of the LMESM, the Iberdrola Renovables shares held by Iberdrola (which, at the date of the Merger Project, totalled 3,379,251,920 shares representing 80% of IBR's share capital) and the treasury shares held by Iberdrola Renovables (which at the date of the Merger Project stood at 16,301,178 shares) will not be exchanged, but rather will be redeemed (assuming that both figures remain unchanged until the merger is entered into the Mercantile Registry).

Should the share capital increase described in this section go ahead, the difference between the net book value of the equity received by Iberdrola as a result of the merger and the nominal value of any new shares issued by Iberdrola, adjusted to take into consideration the percentage of the total shares delivered in the exchange represented by any new shares issued, will be considered the share premium. The nominal value of the new shares and the related share premium will be fully paid up through the transfer en bloc of the equity of Iberdrola Renovables to Iberdrola. The amount of IBE's share capital and the number of shares by which it is represented will need to be modified as a result of the share capital increase.

1.5 Rights to be granted in the Surviving Company to persons holding special rights or ancillary obligations

According to the Merger Project, Iberdrola Renovables has no ancillary obligations, special shares or special rights other than shares. Furthermore, the Iberdrola shares which will be delivered to the Iberdrola Renovables shareholders as part of the merger will not confer any special rights to their holders.

1.6 Equity of the Non-surviving Companies to be transferred to the Surviving Company

In accordance with the Merger Project, following the merger by absorption of Iberdrola Renovables by Iberdrola, the former will be wound up without liquidation and its net assets will be transferred en bloc to Iberdrola. At the date of the preparation and subscription of the aforementioned Merger Project, Iberdrola Renovables was involved in a process to implement a new corporate and governance structure in the group and its subsidiaries. This process includes the creation of one or more subsidiaries which would be in charge of businesses, effectively assuming the management of the renewable energies businesses in Spain and the rest of the world, and is still ongoing at the date of the Merger Project.

For the purposes of article 31.9 of the LMESM, the assets and liabilities transferred by Iberdrola Renovables to Iberdrola will be recognised in the Iberdrola accounting records at the amounts reflected (following the operation) in the group's consolidated accounts at the date on which the merger takes effect for accounting purposes (1 January 2011). At 1 January 2011 the main categories of IBR assets and liabilities, as well as their valuation determined following the criteria explained in the preceding paragraph, were as follows:

	Net book value (Thousands of Euros)
NON-CURRENT ASSETS	**12,301,611**
Intangible assets	9,162
Property, plant and equipment	81,758
Non-current investments in group companies and associates	12,185,860
Non-current investments	9,517
Deferred tax assets	15,314
Receivables, group companies, non-current	-
CURRENT ASSETS	**5,002,182**
Inventories	574,796
Trade and other receivables	630,297
Current investments in group companies and associates	3,745,698
Current investments	50,905
Current accruals	486
Cash and cash equivalents	-
TOTAL ASSETS TO BE TRANSFERRED	**17,303,793**
NON-CURRENT LIABILITIES	**4,783,148**
Non-current provisions	10,845
Non-current payables	1,947
Payables, group companies and associates, non-current	4,599,978
Deferred tax liabilities	170,378
CURRENT LIABILITIES	**1,149,256**
Current payables	48,924
Group companies and associates, current	658,889
Trade and other payables	440,572
Current accruals	871
TOTAL LIABILITIES TO BE ASSUMED	**5,932,404**
NET BOOK VALUE OF THE EQUITY TO BE TRANSFERRED	**11,371,389**

1.7 Date for accounting purposes from which the new shares will carry the right to participate in corporate profits

1.7.1 Date for accounting purposes

According to the information included in the Merger Project, 1 January 2011 has been established as the date from which Iberdrola Renovables operations will be considered, for accounting purposes, as being performed by Iberdrola.

1.7.2 Date from which the new shares will carry the right to participate in corporate profits

The shares delivered as part of the exchange (whether Iberdrola treasury shares already outstanding or new shares issued by Iberdrola during the share capital increase which may be approved in accordance with section 1.4 of this report) will confer to their holders, from the date they are transferred or issued, profit-sharing rights in Iberdrola under the same terms and conditions as applicable to the remaining Iberdrola shares outstanding at that date. As previously mentioned, the aforementioned shares will confer to their holders the right to receive the dividend which Iberdrola expects to distribute following the merger, which is estimated to take place during July 2011 with a charge to profit for the year ended 31 December 2010. The aforementioned shares will also confer the right to benefit from the "Iberdrola flexible dividend" system mentioned in section 1.3 of this report.

1.8 Merger balance sheets

In accordance with the Merger Project, for the purposes of Article 36.1 of the LMESM, the merger balance sheets will be the individual balance sheets of the merging companies at 31 December 2010, which form part of their financial statements at that date. Furthermore, none of the circumstances foreseen in article 36.2 of the LMESM have materialised, which would lead to obligatory modifications to the valuations reflected in the aforementioned IBE and IBR balance sheets.

The aforementioned balance sheets of IBE and IBR at 31 December 2010 were prepared by the respective boards of directors on 22 (Iberdrola) and 21 (Iberdrola Renovables) February 2011, audited by Ernst & Young, S.L., and will be submitted for approval by the shareholders of each of the Companies at their annual general meetings prior to adoption of the merger agreement.

2 Valuation methods used to determine the share exchange ratio

A description of the methods used by the directors of Iberdrola and Iberdrola Renovables to determine the share exchange ratio, based on information received from the merging companies, is presented below.

Valuation methods used by the directors of Iberdrola and Iberdrola Renovables

According to the information included in the Merger Project, Iberdrola engaged HSBC Bank Plc (hereinafter HSBC) and Citigroup Global Markets Limited, Sucursal en España (hereinafter Citi) as financial advisors for the merger process. Pursuant to this engagement, and at the request of the Iberdrola board of directors, HSBC and Citi both issued fairness opinions to the board (for its exclusive use) on 22 March 2011, confirming that the exchange ratio is reasonable from a financial perspective for Iberdrola, based on the analysis performed and pursuant to the normal considerations included in the fairness opinions.

Iberdrola Renovables, in turn, engaged Credit Suisse Securities (Europe) Limited (hereinafter CS) and Merrill Lynch Capital Markets España, S.A., S.V. (hereinafter BofA ML) as financial advisors for the merger process. Pursuant to this engagement, and at the request of the Iberdrola Renovables board of directors, CS and BofA ML both issued fairness opinions to the board (for its exclusive use) on 22 March 2011, with respect to the consideration receivable by the Iberdrola Renovables shareholders other than the majority shareholder (Iberdrola) as part of the planned merger, which would include the agreed exchange ratio. According to these fairness opinions, the consideration receivable is reasonable from a financial perspective for the Iberdrola Renovables shareholders other than Iberdrola.

Valuation methods used by the Iberdrola board of directors

The Iberdrola board of directors performed a number of valuation analyses on Iberdrola and Iberdrola Renovables, which are detailed below.

The share exchange ratio was determined based on the actual value of the net equity of Iberdrola and Iberdrola Renovables. In determining this ratio the generally accepted valuation methodology and criteria deemed most suitable were taken into account, as well as the respective consolidated annual financial statements of Iberdrola and Iberdrola Renovables closed and audited at 31 December 2010.

The criteria used by the Iberdrola board of directors to determine the actual value of the equity of Iberdrola and Iberdrola Renovables for the purposes of calculating the above-mentioned exchange ratio was the market listing price of each company on the day prior to the announcement of the operation (i.e. 7 March 2011). The share exchange ratio was adjusted to take into account the technical impact on the capitalisation of Iberdrola of the share capital increase carried out as a result of the entry of Qatar Holding Luxembourg II S.à.r.l. into the company’s shareholding structure (the increase was carried out applying a 4.784% discount to the closing price of Iberdrola shares on 10 March 2011 and a 5.5% discount to the closing price of Iberdrola shares on 11 March 2011), as well as the results of the negotiations between Iberdrola and the Iberdrola Renovables merger committee.

Use of the stock market listing price as a valuation criterion is justified as this is the most commonly used criterion in mergers of listed companies when, as with the case at hand, the securities have appreciable liquidity levels. Valuation using listing prices is also the method normally preferred to determine the actual value of listed securities (according to article 504.2 of the LSC, to determine the fair value of the shares to be issued in share capital increases with the exclusion of pre-emptive rights, it is assumed that this value is the same as the listing price “unless shown otherwise”).

Consequently, if the Iberdrola valuation reference used were its listing price at the close of business on 7 March 2011, adjusted to consider the share capital increase involved in the aforementioned entry of Qatar Holding into the shareholding structure, the consideration offered to the Iberdrola Renovables shareholders (expressed as a share exchange ratio) would be a ratio of 0.50453215 Iberdrola shares for each Iberdrola Renovables share**.** This share exchange ratio represents a premium of 17.6% with respect to the average listing price of Iberdrola Renovables for the six (6) months prior to the date on which the merger was announced.

Notwithstanding the above, as the estimated valuation of the Companies considered, among other factors, the distribution of an extraordinary dividend of one Euro and twenty cents (Euros 1.20) per Iberdrola Renovables share (which, if approved by the Iberdrola Renovables shareholders at their annual general meeting, will be distributed prior to the exchange of Iberdrola Renovables shares for Iberdrola shares), the share exchange ratio finally agreed between Iberdrola and Iberdrola Renovables was 0.30275322 Iberdrola share for each Iberdrola Renovables share.

It is reasonable to use as a base the listing price of Iberdrola Renovables shares at the date on which the operation was announced (two Euros and seventy point seven cents (Euros 2.707) at 7 March 2011), the listing price of Iberdrola must be reduced due to the impact on the capitalisation of Iberdrola arising from the share capital increase carried out as a result of the entry of Qatar Holding into the shareholding structure (the increase was carried out applying a 4.784% discount to the listing price of Iberdrola shares at the close of business on 10 March 2011 and a 5.5% discount to the closing price of Iberdrola shares on 11 March 2011). To quantify the impact on the share capital increase at a discount, an adjusted listing price of five Euros and ninety-four point seven cents (Euros 5.947) was established, calculated as the weighted average of the existing shares at the listing price and the shares offered to the new investor at the price of acquisition.

In light of the above, the share exchange ratio (calculated using the Iberdrola Renovables listing price on 7 March 2011 and the adjusted Iberdrola listing price at that date) stands at 0.45517964 Iberdrola shares for each Iberdrola Renovables share.

When analysing the share exchange ratio an analysis was also performed on the historical trends in the share exchange ratio at market prices since Iberdrola Renovables was floated on the stock exchange, as follows:

	Share exchange ratio
Average for the month prior to 7 March 2011	0.4346
Average for the prior three months	0.4457
Average for the prior six months	0.4344
Average for the prior 12 months	0.4654
Average since the public offering of Iberdrola Renovables	0.4941
Iberdrola Renovables public offering	0.4858

Source: Factset.

Other valuation references

(a) Analysts' target prices

An analysis and review were also performed on the target prices reflected in reports from financial analysts (research) with respect to Iberdrola Renovables and Iberdrola shares at the date on which the operation was announced. These target prices reflect estimates of the future listing price of Iberdrola Renovables and Iberdrola shares, with the following share exchange ratios:

	Share exchange ratio
Average	0.4971
Median	0.5031

Source: Factset, 7 March 2011.

The historical share exchange ratio was also analysed, calculated based on the average target prices considered by the financial analysts for the Iberdrola Renovables and Iberdrola shares:

	Share exchange ratio
Average for the month prior to 7 March 2011	0,4945
Average for the prior three months	0,5065
Average for the prior six months	0,5162
Average for the prior 12 months	0,5284
Average since the public offering of Iberdrola Renovables	0,5102
Iberdrola Renovables public offering	0,5223

Source: Factset.

The target prices published by the financial analysts do not necessarily reflect the current listing prices of Iberdrola Renovables and Iberdrola shares. These prices are estimates and, as such, are subject to uncertainties, such as the future financial performance of the Companies or general market conditions.

(b) Comparable listed companies

As a valuation methodology to contrast the share exchange ratio used in the transaction, analyses were also performed on the relative valuations (listing multiples) of current listed companies comparable to Iberdrola Renovables.

The following companies were analysed: EDP Renovàveis, Enel Green Power, Acciona and EDF Energies Nouvelles. Due to Iberdrola's special position as the leading company in its sector, the analysis of valuations of comparable companies shows that, with the exception of EDF Energies Nouvelles, the multiples valuation shows that the Iberdrola Renovables valuation is lower than the market listing price.

	Share exchange ratio
Minimum: Average of comparable companies	0.42145228
Maximum: EDF Energies Nouvelles	0.47556725

Source: Factset, 7 March 2011.

(c) Prior transactions

To analyse the reasonableness of the exchange ratio offered, the implicit premiums offered in transactions similar to the operation at hand were also analysed.

The selection criteria used to determine prior comparable transactions involved the existence of a majority shareholder which had made a delisting bid for the target company , resulting in the following range of transactions:

	Premium % (six months)
Average of operations (1)	14%
Average including operations (1) and other operations (2)	17%

(1) Operations: Carrefour / Centros Comerciales Carrefour, Hisusa / Agbar, Nefinsa / Uralita, Telefónica / Telefónica Móviles, Unicrédito / B. Austria, Prudencial / Egg, Benetton / Autostrade.
(2) Other operations: Telefónica / Terra, DT / T-Online, FT / Wanadoo and FT / Orange.

As shown above, the average of the premiums offered in prior comparable transactions is in the range of 14-17% of the average listing price for the six (6) months prior to the announcement of the operation. This average is obtained by applying the arithmetical averages for the premiums offered with respect to the average listing price during the six (6) months prior to the announcement (price not affected by rumours or leaks) for the above-mentioned operations.

In conclusion, according to the information received from Iberdrola, in light of the information and financial considerations set forth above, the Iberdrola board of directors considered that the share exchange ratio proposed for the merger project is duly justified and fair for Iberdrola.

Valuation methods used by the Iberdrola Renovables board of directors

The Iberdrola Renovables board of directors, with the advice of CS and BofA ML, performed a number of valuation analyses on Iberdrola and Iberdrola Renovables, which are detailed below

The share exchange ratio was determined based on the actual value of the net equity of Iberdrola and Iberdrola Renovables. In determining this ratio the generally accepted valuation methodology and criteria deemed most suitable were taken into account, as well as the respective consolidated annual financial statements closed and audited at 31 December 2010 for both Companies.

The criteria used by the board of directors of Iberdrola Renovables to determine the actual value of the equity of Iberdrola Renovables and Iberdrola was the market listing price of each company.

While it is reasonable to use as a base the listing price of Iberdrola Renovables at the date on which the operation was announced (two Euros and seventy point seven cents (Euros 2.707) at 7 March 2011, the last full trading day before the merger proposed by Iberdrola and Iberdrola Renovables was announced to the market), the listing price of Iberdrola shares must be reduced due to the impact on the capitalisation of Iberdrola arising from the share capital increase carried out as a result of the entry of Qatar Holding Luxembourg, S.à.r.l. (Qatar Holding) into the shareholding structure, through a share capital increase with the exclusion of pre-emptive rights and the purchase of treasury shares (discounts of 4.784% and 5.5% were applied to the listing price of Iberdrola shares at the close of business on 10 March 2011 and 11 March 2011, respectively). To quantify the impact of the acquisition of shares by Qatar Holding, an adjusted listing price was determined for Iberdrola on 7 March 2011, totalling five Euros and ninety-four point seven cents (Euros 5.947), calculated as the weighted average of the existing shares prior to the share capital increase and the sale of treasury shares with the listing price of Iberdrola shares at the date on which the operation was announced (7 March 2011) and the listing price of the shares offered to the new investor at the price of acquisition.

Use of the stock market listing price (adjusted in the case of Iberdrola) is justified as this is the most commonly used criterion in mergers of listed companies when, as with the case at hand, the securities have appreciable liquidity levels. Valuation using listing prices is also the method normally preferred to determine the actual value of listed securities (according to article 504.2 of the Spanish Companies Act, to determine the fair value of the shares to be issued in share capital increases with the exclusion of pre-emptive rights, it is assumed that this value is the same as the listing price "unless shown otherwise").

To calculate the consideration offered and the implicit premium, both the exchange ratio and the dividends and other forms of shareholder remuneration to which each Iberdrola Renovables shareholder will have access were considered. The calculation also considered the valuation of Iberdrola (applying the exchange ratio) and Iberdrola Renovables shares at any given time.

Consequently, if the Iberdrola valuation reference used were its listing price at the close of business on 7 March 2011, adjusted to consider the above-mentioned share capital increase involved in the entry of Qatar Holding into the shareholding structure, the consideration offered to the Iberdrola Renovables shareholders represents a premium of 11.8% with respect to the price of Iberdrola Renovables shares on that day.

An analysis was also performed on historical trends in considerations offered and implicit premiums, based on performance of market prices, weighted by negotiated volumes, over different periods since the flotation of Iberdrola Renovables:

Period	**Implicit premium**
Closing price at 7 March 2011	11.8%
Average for the month prior to 7 March 2011	14.0%
Average for the three months prior to 7 March 2011	13.6%
Average for the six months prior to 7 March 2011	16.5%
Average since the public offering of Iberdrola Renovables	(5.2%)

Through its merger committee, the Iberdrola Renovables board of directors also analysed other valuation methodologies for determining the actual value of the equity of Iberdrola and Iberdrola Renovables, which include the following:

i) Target prices determined by variable income analysts

The target prices reflect estimates of the future listing price of the shares, and the prices determined by variable income analysts have been reviewed and analysed (these prices cover Iberdrola and Iberdrola Renovables shares and were not affected by the announcement of the Merger).

ii) Multiples of comparable listed companies

Another method used in the valuation of Iberdrola and Iberdrola Renovables equity was an analysis of the relative valuations (listing multiples) of a selection of listed companies comparable to the Companies. The main listing multiples considered in this analysis included the enterprise value/EBITDA and enterprise value/ invested capital.

iii) Prior transactions

As an additional reference, an analysis was performed on prior transactions where a majority shareholder acquired a minority yet significant interest in a subsidiary (when both companies are listed).

According to the information received from Iberdrola Renovables, and in light of the financial considerations set forth above, the Iberdrola Renovables board of directors considered that the share exchange ratio proposed for the Common Merger Project is duly justified and fair for the Iberdrola Renovables shareholders other than its majority shareholder (i.e. Iberdrola), since it is calculated based on a consideration that is reasonable from a financial perspective for these shareholders.

Resulting share exchange ratio

The share exchange ratio agreed by the boards of directors of the Companies, calculated using the actual net equity values of Iberdrola and Iberdrola Renovables, is 0.30275322 Iberdrola shares of seventy-five Euro cents (Euros 0.75) nominal value each, for each Iberdrola Renovables share of fifty Euro cents (Euros 0.50) nominal value each, taking into consideration the dividends and other forms of shareholder remuneration foreseen by Iberdrola and Iberdrola Renovables, as described in section 1.3 of this report.

3 Scope and procedures used in our engagement

Our analyses and verifications have been carried out solely to comply with the requirements of article 34 of the LMESM and in accordance with the terms set out in our engagement letter dated 31 March 2010. We have applied the following procedures during the course of our work:

3.1 Procurement and analysis of the following information:

- Document submitted to the Vizcaya Mercantile Registry by the Companies requesting the appointment of an independent expert, and document appointing KPMG Auditores, S.L. as independent expert, dated 23 March 2011.

- Merger Project dated 22 March 2011 prepared and subscribed by the boards of directors of the Companies.

- Valuation methods used by the directors of Iberdrola and Iberdrola Renovables with respect to the Companies, along with the values obtained therefrom, as the base to determine and/or assess the share exchange ratio, as well as any supporting documentation.

- The number of Iberdrola Renovables shares to be included in the exchange and the number of Iberdrola shares required for the exchange, distinguishing between treasury shares and new shares to be issued (if applicable) and detailing the issue price, the amount of any share capital increase to be carried out by Iberdrola (share capital and share premium) and details of the equity to be contributed by the Non-surviving Company.

- Internal Iberdrola presentations made to the board of directors with regard to the planned merger on 8 and 22 March 2011.

- Activities and conclusions report issued by the Iberdrola Renovables merger commission, dated 22 March 2011.

- Fairness opinions issued by HSBC and Citi, the Iberdrola financial advisors, on 22 March 2011.

- Fairness opinions issued by CS and BofA ML, the Iberdrola Renovables financial advisors, on 22 March 2011.

- Presentations by Iberdrola and Iberdrola Renovables to stock market analysts on investor's day, 2 March 2011.

- Consolidated financial projections for Iberdrola for the period from 1 January 2011 to 31 December 2018 (before the potential synergies derived from the merger), prepared by Iberdrola management, as well as the main assumptions on which the projections are based. These financial projections include the balance sheets, income statements and statements of source and application of funds for each of the projected years.

- Consolidated financial projections of Iberdrola Renovables for the period from 1 January 2011 to 31 December 2018 (before synergies deriving from the merger), prepared by management of Iberdrola Renovables, as well as the main assumptions on which the projections are based. These financial projections include the balance sheets, income statements and statements of source and application of funds for each of the projected years.

- Relevant events (primarily those arising on 8 March, 14 March and 22 March 2011) reported to the Spanish National Securities Market Commission (CNMV) in relation to the terms of the foreseen merger.

- Relevant events issued to the CNMV on 14, 21 and 28 March 2011, and 4 and 11 April 2011, concerning the repurchase programme referred to in paragraph 1.4.2 above.
- Audited annual accounts (individual and consolidated, if applicable) of Iberdrola and Iberdrola Renovables for the years ended 31 December 2009 and 2010.
- Other financial and management information on Iberdrola and Iberdrola Renovables at 31 December 2010.
- Number of Iberdrola Renovables treasury shares at the date of the Merger Project.
- Verbal and/or written information obtained from the external financial advisors with respect to the scope and results of their work.
- Stock market information on the listed price of Iberdrola and Iberdrola Renovables shares.
- Reports issued by stock market analysts on Iberdrola and Iberdrola Renovables.
- Stock market information on the listing price of listed companies comparable to Iberdrola and Iberdrola Renovables.
- Any public information on prior transactions in which a majority shareholder has launched a delisting bid for the target company .
- Any other information considered useful for our work.

3.2 Analysis of each valuation document and/or presentation provided by the Companies, based on available information.

3.3 Analysis and contrast of the valuation methodologies used by the board of directors of Iberdrola and Iberdrola Renovables (with the financial advice of HSBC and Citi for the former and CS and BofA ML for the latter).

3.4 Analysis of whether the equity contributed by Iberdrola Renovables is at least equal to the share capital increase (plus any share premium) planned by Iberdrola.

3.5 Discussions and meetings with management of each of the Companies and their financial advisors to gather additional information considered relevant to our work.

3.6 Any other procedures considered reasonable.

3.7 Procurement of a letter signed by the directors or management empowered to represent each Company in matters related with the merger process, confirming that we have been provided with all the necessary information, as well as any other information we might have requested, to prepare our expert witness report, that the financial projections provided represent management's best founded opinion on Company operations based on current circumstances and their expected development, and that the valuation methodologies applied, the values obtained therefrom and the resulting exchange ratio represent their best opinion with respect to the values of the Companies and the share exchange ratio, considering present circumstances and expected future performance.

The information required to carry out our work has been provided to us by management of the Companies directly or, in certain cases, through their financial advisors, or obtained from public sources.

We have not carried out an independent verification, audit, due diligence, review or evaluation of the accounting, tax, legal, labour or environmental position of the Companies. Consequently, the scope of our work does not constitute the issuance of an audit opinion or any other type of opinion or confirmation regarding the financial statements of the Companies.

We have assumed that this information is complete and accurate and that it reflects management's best estimates of the outlook for the Companies' businesses from an operating and financial perspective. Management of both Companies have confirmed these aspects in writing.

Our work has not included a comparison of the information obtained from public sources with evidence external to the Companies. Nonetheless, to the extent possible, we have verified that the information presented is consistent with other data obtained during the course of our work.

We are not obliged to update our report to consider any events that may occur after its date of issue.

The scope of our work has not included a review of the operation or the Merger Project from a legal perspective.

We have assumed that all authorisations and registrations required for the purposes of the foreseen merger, in Spain and other jurisdictions in which the Companies are present, and which have a significant impact on our analyses, will be obtained with no adverse effect for the Companies or the profit expected to be generated with respect to the merger.

The scope of our work should not be considered, within the context of this transaction or any future context, as a "fairness opinion" or an opinion on current or future values, or as a recommendation to invest in either of the Companies.

4 Specific aspects pertaining to valuation

4.1 Our work is of an independent nature and does not, therefore, constitute a recommendation to management of the Companies, the shareholders of those companies or third parties regarding the position they should adopt in relation to the foreseen transaction or other transactions involving shares of the aforementioned companies.

4.2 We should point out that, apart from objective factors, other subjective factors which require the use of judgement are implicit in any valuation. Accordingly, the value obtained is merely a point of reference for the parties involved in a transaction. Consequently, it is not possible to ensure that third parties will necessarily agree with the conclusions of our work. Additionally, in the context of an open market, different prices may exist for a particular business due to subjective factors including, but not limited to, negotiating power between the parties or different perceptions of the future prospects of the business.

4.3 In work of this nature, the scope of our analysis of the share exchange ratio is mainly based on the analysis of the relative value of the Companies and of their shares. Consequently, such work does not necessarily constitute an opinion on the absolute values used to determine the aforementioned share exchange ratio, nor should it be considered as such. The values of Iberdrola and Iberdrola Renovables have been calculated based on the different valuation methods summarised above, with a view to determining the share exchange ratio. Therefore, these values could vary, depending on the specific methods considered and their application by the directors of the Companies.

4.4 The scope of our engagement did not include an analysis of the suitability of the Companies' current or past business strategies or the reasons behind the operation with respect to other business strategies or transactions that the Companies may have chosen, nor did it comprise an analysis of the business decision taken by the Companies to proceed with the above-mentioned merger operation.

4.5 Some of the valuation methods mentioned in section 2 above, and any others that may have been used to contrast these methods, are fully or partially based on future financial information. Projected results and actual results could differ, and such differences may be material.

4.6 As mentioned above, in accordance with the Merger Project, following the merger by takeover of Iberdrola Renovables by Iberdrola, the former will be wound up without liquidation and its net assets will be transferred en bloc to Iberdrola. For the purposes of article 31.9 of the LMESM, the Merger Project also stipulates that the assets and liabilities transferred by Iberdrola Renovables to Iberdrola will be recognised in the Iberdrola accounting records at the amounts reflected (following the operation) in the group's consolidated accounts at the date on which the merger takes effect for accounting purposes (1 January 2011). According to the Merger Project, at that date the net book value of the aforementioned assets and liabilities total Euros 11,371,389 thousand. As mentioned above, prior to the effective date of the merger, Iberdrola Renovables will distribute dividends which, if approved by the shareholders at their general meeting, will total Euros 5,154,511 thousand (once treasury shares have been deducted).

4.7 It is important to note that the dividends set forth in sections 1.3.1 and 1.3.2 of this report are pending approval by the shareholders of Iberdrola and Iberdrola Renovables, respectively, at their general meetings**.**

5 Conclusion

Based on the information used and the procedures applied, as described in preceding sections, and subject to the specific aspects pertaining to valuation mentioned in section 4 above and for the sole purpose of complying with the requirements of the independent expert appointment, we consider that:

- The share exchange ratio proposed by the Boards of Directors of the merging companies is justified, and the valuation criteria used by the aforementioned Boards and the range of values obtained as a result are reasonable.

- As mentioned above, according to the Merger Agreement, as a result of the merger Iberdrola Renovables will transfer its net assets en bloc at their carrying amount at 1 January 2011. According to the Project, on that date the net book value of the aforementioned net assets stood at Euros 11,371,389 thousand. As mentioned, prior to the effective date of the merger Iberdrola Renovables will distribute dividends (subject to approval by the shareholders of that company at their general meeting) totalling Euros 5,154,511 thousand, once treasury shares have been discounted. If this amount is deducted from the above-mentioned net equity and no further adjustments are made, the net equity would total Euros 6,216,878 thousand.

  Considering, as mentioned above that:

  (iv) the number of Iberdrola shares required for the share exchange ascends to two hundred and fifty million eight hundred and thirty-four thousand six hundred and fifteen (250,834,615) shares;

  (v) the shares acquired by Iberdrola under the repurchase programme at the close of business on 8 April 2011, total fifty-two million eight hundred and seventy-four thousand six hundred (52,874,600) shares;

  (vi) at the date of this report the maximum number of new shares which Iberdrola may be required to issue, along with the shares mentioned in point (ii) above, for the share exchange would total one hundred and ninety-seven million, nine hundred and sixty thousand and fifteen (197,960,015) shares and, consequently, the maximum nominal amount of the share capital increase would total one hundred and forty-eight million, four hundred and seventy thousand and 11 Euros and twenty-five cents (148,470,011.25); and that

  (vii) the value allocated to the proportional part of Iberdrola Renovables' equity corresponding to the shares mentioned in point (iii) above totals, at the date of this report, Euros 1,767,058 thousand (or Euros 966,073 thousand taking into account the dividends which Iberdrola Renovables plans to distribute, subject to approval by the shareholders at their annual general meeting),

  the value corresponding to the proportion of equity contributed by the Non-surviving Company (Iberdrola Renovables), referred to in point (iv) above, will be at least equal to the share capital increase to be carried out by the Surviving Company (Iberdrola), provided that the Iberdrola Renovables shareholders approve the distribution of the above-mentioned dividends at their annual general meeting.

* * * * *

It is important to consider that (i) an incomplete subscription has been considered for the above-mentioned share capital increase, and that (ii) according to the information received, the share repurchase programme mentioned in section 1.4.2 above is expected to reduce the maximum number of shares which need to be issued (via the share capital increase) for the share exchange by an amount which is unable to be determined at this date. The value of the net equity contributed by the Non-surviving Company (Iberdrola Renovables) which, according to this report, would correspond to the shares eventually issued by Iberdrola, will therefore be at least equal to the share capital increase carried out by the Surviving Company (Iberdrola).

* * * * *

Our conclusion should be interpreted within the context of the scope and procedures applied in the course of our work. No additional responsibility may be derived from our conclusion, other than that relating to the reasonableness of the proposed share exchange ratio and the value allocated to the equity to be contributed proposed by the merging companies.

This report and the information contained herein have been prepared strictly to comply with the requirements of the independent expert appointment related with the requirements of article 34 of the LMESM, and should not, therefore, be used for any other purpose.

Ana Martínez Ramón
Partner

11 April 2011

ANNEX III - FAIRNESS OPINION OF CREDIT SUISSE SECURITIES (EUROPE) LIMITED

22 March 2011

Board of Directors
Iberdrola Renovables, S.A.
c/ Menorca 19, planta 13
46023 Valencia
Spain

Dear Sirs,

We understand that pursuant to the merger announcements (the "Merger Announcements"), dated 8 March 2011, 14 March 2011 as further amended on 22 March 2011, Iberdrola, S.A. ("Iberdrola") has made a proposal to merge (the "Proposed Merger") with Iberdrola Renovables, S.A. (the "Company"). Iberdrola currently owns 80.0% of the issued share capital of the Company. The Merger Announcements, together with the Common Merger Project Document, approved by the Boards of Directors of respectively the Company and Iberdrola on 22 March 2011 (the "Proyecto Común de Fusión"), provide, amongst other things, that:

(a) the Proposed Merger will be effected by incorporation of the Company into Iberdrola, whereby the shareholders of the Company will receive existing ordinary Iberdrola shares held in treasury stock and, in the event that the amount of such shares is insufficient to meet such exchange, by means of the delivery of newly-issued shares of Iberdrola for their ordinary shares in the Company;

(b) the exchange ratio set forth in the Proyecto Común de Fusión is 0.30275322 Iberdrola ordinary shares for each ordinary share in the Company;

(c) the Board of Directors of the Company has approved an extraordinary cash dividend of a gross amount of €1.20 per Company share (the "Extraordinary Cash Dividend", and together with the Proposed Merger, the "Merger Transactions"), which will be submitted for shareholder approval at the Annual General Meeting of the Company, and which would be paid prior to the consummation of the Proposed Merger.

We further understand that it is intended that (i) pursuant to the Company's announcement of 14 March 2011 the Company will, prior to consummation of the Proposed Merger, approve and pay holders of ordinary shares in the Company a cash dividend of a gross amount of €0.025 per share (the "Iberdrola Renovables Ordinary Dividend"), and (ii) pursuant to Iberdrola's announcement of 22 March 2011 Iberdrola will, following consummation of the Proposed Merger, pay holders of ordinary shares in Iberdrola (a) a cash dividend of a gross amount of €0.03 per share, and (b) a scrip dividend amounting to a minimum gross amount of €0.15 per share (totaling a minimum of €0.18 per share) (the "Iberdrola Ordinary Dividends", together with the Iberdrola Renovables Ordinary Dividend, the "Ordinary Dividends"). Further, it has been proposed by the Iberdrola's Board of Directors that the Company's shareholders will be entitled to receive the Iberdrola Ordinary Dividends in respect of Iberdrola shares issued to them in connection with the Proposed Merger in addition to their receipt of the Iberdrola Renovables Ordinary Dividend.

We have considered the Iberdrola capital increase and the sale of its treasury shares which took place on 14 March 2011.

You have requested that we advise you with respect to the fairness to the Company's shareholders, other than Iberdrola, from a financial point of view, of the consideration to be received by such shareholders pursuant to the terms of the Proyecto Común de Fusión, including the Extraordinary Cash Dividend (the "Merger Consideration").

This opinion is provided pursuant to, and subject to the terms of, the engagement letter entered into by Credit Suisse Securities (Europe) Limited and the Company upon 18 March 2011 (the "Engagement Letter").

In arriving at our opinion, we have reviewed certain publicly available business and financial information, including publicly available financial statements, equity research reports and publicly available financial forecasts, relating to the Company and Iberdrola. We have also reviewed certain other information relating to the Company, provided to us or discussed with us by the Company, including without limitation financial forecasts prepared by the Company's management. We met with the management of the Company to discuss the business and prospects of the Company, including without limitation discussing the assessment of management of the Company as to the potential synergies anticipated to result from the Merger Transactions. We have also reviewed certain other information relating to Iberdrola, including financial forecasts prepared by Iberdrola's management, provided to us

by the Company and have had very limited discussions with the management of Iberdrola to discuss solely the principal assumptions underlying such financial forecasts.

We have also considered certain financial and stock market data of the Company and Iberdrola, and we have compared that data with similar data for other publicly held companies in businesses which we deemed similar to those of the Company and Iberdrola and we have considered, to the extent publicly available, the financial terms of certain other business combinations and other transactions which have recently been effected. We also considered such other information, financial studies, analyses and investigations and financial, economic and market criteria which we deemed relevant. The opinion expressed herein is being rendered during a period of unusual volatility in the financial markets in particular as regards the power generation market and it is necessarily subject to the absence of further material developments in the financial, regulatory, economic and market conditions from those prevailing on the date hereof including important factors such as the impact of the 11 March earthquake and tsunami in Japan and related crisis at several nuclear plants in Japan and the implications for the future of the nuclear power generation industry as well as actual and possible political, regulatory and legislative developments in connection therewith.

We have not reviewed the legal documentation required for the Merger Transactions as these documents are not yet available, including, inter alia: (i) the independent expert's report and (ii) the reports prepared by each of the Company's and Iberdrola's respective Boards of Directors.

In connection with our review, we have not assumed any responsibility for independent verification of any of the foregoing information and have relied on its being complete and accurate in all material respects. With respect to the financial forecasts for the Company and Iberdrola the respective managements of the Company and Iberdrola have advised us, and we have assumed, that such forecasts have been reasonably prepared on bases reflecting the best currently available estimates and judgments of the Company's and Iberdrola's management as to the future financial performance of the Company and Iberdrola and that they are not aware of any relevant information that has been omitted or that remains undisclosed to us. With respect to the publicly available financial forecasts for the Company and Iberdrola referred to above, we have reviewed and discussed such forecasts with the managements of the Company and Iberdrola and have assumed, with your consent, that such forecasts

represent reasonable estimates and judgments with respect to the future financial performance of the Company and Iberdrola. With respect to the estimates provided to us by the management of the Company with respect to the cost savings and synergies anticipated to result from the Merger Transactions, we have been advised by the management of the Company, and we have assumed, that such forecasts have been reasonably prepared on bases reflecting the best currently available estimates and judgments of the management of the Company as to such cost savings and synergies and will be realised in the amounts indicated thereby.

We have further assumed with your consent that the Extraordinary Cash Dividend and the Iberdrola Renovables Ordinary Dividend will be validly approved, declared and paid prior to the consummation of the Proposed Merger. Further, we have assumed with your consent that the Iberdrola Ordinary Dividends will be validly approved and declared prior to the consummation of the Proposed Merger and paid following the consummation of the Proposed Merger and that consequently the Company's shareholders will be entitled to receive the Iberdrola Ordinary Dividends in respect of Iberdrola shares delivered or issued to them in connection with the Proposed Merger in addition to their receipt of the Iberdrola Renovables Ordinary Dividend.

We also have assumed, with your consent, that in the course of obtaining necessary regulatory and third party approvals and consents the Merger Transactions, no modification, delay, limitation, restriction or condition will be imposed that will have an adverse effect on the Company, Iberdrola or the contemplated benefits of the Merger Transactions, and that the Merger Transactions will be consummated in accordance with the Merger Announcements and the Proyecto Común de Fusión, without waiver, modification or amendment of any material term, condition or agreement therein. In addition we have not been requested to make, and have not made an independent evaluation or appraisal of the assets or liabilities (contingent or otherwise) of the Company, nor have we been furnished with any such evaluations or appraisals. Our opinion addresses only the fairness, from a financial point of view, to the shareholders of the Company, other than Iberdrola, of the Merger Consideration and does not address any other aspect or implication of the Merger Transactions or any other agreement, arrangement or understanding entered into in connection with the Merger Transactions or otherwise. Our opinion is necessarily based upon information made available to us on the date hereof and upon financial, economic, market and other conditions as they exist and can be evaluated on the date hereof. Our opinion does not address the relative merits of the Merger Transactions as compared to alternative

transactions or strategies that might be available to the Company nor does it address the underlying business decision of the Board of Directors of the Company to recommend that the Company's shareholders vote for the Merger Transactions. We are not expressing any opinion as to what the value of the ordinary shares of Iberdrola actually will be when exchanged to the Company's shareholders pursuant to the Merger Transactions or the prices at which such ordinary shares will trade during the pendency of or subsequent to the Merger Transactions. We were not requested to, and we did not, participate in the negotiation or structuring of the Merger Transactions nor were we requested to, and did not, solicit third party indications of interest in acquiring all or any part of the Company.

We have acted as financial advisor to the Company in connection with the Merger Transactions and will receive a fee for our services which is payable subsequent to the delivery of this letter. In addition, the Company has agreed to indemnify us for certain liabilities and other items arising out of our engagement. From time to time, we and our affiliates have in the past provided, are currently providing and in the future we may provide, investment banking and other financial services to the Company and/or Iberdrola and/or their respective existing or prospective shareholders, for which we have received, and would expect to receive, compensation. We are a full service securities firm engaged in securities trading and brokerage activities as well as providing investment banking and other financial services. In the ordinary course of business, we and our affiliates may acquire, hold or sell, for our and our affiliates' own accounts and the accounts of customers, equity, debt and other securities and financial instruments (including bank loans and other obligations) of the Company, Iberdrola and any other company that may be involved in the Merger Transactions, as well as provide investment banking and other financial services to such companies.

It is understood that this letter is for the information of the Board of Directors of the Company only in connection with its consideration of the Merger Transactions, and does not constitute a recommendation to any shareholder as to how such shareholder should vote or act on the Merger Transactions, and may not be disclosed to any person without our prior consent and is not to be quoted or referred to, in whole or in part nor shall this letter be used for any other purposes, without our prior written consent. Our advisory services and the opinion expressed herein are not on behalf of, and shall not confer rights or remedies upon, any subsidiary or affiliate of the Company or any person who is a director, officer, employee, shareholder or other security holder or creditor of the

Board of Directors
Iberdrola Renovables, S.A.
22 March, 2011

Company, or of any subsidiary or affiliate of the Company, or any other person.

Based upon and subject to the foregoing, it is our opinion that, as of the date hereof, the Merger Consideration to be received by such shareholders is fair to such shareholders, other than Iberdrola, from a financial point of view.

Yours faithfully,

CREDIT SUISSE SECURITIES (EUROPE) LIMITED

By: Jonathan Grundy, *Managing Director*

ANNEX IV - FAIRNESS OPINION OF MERRILL LYNCH CAPITAL MARKETS ESPAÑA, S.A., S.V.

Bank of America
Merrill Lynch

Private & Confidential
Board of Directors
IBERDROLA RENOVABLES, S.A.
Calle Menorca 19, planta 13ª
Valencia

22nd March, 2011

Members of the Board of Directors,

We understand that IBERDROLA RENOVABLES, S.A. ("**Iberdrola Renovables**" or the "**Company**") and IBERDROLA, S.A. ("**Iberdrola**") propose to enter into a transaction pursuant to which the Company will be merged with Iberdrola (the "**Merger**"). Prior to consummation of the Merger and in direct connection with it, an extraordinary dividend (the "**Dividend**") will be paid by the Company, subject to the Company's Shareholders' General Meeting approval in the amount of €1.200 in cash per each outstanding ordinary share of the Company, par value €0.50 per share (the "**Renovables Shares**"). Assuming the Dividend is paid before the Merger, pursuant to the Merger each Renovables Share shall be exchanged for 0.30275322 ordinary shares (the "**Exchange Ratio**") of Iberdrola, par value €0.75 per share (the "**Iberdrola Shares**"). The report ("*proyecto de fusión*") to be issued by the Board of Directors of the Company and Iberdrola in connection with the Merger (the "**Merger Project**") will specify the declaration and payment of the Dividend and the Exchange Ratio. Accordingly, under the terms of the Merger Project, shareholders of the Company shall receive €1.200 in cash (by way of payment of the Dividend, per share) plus 0.30275322 Iberdrola Shares in exchange for each Renovables Share (together, the "**Consideration**").

You have asked us whether, in our opinion, the Consideration is fair from a financial point of view to the holders of the Renovables Shares, other than Iberdrola and its affiliates.

In arriving at the opinion set out below, we have, among other things:

1. Reviewed certain publicly available business and financial information relating to the Company and Iberdrola that we deemed to be relevant;
2. Reviewed certain information, including financial forecasts, relating to the business, earnings, cash flow, assets, liabilities and prospects of the Company and Iberdrola;
3. Conducted discussions with members of senior management of the Company and Iberdrola concerning the matters described in clauses 1 and 2 above, as well as their respective businesses and prospects before and after giving effect to the Merger;

Tel: +34 91 514 30 00 Fax: +34 91 514 30 01

Merrill Lynch Capital Markets España, S.A., S.V.
Edificio Torre Picasso, pl. 40, Plaza Pablo Ruiz Picasso, 1, 28020 Madrid
Reg. Merc. Madrid, tomo 11062, gral., sección 8ª. Libro de Sociedades, folio 121, hoja nº M-174376., inscripción 1º, - C.I.F. A81/479586
Inscrita en el Registro de Sociedades de Valores de la Comisión Nacional del Mercado de Valores con el nº 161. (SOCIEDAD UNIPERSONAL)

4. Reviewed the market prices and valuation multiples for the Renovables Shares and Iberdrola Shares and compared them with those of certain publicly traded companies that we deemed to be relevant;
5. Reviewed the results of operations of the Company and Iberdrola and compared them with those of certain publicly traded companies that we deemed to be relevant;
6. Compared the proposed financial terms of the Merger with the financial terms of certain other transactions that we deemed to be relevant;
7. Reviewed the potential pro forma impact of the Merger;
8. Reviewed a draft dated 22nd March, 2011 of the Merger Project; and
9. Reviewed such other financial studies and analyses and taken into account such other matters as we deemed necessary, including our assessment of general economic, market and monetary conditions.

In preparing our opinion, we have assumed and relied on the accuracy and completeness of all information supplied or otherwise made available to us, discussed with or reviewed by or for us, or publicly available, and we have not assumed any responsibility for independently verifying such information or undertaken an independent evaluation or appraisal of any of the assets or liabilities of the Company or Iberdrola or been furnished with any such evaluation or appraisal nor have we evaluated the solvency or fair value of the Company or Iberdrola under any laws relating to bankruptcy, insolvency or similar matters. In addition, we have not assumed any obligation to conduct any physical inspection of the properties or facilities of the Company or Iberdrola. With respect to the financial forecast information furnished to or discussed with us by the Company or Iberdrola, we have assumed that they have been reasonably prepared and reflect the best currently available estimates and judgment of the Company's or Iberdrola's management as to the expected future financial performance of the Company or Iberdrola, as the case may be. We have also assumed that the final form of the Merger Project will be substantially similar to the last draft reviewed by us, and that the Merger will be consummated on the terms set out in that draft of the Merger Project.

Our opinion is necessarily based upon market, economic and other conditions as they exist and can be evaluated on, and on the information made available to us as of, the date of this letter. Subsequent developments may affect this opinion, which we are under no obligation to update, revise or reaffirm. We have assumed that in the course of obtaining the necessary regulatory or other consents or approvals (contractual or otherwise) for the Merger, no restrictions, including any divestiture requirements or amendments or modifications, will be imposed that will have a material adverse effect on the contemplated benefits of the Merger. In addition, we have assumed that the Dividend is declared and paid to the shareholders of the Company in connection with the Merger, as described in the Merger Project.

In connection with the preparation of this opinion, we have not been authorised by the Company or the Board of Directors to solicit, nor have we solicited, third-party indications of interest for the acquisition of all or any part of the Company. In addition, we have not participated in negotiations on the financial terms of the Merger with representatives of Iberdrola. Our opinion does not address the relative merits of the Merger as compared to any alternative business strategies that might exist for the Company or the effect of any other transaction in which the Company might engage. Accordingly, no opinion is expressed whether any alternative transaction might be more beneficial to the Company and/or its shareholders.

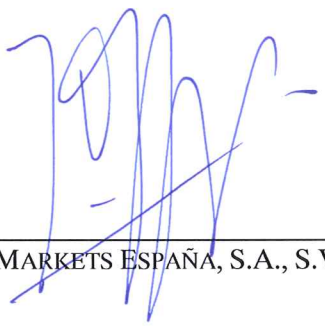
We are acting as financial adviser to the Company in connection with the Merger and will receive a fee from the Company for our services. In addition, the Company has agreed to indemnify us for certain liabilities arising out of our engagement. We and our affiliates may currently be providing and have, in the past, provided financial advisory and financing services to the Company and/or Iberdrola and/or their affiliates, not directly related to the Transaction, and may continue to do so and have received, and may receive, fees for the rendering of such services. In addition, in the ordinary course of our business, we may actively trade Renovables Shares and other securities of the Company, as well as Iberdrola Shares and other securities of Iberdrola, for our own account and for the accounts of customers and, accordingly, may at any time hold a long or short position in such securities.

This opinion is solely for the use and benefit of the Board of Directors of the Company in its evaluation of the Merger and shall not be used for any other purpose. This opinion is not intended to be relied upon or confer any rights or remedies upon any employee, creditor, shareholder or other equity holder of the Company, Iberdrola or any other party. This opinion shall not, in whole or in part, be disclosed, reproduced, disseminated, quoted, summarised or referred to at any time, in any manner or for any purpose, nor shall any public references to Merrill Lynch Capital Markets España S.A., S.V. or any of its affiliates be made by the Company or any of its affiliates, without the prior written consent of Merrill Lynch Capital Markets España S.A., S.V., except that (a) a complete copy of this letter may be attached to the final form of the Merger Report ("*informe de administradores*") to be issued by the Board of Directors of the Company on the Merger Project and/or disclosed to the Company's shareholders at any time prior to the general shareholders meeting which is to resolve on the approval of the Merger, or whenever such disclosure is requested by any regulatory authority (including, but not limited to, the *Comisión Nacional del Mercado de Valores*); and (b) references to this opinion which are not a complete copy of this letter may also be included in the Merger Project, in the Merger Report and/or in any disclosure, document or communication addressed or made available to shareholders of the Company in connection with the Merger, subject to our prior written approval, which shall not be unreasonably denied or withheld (provided that such prior approval shall not be required for the purposes of the Company making references, in any legal documentation relating to the Merger, to the fact that "*Merrill Lynch, as financial adviser to the Company, has issued a fairness opinion*" and that "*according thereto the Consideration proposed in the Merger is fair from a financial point of view to the shareholders of the Company, other than Iberdrola and its affiliates*").

Our opinion does not address the merits of the underlying decision by the Company to engage in the Merger and does not constitute a recommendation to any shareholder as to how such shareholder should vote on the proposed Merger or any matter related to it. We are not expressing any opinion as to the prices at which the Renovables Shares or Iberdrola Shares will trade following the announcement or consummation of the Merger.

On the basis of and subject to the foregoing, we are of the opinion that, as of the date of this letter, the Consideration is fair from a financial point of view to the holders of the Renovables Shares, other than Iberdrola and its affiliates.

Yours faithfully,



MERRILL LYNCH CAPITAL MARKETS ESPAÑA, S.A., S.V.