The proposal was approved today by the Boards of Directors of each company and will be submitted to shareholder authorization.

IBERDROLA, IBERDROLA RENOVABLES APPROVE MERGER PLAN

- The transaction involves a new exchange ratio of 0.5045 shares of the parent company for each subsidiary share. Taking account ordinary dividends to be distributed by each company, it values each Iberdrola Renovables share at €3.08 based on the closing price the day before the initial announcement.

- This new valuation is a 3.4% improvement on Iberdrola’s initial proposal and brings the premium over Renovables’ average share price for the six months prior to the announcement to 20.7%.

- As a result, the Iberdrola share repurchase amount is increased to a maximum of 250.9 million shares, representing up to 4.309% of its capital.

- The Boards of each company have also approved a Common Merger Project, which includes the rationale and the steps required to complete the transaction in the coming month of July.

The Boards of IBERDROLA and IBERDROLA RENOVABLES, meeting today in Madrid, have approved the proposed merger by absorption of the subsidiary company by its parent as a result of the negotiations that were initiated on March 8.

The operation sets the exchange ratio at 0.5045 shares of the parent company for every subsidiary company share which, added to ordinary dividend distribution of the two companies values each IBERDROLA RENOVABLES share at €3.08 on the basis of the closing price the day before the initial announcement.

The new valuation represents an improvement of 3.4% over the initial proposal by IBERDROLA of €2.978 and brings the premium over the average price of IBERDROLA RENOVABLES shares in the six months prior to the announcement to 20.7% and to 13.8% over the last closing price before the proposal was announced.
Prior to the merger taking effect, IBERDROLA RENOVABLES will pay an extraordinary dividend of €1.2 per share, a proposal that the Board will submit to its General Shareholders Meeting and which IBERDROLA will support.

In the event that IBERDROLA RENOVABLES shareholders approve the dividend distribution, the exchange ratio will be modified to 0.3027 IBERDROLA shares for each share in the subsidiary.

In order to execute this share distribution, the parent company has increased the share repurchase scheme announced on March 14 to a maximum of 250.9 million shares, representing up to 4.309% of IBERDROLA’s capital.

The new valuation of IBERDROLA RENOVABLES shares have taken into account the above mentioned ordinary dividends of each company attributable to 2010 results. In the case of the subsidiary, a gross dividend of €0.025 per share will be paid around June 21.

Current shareholders of IBERDROLA RENOVABLES will receive a dividend to be paid by the parent company in the framework of the Iberdrola Flexible Dividend, amounting to a gross €0.0545 per subsidiary share. In this respect, IBERDROLA plans to make this payment once the merger has taken place during the month of July this year.

**Common Merger Project approved**

The Boards of Directors of IBERDROLA and IBERDROLA RENOVABLES (with IBERDROLA proprietary directors abstaining) have also approved a Common Merger Project which includes the rationale for the operation and the steps required to complete the transaction in the planned timetable.

Among the reasons for the merger stated in the Project are:

1- The renewables sector has undergone significant change since the IPO of IBERDROLA RENOVABLES. Through the merger, IBERDROLA will be able to directly manage the development of an activity closely identified with its corporate misión.

2- Shareholders of the subsidiary company will benefit from the increased size of the group, as well as greater liquidity and reduced volatility of its shares. They will also benefit from the parent company’s payout ratio of around 50%.

3- With the merger, IBERDROLA will be able to promote projects that would have been more difficult for IBERDROLA RENOVABLES due to balance sheet, financial and manpower limitations.

4- The transaction involves organizational synergies which should reflect in cost savings of around €20 million a year from 2012.

5- The merger of the shareholder bases of the two companies will produce an increased number of shareholders.

6- Access to capital markets will be possible from a stronger corporate base, with greater leverage with financial agents.
The Common Merger Project will be subject to approval at the General Shareholders Meetings of each company, to be convened next month for a future date. The merger is expected to be completed during the month of July this year.

IBERDROLA’s financial advisers were Citigroup and HSBC, and legal advisers Uría Menéndez Abogados, SLP. Acting for IBERDROLA RENOVABLES were Credit Suisse and Merrill Lynch, and CMS Albiñana & Suárez de Lezo, respectively.

**World wind power leader**

IBERDROLA RENOVABLES has a presence in 23 countries and is global leader* in its sector, both in installed capacity – with more than 12,530 MW operational at the end of 2010 – and also in production with more than 25,400 million kWh last year.

The IBERDROLA subsidiary, which plans new capacity installation of around 3,500 MW between 2011 and 2014, had a market capitalization of €12,883 million at today’s close. In 2010 it generated Ebitda totalling €1,456 million and net earnings of €360 million.

* Source: Bloomberg New Energy Finance
IMPORTANT INFORMATION

This announcement is not an offer for sale of securities in the United States, nor in any other jurisdiction. The securities referred to herein may not be sold in the United States absent registration or an exemption from registration under the US Securities Act of 1933, as amended.

FORWARD-LOOKING STATEMENTS

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

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

Forward-looking statements are not guarantees of future performance. They have not been reviewed by the auditors of IBERDROLA, S.A. and IBERDROLA RENOVABLES, S.A. You are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date they were made. All subsequent oral or written forward-looking statements attributable to IBERDROLA, S.A., or any of its members, directors, officers, employees or any persons acting on its behalf are expressly qualified in their entirety by the cautionary statement above. All forward looking statements included herein are based on information available on the date hereof. Except as required by applicable law, IBERDROLA, S.A. undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.