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**IBERDROLA ScottishPower**

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## Introduction to UK and US Utility Sectors

### Introduction to ScottishPower

### UK market

- Positive macroeconomic backdrop
- Second largest EU energy market
- History of early deregulation and privatisation leading to three distinct subsectors:
  - Generation – market based with attractive fundamentals
  - Supply – liberalised, consolidated market
  - Transmission / Distribution – asset based regulation
- Independent and stable regulatory environment
- Need for investment in future capacity highlighted in recent government Energy Review

### US market

- Rapidly developing opportunities, particularly in ScottishPower's core US subsectors:
  - Wind Generation
  - Gas Storage
  - Energy Management

## UK, US and Spain: macroeconomic background



	UK	US	Spain
2006e GDP per capita (US\$) <sup>(1)</sup>	34,300	44,237	28,140
2006 real GDP growth (% pa)	2.7%	3.3%	3.9%
2006 energy demand (TWh)	409	3,820	268
Short term interest rate <sup>(2)</sup>	5.25%	5.25%	3.75%
Long term interest rate <sup>(3)</sup>	5.05%	4.64%	4.23%
2006 inflation <sup>(4)</sup>	2.3%	3.2%	3.5%

**Strong macroeconomic fundamentals support growth prospects**

Source: EIU, US Energy Information Administration, Bloomberg  
 Note: 1. Estimated 2006 GDP per capita (US\$ at PPP)  
 2. Current central bank rates  
 3. UK: 10 year gilt; Spain: 10 year government bond; US: 10 year Treasury Bond as at 23 April 2007  
 4. Percentage change in consumer price index over previous year

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## UK and Spain: key energy market data



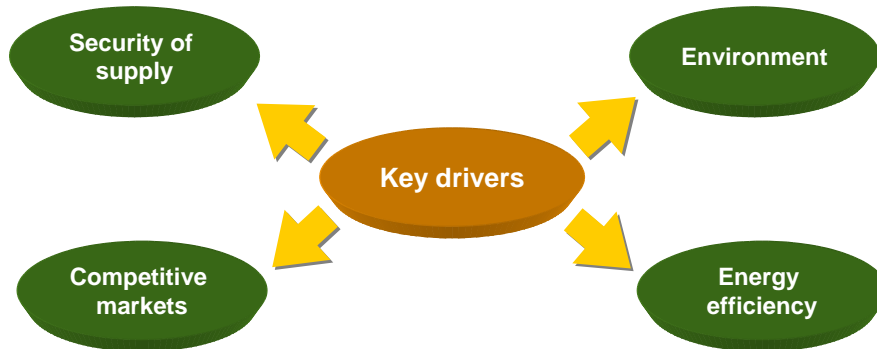
	UK	Spain
Production (TWh)	399	271
Net imports/ (exports) (TWh)	9	(3)
Installed capacity (MW)	81,738	82,336
Electricity points of supply (MM)	26.7	25.2
Gas points of supply (MM)	21.4	6.4

**The UK and Spanish markets are the “power islands” in Europe – the UK is a significantly larger market than Spain**

Source: Department of Trade and Industry, Ofgem, UCTE and REE  
 Note UK: Production and net imports for 2006. Points of supply as at Mar 2006  
 Note Spain: Production, net imports and installed capacity for 2006. Electricity points of supply as at Sep 2006. Gas points of supply as at Dec 2006

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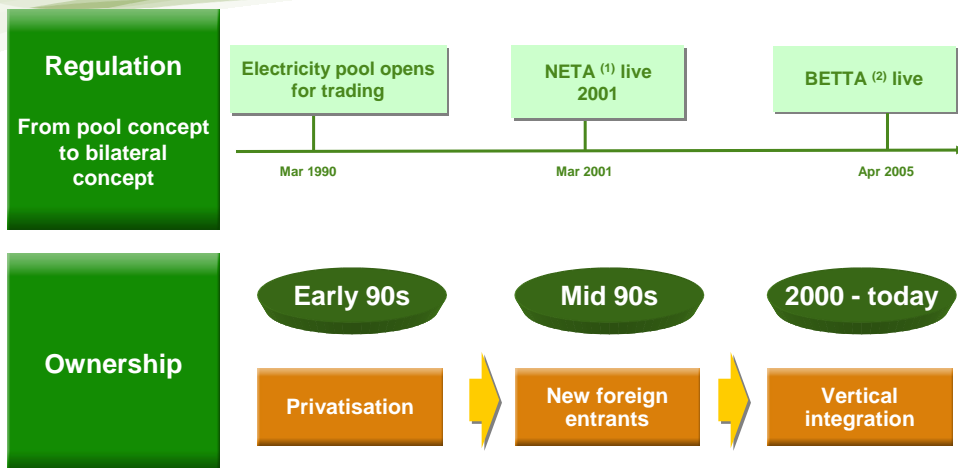
## UK: key current utility sector themes



All these themes are at the heart of Iberdrola's strategic plan

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## UK generation: regulation and industry development

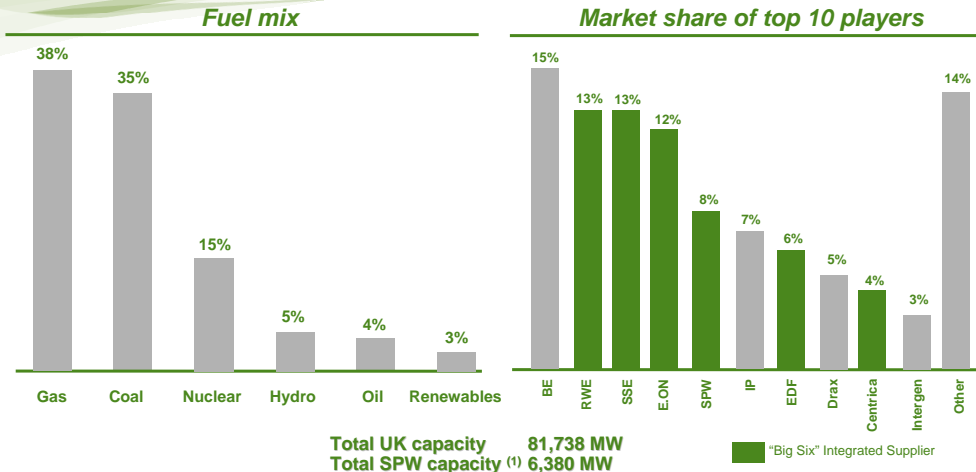


UK market has gone through a process of regulatory change and industry restructuring in order to reach a stable framework today

Note: (1) New Electricity Trading Arrangements (NETA)  
(2) British Electricity Trading and Transmission Arrangements (BETTA)

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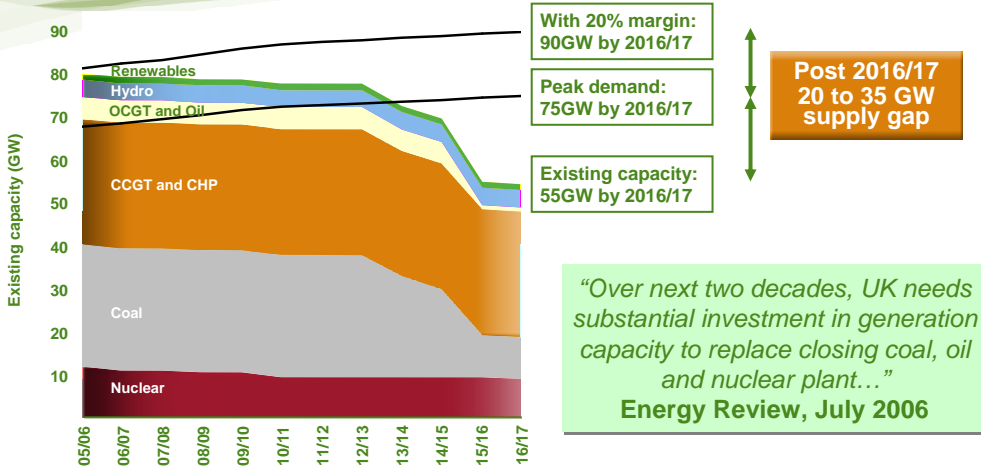
# UK generation: players and fuel mix



**UK generation market is competitive compared to certain other European countries**

Source: Department of Trade and Industry  
 Note: (1) ScottishPower UK installed capacity as at Mar 2007; fuel mix and market share are based on installed capacity

# UK generation: significant new build required

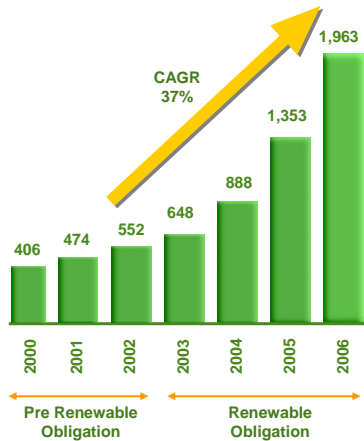


**Greater need for new build in the UK compared to other European countries due to ageing coal and nuclear fleets**

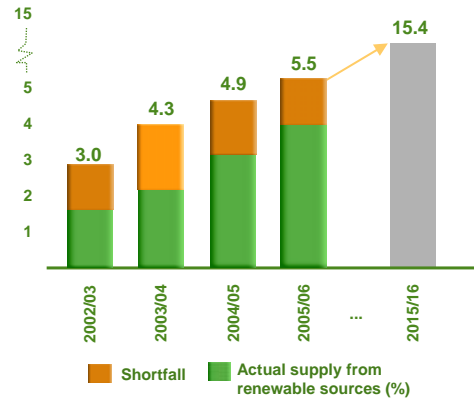
# UK renewables: high growth outlook with committed targets



UK wind installed capacity (MW)



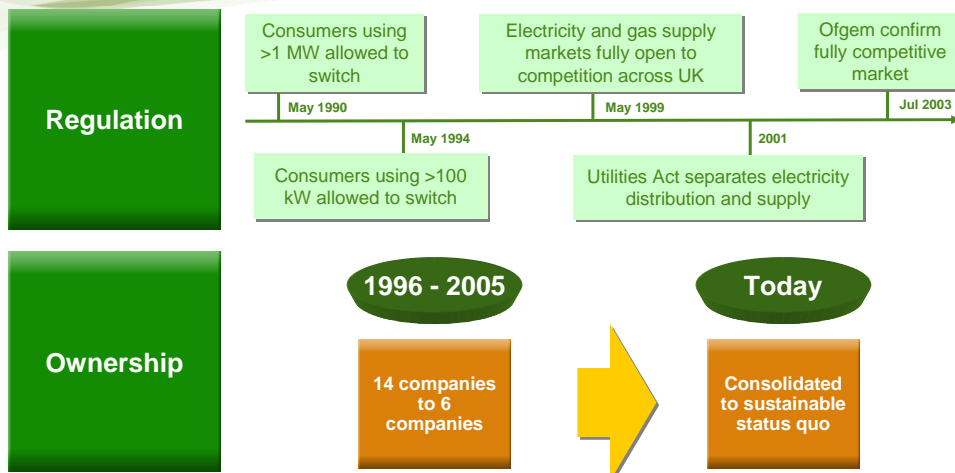
Obligatory % supply from renewable sources



**Compliance shortfall creates further opportunities**

Source: BWEA, Department of Trade and Industry, Ofgem

# UK supply: regulation and industry development

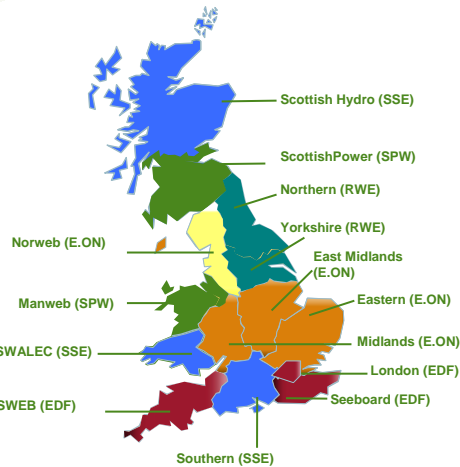


**The UK supply market is one of the most open and deregulated markets in Europe**

# UK supply: overview of players



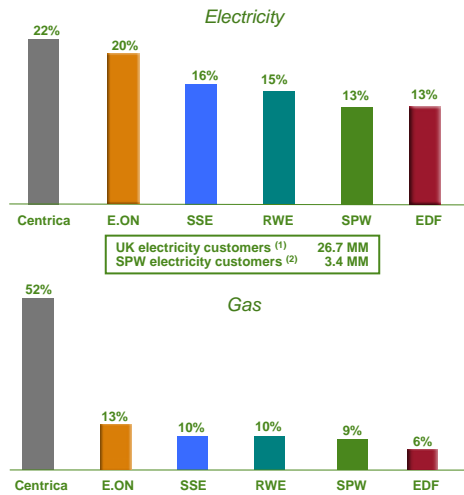
## Supply home areas



**A clear dual fuel supply strategy has emerged in the UK**

Source: OFGEM, Mar 2006

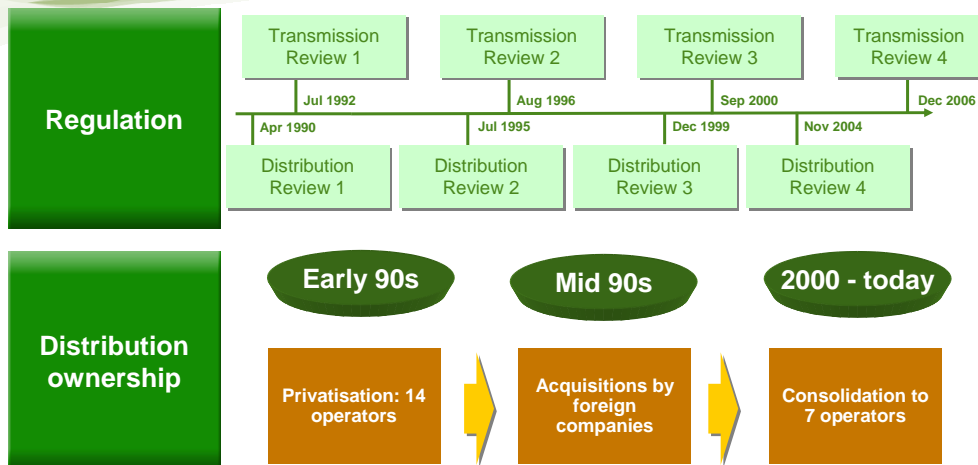
## Market share (1)



Note (1) Market shares as at Mar 2006 based on total customers  
(2) March 2007

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# UK transmission and distribution: Regulation and industry development



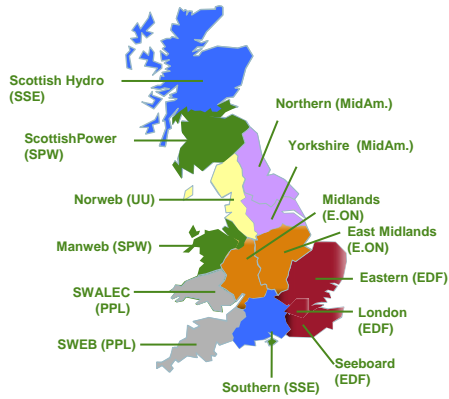
**A stable and predictable framework has emerged**

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# UK transmission and distribution: Overview of players



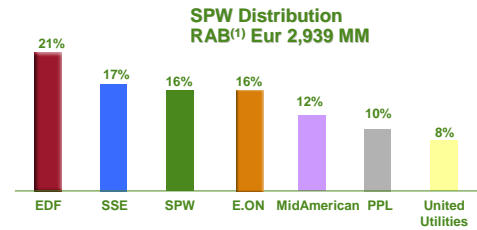
## Distribution footprint



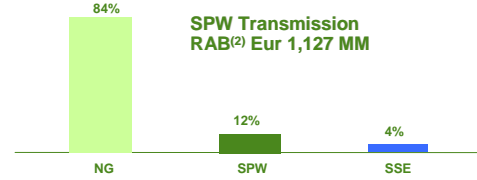
**Efficiencies are now being driven by consolidation**

Source: Ofgem, Mar 2006

## Distribution activity (by RAB)



## Transmission activity (by RAB)



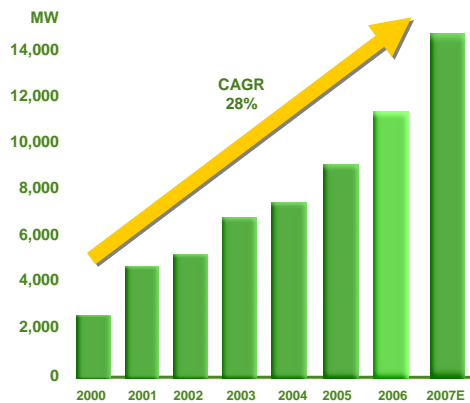
(1) As at March 2006, in 2002/3 prices, converted to Eur at 1.4755  
 (2) As at March 2007, in 2004/5 prices, converted to Eur at 1.4755

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# US market: summary

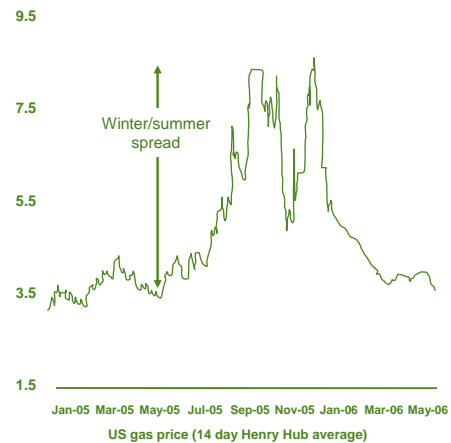


## US renewables capacity (MW)



**Substantial growth – over 9 GW added in last six years. Strong support through “PTC”**

## US gas storage potential

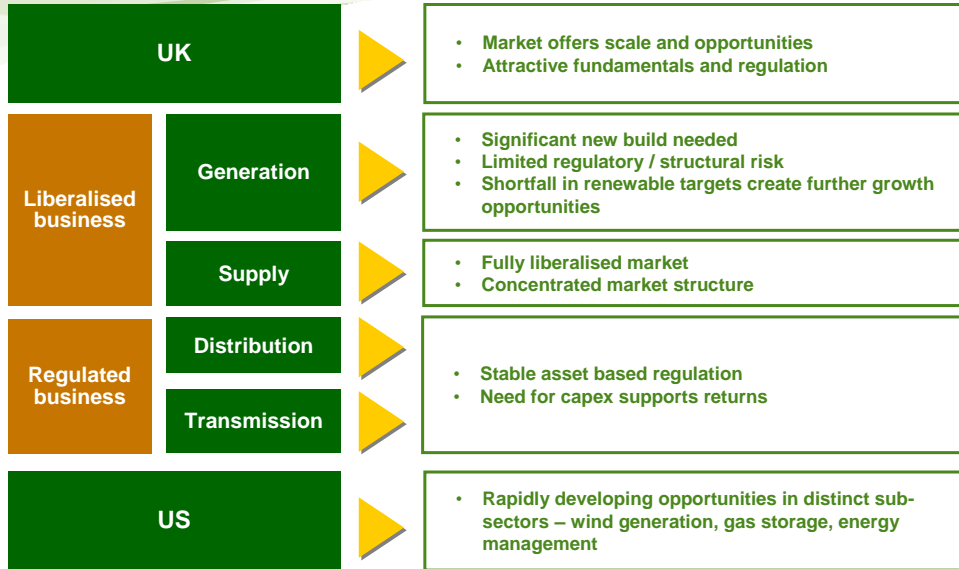


**High US gas import dependency and weather drive strong summer / winter price differentials**

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## Conclusion



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## Agenda

Introduction to UK and US Utility Sectors  
Introduction to ScottishPower

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## Key messages



- **Highly attractive UK integrated energy player**
  - Generation and trading
  - Electricity and gas supply
  - Transmission and distribution
- **Early mover in two key wind power markets**
  - No. 2 wind operator in US market
  - No.1 UK onshore wind operator
- **Right strategic direction**
  - Built strong positions organically and via M&A
  - Strong EBIT growth track record
- **Attractive set of investment opportunities**

**Strong mix of high growth competitive and low risk regulated businesses**

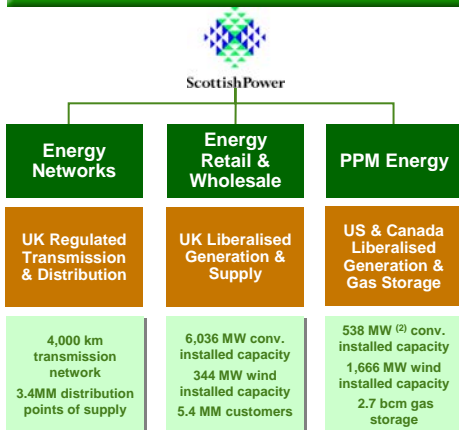
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## ScottishPower today ...



### Business overview

### Key financial data <sup>(1)</sup>



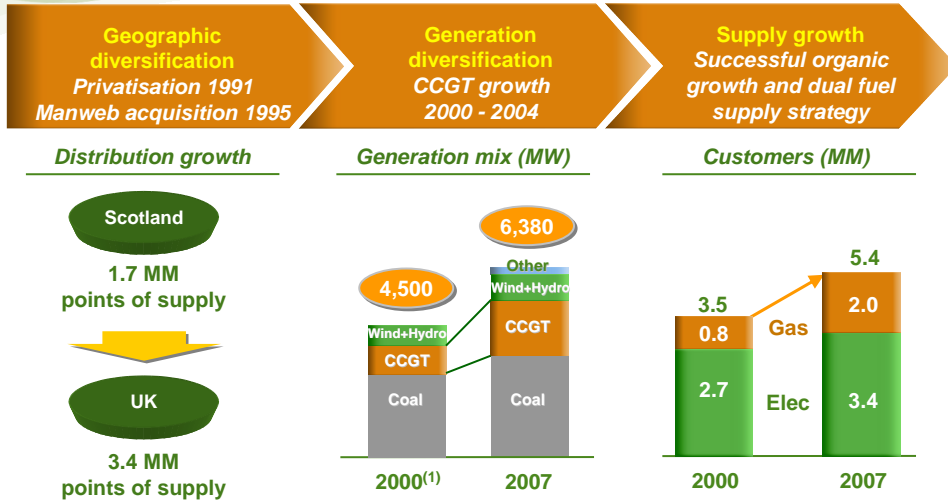
<i>Eur MM</i>	12 months to Sep 06
Revenue	8,980
EBITDA	1,952
EBIT	1,570
Net income	887
Capex	1,378
Leverage	46%

**Well positioned in UK and US with strong financial profile**

Note: (1) GBP:Eur exchange rate GBP 1 : Eur 1.4755  
(2) Includes PPM's 47% ownership of Klamath Cogeneration's output (506 MW total)

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... created through a series of successful strategic moves ...



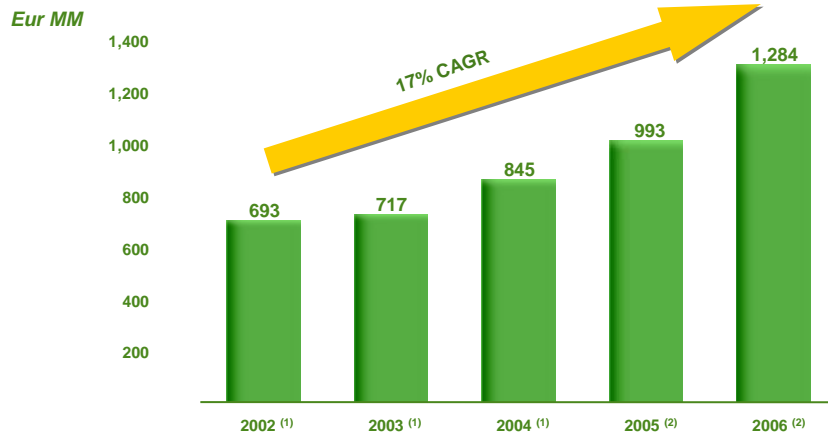
**Successfully targeted key domestic growth drivers**

Note: (1) Installed capacity in 2000 excludes Inverkip and NEA/SHE contracts

... whilst achieving strong EBIT growth



**EBIT from continuing operations**



Note: (1) UK GAAP (2) IFRS (3) GBP:Eur assumed 1.4755

## Growing to become leading player in UK and US wind

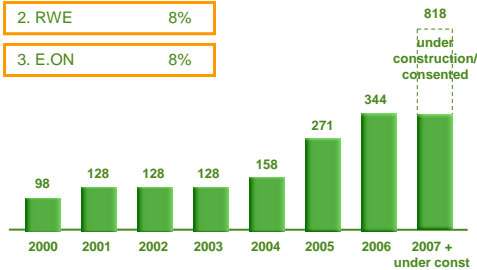


### UK wind: biggest in the UK

Cumulative installed capacity (MW)

#### Share of installed capacity

1. ScottishPower	17%
2. RWE	8%
3. E.ON	8%



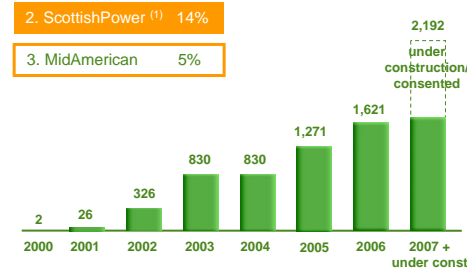
Average annual capacity growth 2002-2006:  
43 MW

### US wind: second biggest in the US

Cumulative installed capacity (MW)

#### Share of installed capacity

1. FPL <sup>(1)</sup>	29%
2. ScottishPower <sup>(1)</sup>	14%
3. MidAmerican	5%



Average annual capacity growth 2002-2006:  
319 MW

**ScottishPower is the leading wind operator in the UK and the second largest in the US with a strong pipeline**

Source: BWEA Feb 2007, AWEA Apr 2007  
Note: (1) Adjusted for contracted capacity

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## Key ScottishPower strengths



### Well positioned in growth markets

- UK requiring significant generation investment over the next 10 years
- Leading positions in high growth renewables markets:
  - No. 1 UK onshore wind farm developer
  - No. 2 US wind farm developer
- Network assets focused in high growth areas – renewable infrastructure

### Integrated across the full energy value chain

- Presence in all parts of the energy chain, diversifying risk in a competitive market with volatile commodity prices
- Largely asset-backed businesses providing stable returns
- Supportive regulatory and government framework

### Track record

- Experienced management team
- Strong track record of delivery – EBIT increased by 17% per annum between FY02 and FY06
- Shareholder value focus – prioritising cash management and high levels of returns from investments

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**End of Technical  
Session I**  
Introduction to  
ScottishPower  
& its markets

