




**IBERDROLA + ScottishPower**

**BIRTH OF A WORLD LEADER**  
Valencia, April 26th 2007

**Technical Session VI**  
**ScottishPower**  
**Strategic Fit & Valuation**  
**Considerations**



**Legal Note**



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# Agenda



**Strategic Fit**

**Valuation Considerations**

- Synergies & efficiency

**Conclusions**

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## Combination with ScottishPower is creating a leading global utility ...



Enlarged Iberdrola as at 31 Mar 2007		Key financials (Eur MM) (Nota de Valores) <sup>(1)</sup>	
Production <sup>(2)</sup> (GWh)	124,670	Revenue	20,232
Traditional generation (MW)	32,524	EBITDA	5,841
Renewable energies <sup>(3)</sup> (MW)	6,562	EBIT	3,851
Total capacity (MW)	39,086	Net profit	1,969
Points of supply (MM)	21.9	<b>Other key financials (Eur MM) <sup>(5)</sup></b>	
Gas supply <sup>(4)</sup> (bcm)	4.2	Capex	4,277
Gas storage (bcm)	2.8	Rating	A -
<b>Immediate and significant growth achieved</b>			

Note: (1) Nota de Valores pro forma financials based on Iberdrola results for 12m ended 31 Dec 2006 and ScottishPower results for 12m ended 30 Sept 2006. Excludes synergies.

(2) Production for 12 months ended 31 Mar 2007

(3) Renewable energies includes wind power and mini-hydro

(4) Does not include procurement for use in gas fired generation

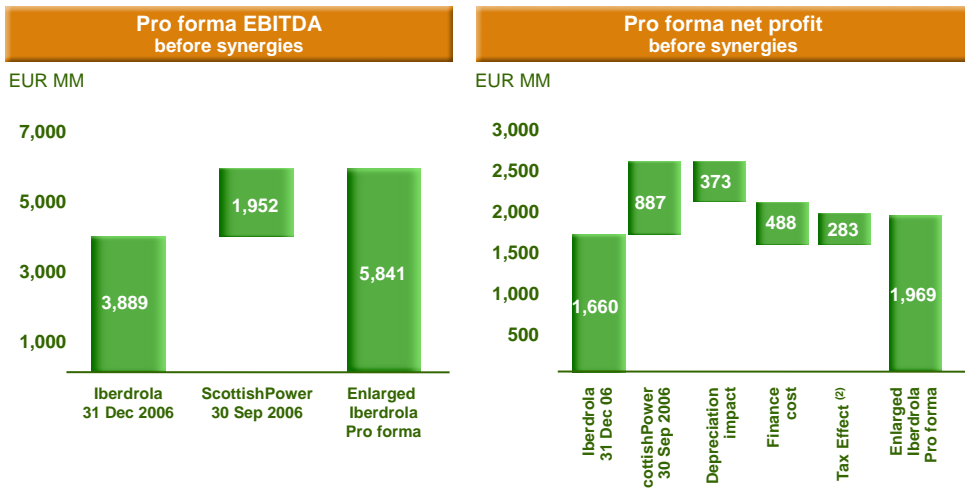
(5) Capex based on Iberdrola results for 12 months ended 31 Dec 2006 and ScottishPower results for 12 months ended 30 Sept 2006; rating: S&P

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... with a material contribution from ScottishPower ...



### Key financials (Nota de Valores) <sup>(1)</sup>



Note: (1) Nota de Valores pro forma financials based on Iberdrola results for 12m ended 31 Dec 2006 and ScottishPower results for 12m ended 30 Sept 2006. Excludes synergies  
 (2) Tax effect of depreciation and finance cost adjustments

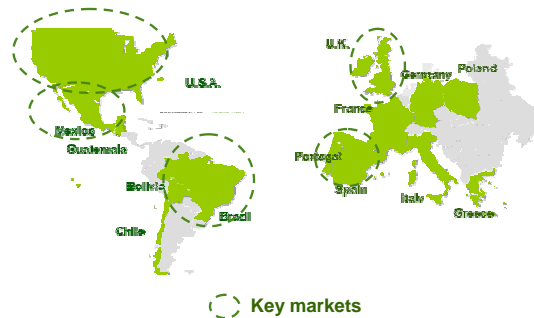
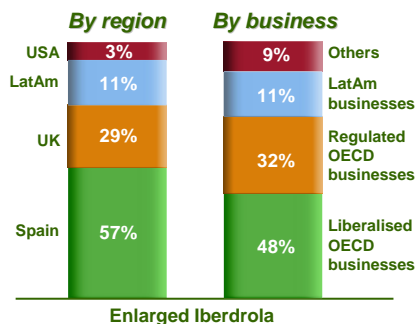
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... and with uniquely diverse geographic and business exposure ...



### Major global presence ...

#### Pro forma EBITDA <sup>(1)</sup>



... and balanced exposure to liberalised and regulated businesses

Note: (1) Nota de Valores pro forma EBITDA based on Iberdrola results for 12m ended 31 Dec 2006 and ScottishPower results for 12m ended 30 Sept 2006. Excludes synergies

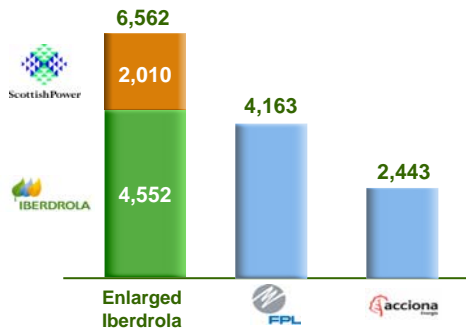
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... an extended lead in renewables ...



**Significant growth opportunities ...**

**Installed capacity (MW)**



- Leading expertise in site selection, procurement, construction and marketing
- Significant scale benefits
  - turbine procurement
  - specialist skills
- Unparalleled pipeline for future development
- Increased diversification of wind portfolio reducing risk
- Strong US demand driven by Renewable Portfolio Standards

**... with unrivalled scale and expertise**

Note: (1) Iberdrola and ScottishPower installed capacity as at 31 Mar 2007  
 (2) FPL as at 31 Mar 2007, Acciona as at 31 Dec 2006 (source: company websites/presentations)

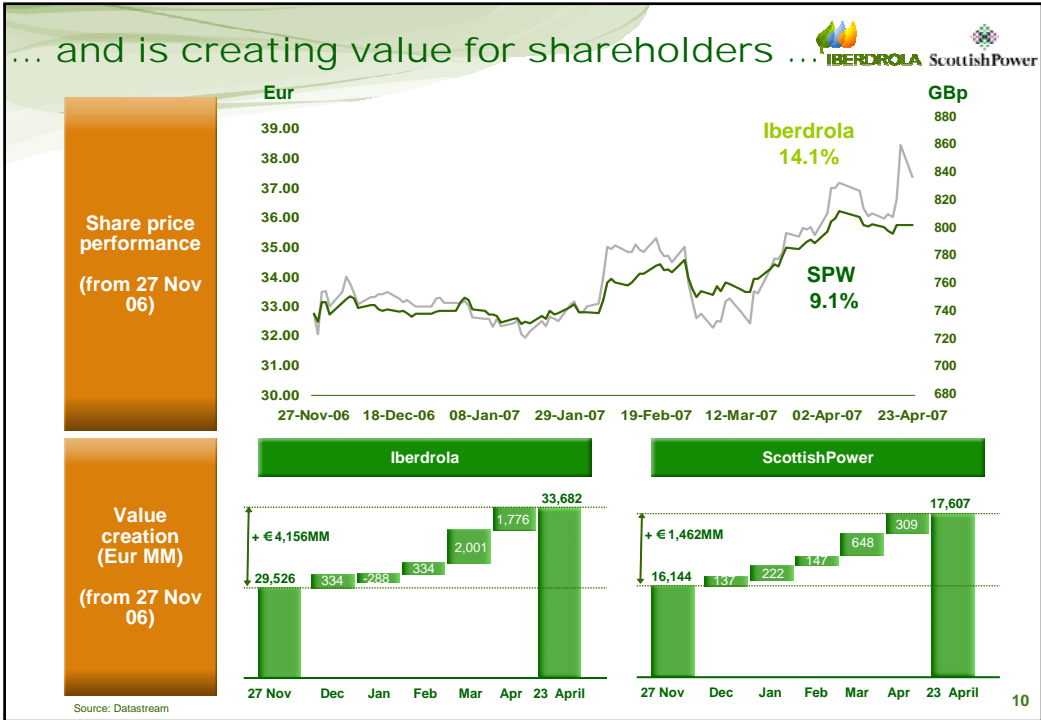
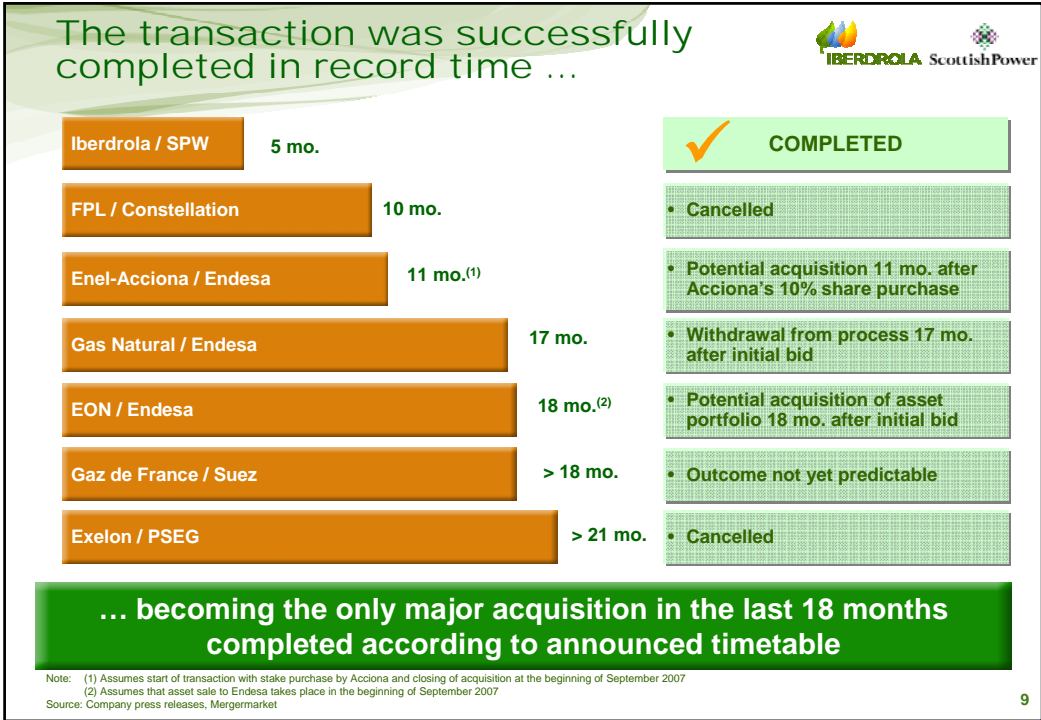
... and scale to compete with peers



	IBE (1)	EDF	RWE	E.ON	Enel
Production (GWh) (1)	124,670	640,000	330,000	230,300	131,000
Renewables capacity (MW)	6,562	596	1,374	435	964
Total capacity (MW)	39,086	130,776	43,434	53,542	50,776
Electricity customers (MM)	21.9	40.2	19.9	28.6	32.4
<b>Financials, Eur MM</b>					
Enterprise Value (2)	70,735	130,198	39,697	77,973	64,121
EBITDA	5,841	13,930	7,861	11,353	8,019
Net Profit	1,969	4,227	2,509	4,386	3,036

**Iberdrola emerges as a leading European utility player**

Source: E.ON 2006 Annual Report, E.ON Strategy and Key Figures 2006, EDF 2005 Annual Report, EDF 2006 Results Presentation, Enel 2006 Annual Report, Enel 2006 Results Presentation, Enel 2005 Environmental Report, RWE 2006 Annual Report  
 Note: (1) Operational data as at March 2007; EBITDA, net profit and net debt from pro forma financial information included in the Nota de Valores, which exclude synergies  
 (2) Based on share prices as at 23 April 2007 and last reported balance sheet figures



... all of which is in line with the 2007-2009 Strategic Plan



**Iberdrola-ScottishPower: a combination aligned with the principles of Iberdrola's Strategic Plan**

- Accelerates projected growth ✓
- Diversifies risk ✓
- Provides new business opportunities ✓
- Creates one of the largest electrical power companies in the world ✓
- Increases net profit whilst maintaining financial stability**

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Enlarged Iberdrola is well positioned for new business opportunities



UK	Wind	Growth potential of UK renewables pipeline
	Generation	Identified opportunities: CCGT, FGD and Biomass Possible UK nuclear programme
US	Wind	Growth potential of US renewables based on experience / pipeline of both companies
	Gas storage	Strong gas storage pipeline in the US
Other	Supply	Ability to apply experience in managing liberalised supply businesses to other markets
	Gas	Opportunity to optimise LNG trading and gas procurement contracts
	M&A	Well positioned for further global M&A opportunities

**The combination of Iberdrola and ScottishPower leverages the strengths of the individual companies**

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# Agenda

Strategic Fit

Valuation Considerations

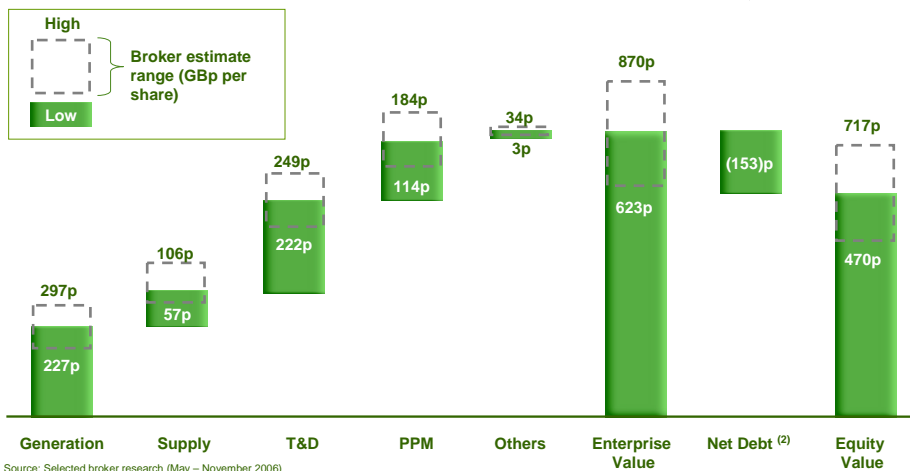
- Synergies & efficiency

Conclusions

## ScottishPower's standalone SOTP valuation - pre-announcement

Broker estimates <sup>(1)</sup>

~ 600p



Source: Selected broker research (May – November 2006)  
 Note: (1) Determined as average of selected broker estimates  
 (2) Total shares outstanding used 1,489 MM, net debt of GBP 2,284 MM as at Sep 2006, exchange rate GBP 1:€ur 1.4738

# Post-announcement changes to brokers' views on ScottishPower's valuation ...



## Specific comments from analysts post announcement

<b>Traditional Generation</b>	<ul style="list-style-type: none"> <li>Longannet to be valued in line with Drax, after deducting Eur 207 MM capex not yet spent on FGD, reflecting wider dark spreads</li> <li>Reflecting spark spreads and asset multiples, CCGT to be valued up to Eur 871/kW</li> </ul>
<b>Supply</b>	<ul style="list-style-type: none"> <li>Increase the value of residential customers to Eur 502 per account</li> <li>Value supported by transaction multiples up to value per customer of Eur 472 (Yorkshire Electricity purchase by Innogy)</li> </ul>
<b>Renewables</b>	<ul style="list-style-type: none"> <li>Recognition of circa 2 GW of PPM pipeline wind projects (operational by 2010)...</li> <li>...with US wind business' pipeline to 2010 valued at Eur 1,101MM (equivalent to Eur 300/kW)</li> </ul>
<b>T&amp;D</b>	<ul style="list-style-type: none"> <li>A 30% premium is applied to RAB for the UK T&amp;D assets based on current transactions...</li> <li>...with LBO valuation at a possible 1.3x exit multiple to March 2007 RAB, equivalent to Eur 5,830 MM</li> </ul>

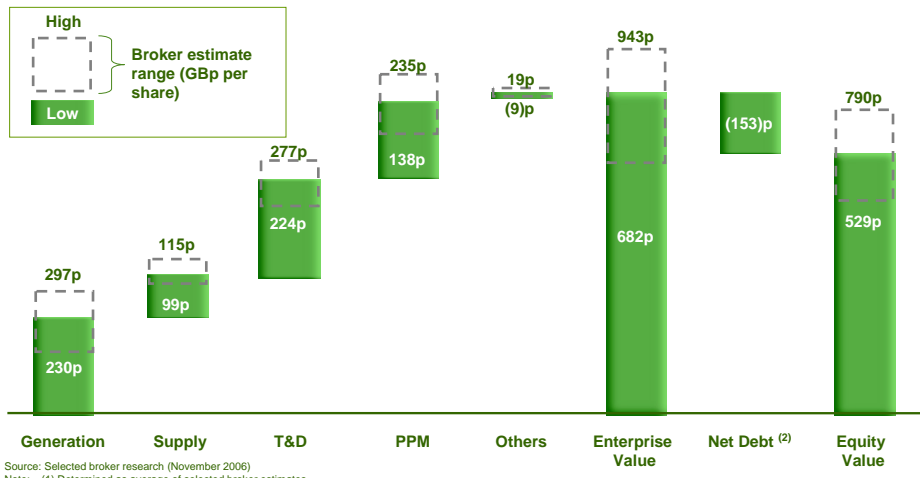
**Recognition of improving G&S fundamentals, attractive US pipeline and increasing T&D premia contributed to upgraded valuations**

Source: Selected broker research (November 2006)

# ... has led to higher post-announcement brokers' standalone SOTPs ...



**Broker estimates (1)** → **~ 700p**



Source: Selected broker research (November 2006)

Note: (1) Determined as average of selected broker estimates

(2) Total shares outstanding used 1,489 MM, net debt of GBP 2,284 MM as at Sep 2006, exchange rate GBP 1:EUR 1.4738



## ... and some themes require further explanation

### Significant further standalone value to be recognised ...

Renewables pipeline	<ul style="list-style-type: none"> <li>Value is not being ascribed to the majority of PPM's 10,700 MW and the UK's 4,400 MW wind pipelines despite recent impressive track record</li> </ul>
US gas storage asset/contracts	<ul style="list-style-type: none"> <li>Significant pipeline (planned investments of over Eur 500 MM to 2010, with attractive returns targeting WACC + 300bp) not fully recognised</li> </ul>
Trading	<ul style="list-style-type: none"> <li>ScottishPower's industry-leading trading capabilities are not specifically recognised, including significant ancillary services revenue and recurring UK balancing market revenues (Eur 60 MM per year in the UK)</li> </ul>
Energy contract portfolio	<ul style="list-style-type: none"> <li>Value is often still not specifically allocated to ScottishPower's in-the-money energy contracts whilst valuing the assets on a merchant basis</li> </ul>
Other	<ul style="list-style-type: none"> <li>Value not specifically allocated to certain ScottishPower businesses including UK CHP, UK gas storage assets, contracts, metering and connections, SME energy supply and Industrial/Commercial energy supply</li> </ul>

... in addition to synergy value and tax benefits

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## Potential approach to fundamental DCF valuation - summary

Generation	<ul style="list-style-type: none"> <li>Gas price and spark/dark spread evolution</li> <li>Declining reserve margin leading to new capacity pricing</li> <li>➢ Attractive market economics driven by new build requirement</li> </ul>
Supply	<ul style="list-style-type: none"> <li>Supply margin adjusting to falling wholesale prices</li> <li>Value creation through integration with generation and trading</li> <li>➢ Significant value from this activity</li> </ul>
Renewables	<ul style="list-style-type: none"> <li>Highly attractive UK regulatory environment</li> <li>Pipeline: significant growth requirement for UK wind</li> <li>Unique synergies with Iberdrola's existing global wind business</li> <li>➢ Benefits of global scale and large pipeline</li> </ul>
T&D	<ul style="list-style-type: none"> <li>Cost reduction opportunity due to ScottishPower's cost position</li> <li>Very significant current market multiples</li> <li>Attractive regulatory returns</li> <li>➢ Well understood and low-risk</li> </ul>

Combination of low risk, visible cash flows with high growth and upside opportunities

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## UK generation: DCF parameters



Load factors	Coal (FGD)	: 45 - 50 %
	CCGT	: 55 - 65 %
	Hydro	: 30 %
Baseload price	Spot	: 18.6 £/MWh
	Forward	: 36.9 £/MWh <sup>(1)</sup>
Captured load-to-baseload premium	UK peak-to-baseload premium	: ~ 30% <sup>(2)</sup>
Clean dark and spark spreads	Coal	: 11.9 £/MWh <sup>(3)</sup>
	CCGT	: 6.1 £/MWh <sup>(3)</sup>
	Newbuild	: 10.0 £/MWh <sup>(3)</sup>
Ancillary services	Recurring revenue and balancing market flexibility	: £ 20 – 40 MM pa
O&M costs	Coal (FGD)	: 25 £/kW pa <sup>(4)</sup>
	CCGT	: 7 £/kW pa <sup>(4)</sup>

**Attractive returns in UK generation supported by tightening supply and demand balance**

Note: (1) For 2008 contract, sourced from Heren; (2) Sourced from Platts; (3) Based on modern CCGT plant with thermal efficiency of 53% (LHV); (4) DTI

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## UK supply: DCF parameters



Customer breakdown	Electricity residential	: 3.2 MM
	Gas residential	: 1.9 MM
	Other	: 0.2 MM <sup>(1)</sup>
	Total customers today	: 5.4 MM <sup>(2)</sup>
Energy use per customer	Gas (average)	: 600 – 700 thm pa
	Electricity (average)	: 4,500 – 5,000 kWh pa
Average bill per customer	Gas (average)	: £590 pa <sup>(3)</sup>
	Electricity (average)	: £374 pa <sup>(3)</sup>
Energy purchase cost (market)	UK spot wholesale gas	: 16.2p / thm
	UK spot wholesale electricity	: 1.9p / kWh
Other costs	External costs as % of revenue	: gas 26%, elec. 30% <sup>(4)</sup>
	Cost-to-serve	: 21 £/cust. pa <sup>(5)</sup>
EBIT margins	Long run average	: 5 - 7% <sup>(6)</sup>

**Recently improving margins in UK supply are supported by levelling off of wholesale power and gas prices**

Note: (1) Industrial and commercial and small business; (2) Electricity and gas; (3) Average of Direct Debit and Standard, sourced from Energywatch; (4) Ofgem; (5) Datamonitor; (6) Market consensus

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## UK T&D: DCF parameters

Example (5 year)

### REGULATION

Allowed revenue

Eur 500 MM



This is fixed subject to incentives

Allowed opex

Eur 208 MM



Beat the opex target

Allowed capex / dep

Eur 150 MM



Beat the capex target

Allowed return  
(pre tax)

Eur 138 MM  
6.9%



Increased realised return

RAB  
Eur 2,000MM

The regulator has set reasonable returns in UK T&D to create incentive for the necessary investments

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## UK wind: DCF parameters

High load factors

Average load factor : 2,300 – 2,800 hrs

Attractive economic incentives

Current revenue : 85 £/MWh

Stable regulatory framework

Opex

Opex before synergies : 40 - 50 £/kW pa

Capex

Capex before synergies : 1,000 - 1,200 £/kW

Pipeline

Construction : 474 MW

In planning : 772 MW

Pre-planning and feasibility : 3,628 MW

Potential returns in the UK are more attractive than those available in several other wind markets in Europe

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## US wind: DCF parameters



Attractive all-in tariff	Tariff	: 68 – 77 \$ / MWh
	Plus accelerated depreciation benefit	
Strong government support	Renewable Portfolio Standards	: 49GW build by 2015
Attractive load factor range	Load factor range	: 2,600 – 3,500 hrs
Opex	Opex before synergies	: 25 \$/kW pa
Capex	Capex before synergies	: 1,500 - 1,700 \$/kW
Pipeline	Construction	: 526 MW
	Target by 2010	: 3,500 MW
	Pre-planning and feasibility	: 7,700 MW

**PPM's wind business is a leading US developer and operator**

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## US gas storage: DCF parameters



	Per MM BTU	
Owned storage (Reservoir) 1.4 bcm in operation	Revenue – Low Cycle	: \$1.80 – 2.30
	O&M costs	: \$0.30 - 0.30
	EBITDA	: \$1.50 – 2.00
Contracted storage (Reservoir) 1.3 bcm third party in operation	Revenue – Low Cycle	: \$1.50 – 2.30
	Lease payments	: \$0.70 – 0.90
	EBITDA	: \$0.80 – 1.60
	Inventory carry costs	: \$0.15 – 0.25
New build (Salt Storage) 0.9 bcm construction / permitting Further 1.2 bcm pipeline	Revenue – High Cycle	: \$2.60 – 3.50
	EBITDA	: \$2.30 – 3.20
	Development Cost	: \$13.00 – 18.00

**US storage highly attractive with recent transaction multiples up to 600 \$/bcm**

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## Observable benchmark provided by asset transaction multiples ...

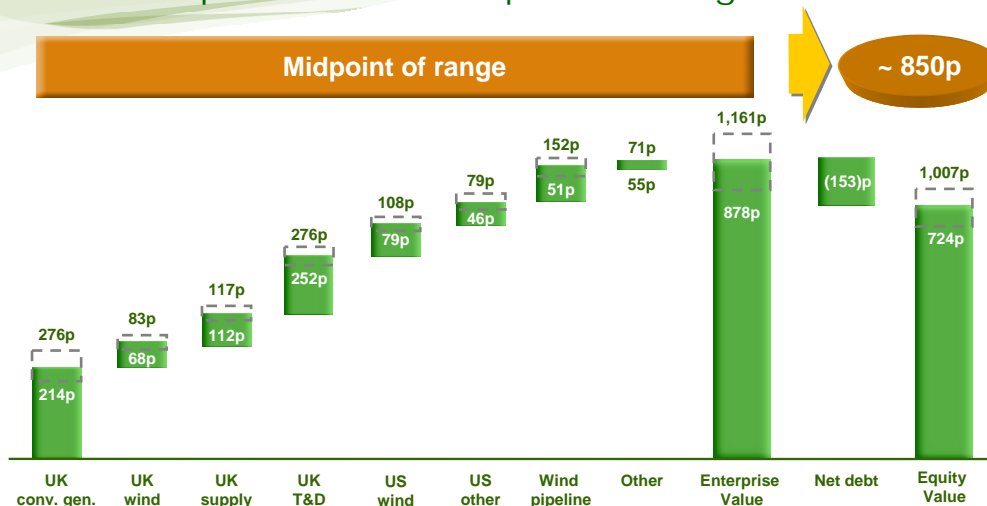


		Transaction asset multiple range <sup>(1)</sup>	Comment
UK conventional generation	6,036 MW	779 – 1,002 (Eur/kW)	• Weighted average asset multiple
UK wind	818 MW	1,827 – 2,220 (Eur/kW)	• Operational and under construction
UK supply	5.1 MM cust.	480 – 502 (Eur/cust.)	• Residential electricity and gas customers
UK T&D	Eur 4,499MM (Mar 07 RAB)	1.25x – 1.30x (Eur/RAB)	• RAB of transmission and distribution (average of broker estimates)
US wind	2,158 MW	807 – 1,098 (Eur/kW)	• Operational and under construction
US conventional generation	538 MW	424 – 525 (Eur/kW)	• PPM's thermal generation business
US gas storage	4.8 bcm	164 – 301 (Eur/bcm)	• Includes pipeline and storage under management
Wind pipeline	15,108 MW	74 – 221 (Eur/kW)	• 4,400 MW for UK and 10,708 MW for US
Other	NA	NA	• Value of Energy contracts, UK gas storage, Metering & connections, SME and I&C energy supply

Note (1) Broker estimates for asset values

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## ... and if applied to ScottishPower's assets implies 724 – 1007p value range



Reflects further upside potential in wind pipeline and PPM storage

Note: Total shares outstanding used 1,489MM, net debt of GBP 2,284 MM as at 30 Sep 2006, exchange rate used GBP 1: Eur 1.4738

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# Synergies identified across a range of functions

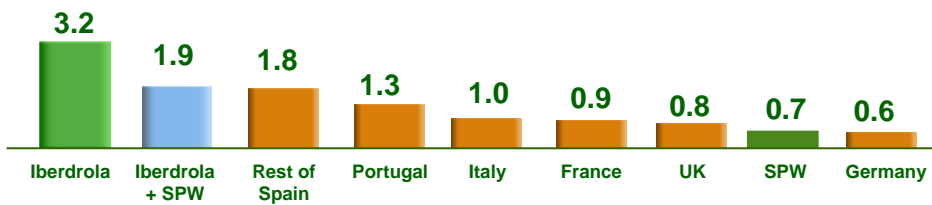
		Annual Savings (Eur MM)
<b>Opex synergies</b> Yr 1 Eur 40 MM Yr 2 Eur 90 MM Yr 3+ Eur 130 MM	• Corporate centre – efficiency improvement	31 p.a.
	• Shared services – optimisation, IT, purchasing	27 p.a.
	• Wind US – efficiency improvement	5 p.a.
	• Generation/Supply – procurement/efficiency	67 p.a.
	<b>Total &lt; 5% combined group expense</b>	<b>130 p.a.</b>
<b>Capex savings in near term</b>	• Total 5 year savings from wind/CCGT	192 total
	• Recurring annual distribution/supply savings	6 p.a.
<b>Additional synergies not quantified</b>	• Option of new nuclear plant / LNG entrance	
	• Loss reduction in supply business contracts	
	• Efficiency in generation and processes	

**Dedicated integration team already working towards on-schedule delivery of targets**

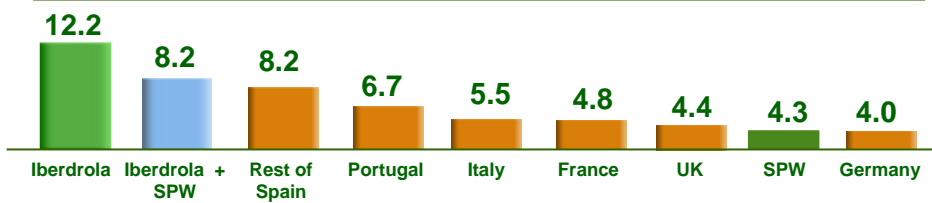
## Significant opportunity to share best practice and extract synergies



### MW/employee (home market)



### GWh distribution/employee (home market)



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## Conclusions



- **Transaction creates global leader in utilities sector**
- **Shareholder value significantly increased through transaction structure**
- **Group well positioned for further development in core markets**
- **Pre-eminent example of non-organic growth in utility markets**
- **Significant synergies and opportunity for exchange of best practice**
- **New group Strategic Plan in Q4 to reflect full combination potential**

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