

BEFORE THE  
STATE OF NEW YORK  
PUBLIC SERVICE COMMISSION

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In the Matter of

Case 07-M-0906

Joint Petition of Iberdrola, S.A., Energy East Corporation, RGS Energy Group, Inc., Green Acquisition Capital, Inc., New York State Electric & Gas Corporation and Rochester Gas and Electric Corporation for Approval of the Acquisition of Energy East Corporation by Iberdrola, S.A.

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January 31, 2008

Exhibit \_\_\_\_ (JPP – 5)



**IBERDROLA**

# Nine months results 2007

Quarterly report





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## NET PROFIT UP 30.5% TO EUR 1,613.0 MM

### ScottishPower adds Eur 320 MM to the Group's net profit

#### Gross Operating Profit (EBITDA) rose 29.9% to Eur 3,811.6

- Spanish Market environment: Energy prices fell 36%, CO<sub>2</sub> allowances average price of 1.4 Eur/Ton. Moderate demand growth 1.7%.
- Domestic Energy Business EBITDA Eur 1,991.9 MM ; -8.5%
- ScottishPower contributed to the Group's EBITDA Eur 818.5 MM
- Latin America Business rose +29.3% to Eur 648,0 MM
- Engineering and Non-Energy business increased by Eur 353.2 MM, +3.8%

#### Building a worldwide energy leader, stronger and better diversified

- Successfully completed ScottishPower transaction
- Energy East offer: Low risk entry in US market
  - Accelerate Bookbuilding Offer (ABO) successfully completed, with an amount of Eur 3.400 MM in order to finance the acquisition.
  - First federal and State authorizations obtained: Hart-Scott Rodino & Federal Communications Commission (FCC)
  - IBERDROLA expects to close the transaction in the first quarter of 2008
- Iberdrola Renovables IPO launched:
  - IBERDROLA intends to float 20% of the share capital of its renewables energies through a capital increase during the last quarter of this year.
  - IBERDROLA's board of Directors has approved the preliminary work on the initial public offering of this subsidiary.
  - In addition, the Company has carried out a reorganization of its business area, incorporating into Iberdrola Energías Renovables all the renewable energy-related companies belonging to IBERDROLA and ScottishPower whose activities are related with renewables energies.
- 5,000 MW of total capacity reached in México: start of operations of Tamazunchale plant (1,135 MW)

## Basic figures for the businesses

Operating Data		9M 2007	9M 2006	%
<b>Net Production</b>	<b>GWh</b>	<b>86,800</b>	<b>66,630</b>	<b>30.3</b>
Gas Combined Cycle	GWh	35,251	27,227	29.5
Wind and Mini-hydroelectric	GWh	9,406	5,608	67.7
Hydroelectric	GWh	12,311	7,522	63.7
Nuclear	GWh	15,829	18,732	-15.5
Fuel Oil	GWh	176	1,775	-90.1
Coal	GWh	11,246	4,339	159.2
Cogeneration	GWh	2,581	1,427	80.9
<b>Installed Capacity</b>	<b>MW</b>	<b>41,001</b>	<b>28,065</b>	<b>46.1</b>
Gas Combined Cycle <sup>(1)</sup>	MW	12,168	6,897	76.4
Wind and Mini-hydroelectric <sup>(2)</sup>	MW	7,342	4,076	80.1
Hydroelectric	MW	9,712	9,126	6.4
Nuclear	MW	3,344	3,344	--
Fuel Oil	MW	2,889	2,889	--
Coal	MW	4,709	1,253	275.8
Cogeneration <sup>(3)</sup>	MW	837	480	74.4
<b>Electrical Power Distributed</b>	<b>GWh</b>	<b>115,508</b>	<b>95,210</b>	<b>21.3</b>
<b>Electricity Customers</b> (supply points managed)	<b>No.(mil)</b>	<b>22.1</b>	<b>18.1</b>	<b>22.09</b>
<b>Gas Customers</b> (supply points managed)	<b>No.(mil)</b>	<b>2.1</b>	<b>N/A</b>	<b>N/A</b>
<b>Gas Supplies</b>	<b>GWh</b>	<b>51,431</b>	<b>N/A</b>	<b>N/A</b>
<b>Gas Storage</b>	<b>bcm</b>	<b>1.4</b>	<b>N/A</b>	<b>N/A</b>
<b>Employees</b>	<b>No.</b>	<b>26,375</b>	<b>15,884</b>	<b>66.04</b>

(1) Includes 300 MW of gas cycles in the United States, of which 100 MW are operated jointly with the Klamath cogeneration plant, and 200 MW leased to Pacificorp which is not included in the production figures.

(2) Includes 606 MW of capacity under contract from Florida Power&Light, with production of 442 GWh.

(3) Includes 47% of the Klamath cogeneration plant in the United States (238 MW).

Operating Data		9M 2007	9M 2006	%
<b>Spain</b>				
<b>Net Production</b>	<b>GWh</b>	<b>48,623</b>	<b>49,887</b>	<b>-2.5</b>
Gas Combined Cycle	GWh	9,048	11,766	-23.1
Wind and Mini-hydroelectric (4)	GWh	6,586	5,608	17.4
Hydroelectric	GWh	11,002	6,612	66.4
Nuclear	GWh	15,829	18,732	-15.5
Fuel Oil	GWh	176	1,775	-90.1
Coal	GWh	4,695	4,339	8.2
Cogeneration	GWh	1,287	1,055	22.0
<b>Installed Capacity</b>	<b>MW</b>	<b>26,509</b>	<b>24,768</b>	<b>7.03</b>
Gas Combined Cycle	MW	4,800	4,000	20.00
Wind and Mini-hydroelectric (4)	MW	4,977	4,076	22.11
Hydroelectric	MW	8,842	8,819	0.26
Nuclear	MW	3,344	3,344	0.00
Fuel Oil	MW	2,889	2,889	0.00
Coal	MW	1,253	1,253	0.00
Cogeneration	MW	404	387	4.39
<b>Energy Distributed</b>	<b>GWh</b>	<b>76,094</b>	<b>74,618</b>	<b>2.0</b>
Regulated Market	GWh	60,253	60,059	0.3
Supply	GWh	15,841	14,559	8.8
<b>Gas Supplies</b>	<b>GWh</b>	<b>32,011</b>	<b>36,634</b>	<b>-12.62</b>
Customers	GWh	12,486	11,377	9.75
Gas Combined Cycle	GWh	19,524	25,257	-22.7
<b>Electricity Customers (supply points managed)</b>	<b>No. (mil)</b>	<b>10</b>	<b>9,7</b>	<b>3.09</b>
<b>Gas Customers (supply points managed)</b>	<b>No. (mil)</b>	<b>0,2</b>	<b>0,2</b>	<b>-</b>
<b>United Kingdom (ScottishPower)</b>				
<b>Production</b>	<b>GWh</b>	<b>11,785</b>		
Gas Combined Cycle	GWh	4,055		
Wind	GWh	311		
Hydroelectric	GWh	516		
Coal	GWh	6,551		
Cogeneration	GWh	352		
<b>Installed Capacity</b>	<b>MW</b>	<b>6,408</b>		
Gas Combined Cycle	MW	1,915		
Wind	MW	372		
Hydroelectric	MW	563		
Coal	MW	3,456		
Cogeneration	MW	102		
<b>Distributed Energy</b>	<b>GWh</b>	<b>17,101</b>		
<b>Gas Supplies</b>	<b>GWh</b>	<b>19,420</b>		
Customers	GWh	9,213		
Gas Combined Cycle	GWh	10,207		
<b>Electricity Customers (supply points managed)</b>	<b>No. (mil)</b>	<b>3.4</b>		
<b>Gas Customers (supply points managed)</b>	<b>No. (mil)</b>	<b>1.9</b>		

(4) For 2007, includes 507 MW from internationals with a production of 502 GWh. For 2006, 308 MW with a production of 281 GWh

Operating Data (cont.)		9M 2007	9M 2006	%
<b>United States (ScottishPower - PPM)</b>				
<b>Production</b>	<b>GWh</b>	<b>3,091</b>		
Cogeneration <sup>(5)</sup>	GWh	582		
Renewables <sup>(6)</sup>	GWh	2,509		
<b>Installed Capacity</b>	<b>MW</b>	<b>2,531</b>		
Gas Combined Cycle		300		
Cogeneration	MW	238		
Renewables	MW	1,993		
<b>Gas Storage</b>	<b>bcm</b>	<b>1.4</b>		
<b>Latin America</b>				
<b>Production</b>	<b>GWh</b>	<b>23,301</b>	<b>16,743</b>	<b>39.2</b>
Gas Combined Cycle	GWh	22,148	15,461	43.3
Hydroelectric	GWh	793	910	-12.9
Cogeneration	GWh	360	372	-3.2
<b>Installed Capacity</b>	<b>MW</b>	<b>5,553</b>	<b>3,297</b>	<b>68.4</b>
Gas Combined Cycle	MW	5,153	2,897	78
Hydroelectric	MW	307	307	0
Cogeneration	MW	93	93	0
<b>Energy Distributed (under management)</b>	<b>GWh</b>	<b>21,713</b>	<b>20,592</b>	<b>5.4</b>
<b>Customers (supply points under management)</b>	<b>N° (mill)</b>	<b>8.7</b>	<b>8.4</b>	<b>3.57</b>

Note: Installed capacity, production and number of employees according to consolidation criteria.

- (5) Includes 238 MW in cogeneration at Klamath and 100 MW in jointly operated gas cycle. Does not include the remaining gas cycle 200 MW that is being leased to Pacificorp.
- (6) Includes 816 GWh in capacity under contract from Florida Power&Light.

Market Data		9M 2007	9M 2006
Market Capitalisation (9/30)	€ millions	51,436	31,825
Earnings per share (half-year)	€	1.49 <sup>(3)</sup>	1.37
Net operating cash flow per share (half-year)	€	2.44 <sup>(3)</sup>	2.16
P.E.R	Times	22.4	23.1
Price/Book Value (Capitalisation to NBV at end of period)	Times	2.06	3.0

Economic/Financial Data			
Income Statement		9M 2007	9M 2006
Net Revenues	€ millions	11,376.5	8,152.7
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	€ millions	3,811.6	2,934.9
Earnings Before Interest and Taxes (EBIT)	€ millions	2,522.4	1,997.0
Net Profit	€ millions	1,613.0	1,236.4
Net Operating Expenses/ Gross Margin	%	30.0%	28.6%

Balance Sheet		9M 2007	2006
Total Assets	€ millions	68,126	33,061
Shareholders' Equity	€ millions	24,958	10,567
Net Adjusted Financial Debt <sup>(1)</sup>	€ millions	23,482	13,119
ROE	%	11,5	16,6
Financial Leverage <sup>(2)</sup>	%	48,5	55,4
Debt/Equity Ratio	Times	0.94	1.24

(1) Includes amounts corresponding to the tariff deficiency: € 795 million in September 2007 and € 572 million accrued in December for 2006.

(2) Net Debt/Net Debt +Shareholders' Equity. Includes financing of the tariff insufficiency. If this were not included, leverage in September 2007 would reach 47,6% and 54,3% in December 2006.

(3) Calculated using the average shares of 1,082,626,043, before the share split on October 8th.

## Operating highlights

- In the first nine months of 2007, the IBERDROLA Group's total production grew 30% to 86,800 GWh. In addition, since 23 April, ScottishPower's production in the United Kingdom and the U.S. has been included, contributing a total of 8,938 GWh. After the integration of ScottishPower, IBERDROLA had a total of 41,001 MW of installed capacity, 49.7% of which is emissions-free.
- In Spain, IBERDROLA has reduced slightly production levels nearly (-2.5%) as compared to the same period in 2006. Production totalled 48,623 GWh due to the decrease in nuclear production due to scheduled stoppages for revision and recharging of the Cofrentes, Trillo Garoña, Vandellós II, and Ascó II plants, which had a significant effect throughout the quarter. This development was made possible by the increase recorded in hydroelectric production (+66.4%), which is much higher than the sector as a whole (36.7%), and in wind energy (+18.4%). Emissions in Spain fell 14.7% to 179 gr/kWh, compared with over 400 gr/kWh for the rest of the sector. The market environment during the first nine months of 2007 was marked by low energy prices (-36%) and very mild temperatures during the period. The result of this was moderate growth in domestic demand (+1.7%).
- In the United Kingdom, production increased from April to September by 10.5% to 11,785 GWh as compared with the same period in 2006, due to more favorable wholesale market conditions for gas plant production and good availability at Cockenzie power station helping counter the impact of carrying out Flue Gas Desulphurisation (FGD) work at Longannet.
- In the United States, production from April to September increased by 53% to 3,091 GWh as compared with the same period in the 2006 fiscal year due to the increased renewables capacity and improved wind conditions, as well as more favorable conditions for gas plant production.
- In Latin America, IBERDROLA increased production by 39.2%. This was primarily due to the contribution of the combined cycles in the region, whose production grew by 46.8%. The Altamira V (1,121 MW) plant has been in operation since the fourth quarter of 2006 and the Tamazunchale (1,135 MW) plant has been in operation since June.
- The gross operating profit (EBITDA +29.9%) and net operating profit (EBIT +26.3%) were up, with ScottishPower's results being consolidated for the first time for the period from 23 April to 30 September.

ScottishPower contributed EUR 818 million to EBITDA and EUR 470 million to EBIT.

- The EBITDA of the Domestic Energy Business fell by 8.5%. The increase in the contribution of the Regulated Distribution Business (+ EUR 474 million) did not manage to offset the drops in the Deregulated Business (-36.6%) and Renewables (-12.4%), which reflect the downwards trend of the pool price. For the Deregulated Business, the negative effect of the drop in prices was counteracted by lower supply costs, which were the result of a cleaner generation mix, and lower regulatory impacts.
- The EBITDA of ScottishPower (including PPM) contributed EUR 818.5 million. In the management operations of ScottishPower it is customary to use derivatives to cover positions and ensure future commodities prices, which under international accounting standards must be valued at market price (mark-to-market; MTM). As a result, positive or negative results may appear at different points in the cycle. Excluding the impact of MTM valuations (EUR 85 million), operations in the United Kingdom contributed EUR 649.8 million, and those in the US EUR 83.7 million. These figures correspond to the results from 23 April to 30 September (162 days).
- The Latin American and Non-Energy Businesses saw strong EBITDA growth,

which also offset the decreases seen in Deregulated Business and Renewables:

- Latin America: EBITDA growth of 29.3% EUR 648.0 million, thanks to the good development of the businesses in Mexico and Brazil. In generation, production increased 39.2%. Distribution saw an increase of 5.4% in energy distributed. Also worthy of mention is the movement in the exchange rate of the Brazilian Real and the Dollar during the period, which resulted in a negative effect of about EUR 19 million.
- The Engineering and Non-Energy Businesses increased their EBITDA by EUR 97 million to EUR 353.2 million. This was a result of increasing domestic and international activity.
- Net profit totalled EUR 1,613.0 million, which is an increase of 30.5%. Pre-tax earnings totalled EUR 2,163.8 million, up 17%. This is less than the growth seen in EBIT (+26.3%), taking into account the increase in financial expenses associated with the increases in the balance and average costs derived from GBP-denominated debt. The effective tax rate was 24.3%, below the 35% registered in the same period in 2006. The primary reasons for this decrease were the reduction of the national and legal tax rate as well as the smaller impact of a rate decrease on net financial assets.

- IBERDROLA finalised in record time the capital increase necessary to finance the acquisition of Energy East through an Accelerated Bookbuilt Offer (ABO), with which it will finance the friendly takeover of the North American enterprise Energy East as agreed by the Boards of Directors of both companies. In this transaction, which has been unanimously approved by the highest governing body of IBERDROLA, a total of 85 million new shares in the amount of approximately EUR 3,400 million (EUR 39.70 per share) were issued, which means a capital increase of around 7%. The Company's new share capital resulting from this increase amounts to 1,248,435,510 shares.

The largest ever Accelerated Bookbuild Offer (ABO) in Spain, the third largest in Europe and one of the largest in the utilities sector.

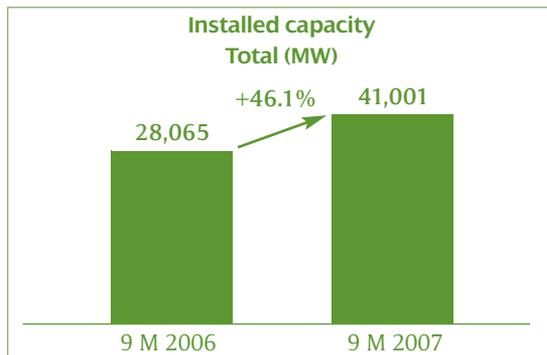
## Development of the business

### 1. GENERATION

#### Total installed capacity

At the close of the third quarter of 2007, IBERDROLA had 41,001 MW in operation. During the third quarter of fiscal year 2007, 264 MW were added:

- The integration of SCOTTISHPOWER adds 8,938 MW: 6,408 MW in the United Kingdom: 3,456 MW coal, 1,915 MW gas combined cycle, 563 MW hydroelectric, 372 MW renewables and 102 MW of cogeneration. 2,531 MW in the United States: 1,386 MW of company renewables and another 606 under contract with FPL; 300 MW of single gas cycle and 237 MW from 47% of the Klamath cogeneration plant.



- 1,135 MW was added when the combined-cycle plant at Tamazunchale in Mexico was brought into service.
- Renewables in Spain added another 901 MW.

Year-on-year growth in installed capacity was +45.2%.

#### 1.1 Traditional generation

##### 1.1.1 Gas cycle plants

#### Spain

##### Installed capacity

IBERDROLA's combined cycle total capacity in Spain was 4,800 MW (5,600 MW under management) at the end of September 2007, including nine plants. The Castellón 4 plant, with an additional 800 MW, is scheduled to be brought into service during fiscal year 2007.

Project	Capacity (MW managed)	Start of operations
Castellón	800	Operating 2002
Castejón	400	Operating 2003
BBE	800	Operating 2003
Tarragona	400	Operating 2003
Santurce	400	Operating 2004
Arcos Grupos I and II	800	Operating 2004
Aceca	400	Operating 2005
Arcos Grupo III	800	Operating 2005
Escombreras	800	Operating 2006
<b>Total 2006</b>	<b>5,600</b>	
Castellón 4	800	Scheduled 2007
<b>TOTAL 2002-2007</b>	<b>6,400 (5,600 in ownership)</b>	

#### Mexico

IBERDROLA is the leading private electricity producer in Mexico. The Company already has 5,000 MW of installed capacity in Mexico.

IBERDROLA finalised the launch of commercial operations at the Tamazunchale electricity plant, which is located in the Mexican state of San Luis Potosí and has an installed capacity of 1,135 MW. It is the largest operational combined-cycle in Mexico.

Following the Tamazunchale combined-cycle plant becoming operational, IBERDROLA has consolidated its position as the leading private electricity producer in Mexico.

Project	Capacity (MW)	Brought into service
Enertek	120	100% operational
Monterrey III	1,040	100% operational
Altamira III y IV	1,036	100% operational
La Laguna II	500	100% operational
Altamira V	1,121	100% operational
<b>Tamazunchale</b>	<b>1,135</b>	<b>100% operational 2007</b>
<b>Total</b>	<b>4,952</b>	

Under the terms of the contract, IBERDROLA guaranteed the sale to the “Comisión Federal de la Energía” CFE of all the energy produced at the Tamazunchale combined-cycle plant for a 25 year period. The plant will source its gas directly from the CFE and the contract currency is US dollars, as is the case for the Company’s other projects in Mexico.

### United Kingdom

IBERDROLA’s combined-cycle capacity in the United Kingdom totalled 1,915 MW at the close of the first nine months of the fiscal year.

This corresponds to three plants. The planning application to increase the CCGT capacity by 1,000 MW at Damhead Creek is being prepared.

Project	Capacity (MW)
Rye House, Hertfordshire	715
Damhead Creek, Kent	800
Brighton, Sussex	400
<b>Total</b>	<b>1,915</b>

### United States

PPM Energy has two gas cycle plants with a total capacity of 300 MW: 100 MW at Klamath and 200 MW at West Valley. The West Valley plant is currently being leased and operated by PacifiCorp until June 2008.

Project	Capacity (MW)
West Valley Generating Plant	200
Klamath Generating Plant	100
<b>Total</b>	<b>300</b>

#### 1.1.2 Hydroelectric energy

### Spain

The Spanish Ministry of the Environment (*Ministerio de Medio Ambiente*) has authorised two hydroelectric plants, corresponding to a new generator at the La Muela plant in Valencia, which will double its current capacity of 630 MW, and a 175 MW expansion at the San Esteban plant in the Sil basin. The La Muela 2 pumping plant project has commenced with the excavation of the access tunnel.

## United Kingdom

IBERDROLA currently owns and operates 563 MW of hydroelectric capacity in the United Kingdom through the Cruachan pumped storage plant (440 MW) and the Galloway (106 MW) and Lanark (17 MW) schemes.

### 1.1.3 Cogeneration

## Spain

### Operating capacity

IBERDROLA has cogeneration operating plant capacity in Spain of an attributable 404 MW, equivalent to a total of 549 MW installed.

### Capacity under construction

In April of 2007, IBERDROLA presented the construction project for the Barcial del Barco (Zamora) bioethanol production plant. This plant, which will have the capacity to produce 149,000 cubic metres of bioethanol each year, will come on line in July 2008. The project will be developed through the company Ecobarcial, in which Proencalsa (owned by our Company, Collosa and the Ente Regional de la Energía) has a 51% interest, and Green Source (Sniace) -30%-, Ecoteo -14%-, ITACYL -4.9%- and various cooperatives -0.1%-.

## United Kingdom

Cogeneration plant capacity in the United Kingdom amounts to 102 MW.

## United States

The Klamath cogeneration plant located at Klamath Falls, Oregon has an installed capacity of 506 MW. This plant, currently owned by the city of Klamath Falls, and operated by PPM through a series of contracts. PPM Energy has long-term contracts that cover 47% of the plant output. In September 2007, PPM Energy signed a purchase agreement for the plant in the amount of USD 290 million. This transaction is subject to regulatory approvals, which are expected to be obtained before the end of the year.

### 1.1.4 Coal

## United Kingdom

IBERDROLA has 3,456 MW of coal capacity in the United Kingdom through the Longannet and Cockenzie plants in Scotland:

Project	Capacity (MW)
Longannet, Fife	2,304
Cockenzie, East Lothian	1,152
<b>Total</b>	<b>3,456</b>

Longannet's GBP 170 million project to install FGD at three of the four units continues, with units 1 and 2 out of service for the whole quarter to carry out the work. Unit one has since returned to service in time to meet the increase demand over the winter. IBERDROLA has commissioned a feasibility study on converting the Longannet and Cockenzie plants to clean coal plants, which would reduce their emissions by

approximately 20%. The refitted plants would also be designed to incorporate carbon capture technology, which is currently being developed.

### 1.1.5 Wind and mini-hydraulic energy

At the close of the first nine months of 2007, after the inclusion of the renewable capacity of ScottishPower in the United Kingdom and the United States, and after the additions made in Spain and Europe by Iberdrola Energías Renovables, IBERDROLA has **installed capacity** of 7,342 MW (7,000 MW wind and 342 MW mini-hydroelectric). This consolidates IBERDROLA's position as global leader in this business. During the third quarter of the fiscal year, an additional 265 MW were installed, all wind power, giving us installed capacity of 4,377 MW in Spain, 2,046 MW in the United States, including 606 MW belonging to FPL under power purchase agreements, 372 MW in the United Kingdom and 547 MW in other countries.

#### Iberdrola Renovables IPO

IBERDROLA intends to float 20% of the share capital of its renewable energies subsidiary IBERDROLA ENERGÍAS RENOVABLES through a capital increase during the last quarter of this year, as approved by its Board of Directors. IBERDROLA's highest governing body has approved the start of preliminary work on the initial public offering of this subsidiary. In addition, the Board of Directors of the Company has carried out a reorganisation of this business area, with the objective of incorporating into IBERDROLA ENERGÍAS RENOVABLES all the

renewable energy-related companies belonging to IBERDROLA and ScottishPower which activities are related with renewables energies.

In this regard, the listing will allow IBERDROLA RENOVABLES to improve its market visibility and will provide it with the funding necessary to power its growth and development without affecting the financial strength of the IBERDROLA Group, one of the Group's basic strategic pillars.

#### Spain

The new capacity installed in Spain during the third quarter of 2007 totals 162 MW. The break down is as follows: Castilla y León 48 MW, Andalucía 98 MW, the Murcia region 12 MW and the Basque Country 4 MW. In addition to the capacity installed, work has begun on 20 wind farms totalling 405 MW

#### United States

After the inclusion of ScottishPower, the Company has 2,046 MW in operation, corresponding to: PPM 1,993 MW, of which 606 MW are under contract with Florida Power & Light and 54 MW are IBERDROLA's (Locust Ridge, derived from the acquisition of Community Energy). The portfolio of projects is about 20,500 MW, from both the IBERDROLA and PPM portfolios.

PPM has nine projects totalling 779MW under construction or that are in an advanced stage of development. 326MW are expected to be completed by the year end and 453MW are expected to be completed in 2008.

### United Kingdom

IBERDROLA has 372 MW of installed wind capacity in the UK. Since IBERDROLA's and ScottishPower's merger, the installed capacity in the United Kingdom has increased by 27 MW through the commission of Wether Hill 18 MW and 9 MW from increasing the ownership to 100% of Coal Clough and Carland Cross wind farms.

IBERDROLA has received approval to install a wind farm in Harestanes, Dumfries and Galloway with a capacity up to 213 MW. The construction of Whitelee (322 MW) continues on schedule. Once completed, it is expected to be the largest onshore wind farm in Europe. These and other projects reinforce IBERDROLA's position as the leading onshore wind farm developer in the United Kingdom.

The portfolio of projects in the United Kingdom is 6,000 MW, including ScottishPower's 4,000 MW portfolio.

### Greece

IBERDROLA has 214 MW of functioning capacity in Greece, and controls the Rokas company, the principal developer and operator of wind farms in Greece. IBERDROLA has a 52.7% interest in Rokas.

In the first quarter of 2007, IBERDROLA, through its renewable energies subsidiary, reached a new agreement with the Rokas family. The purpose of the agreement is to provide additional impetus in the development of the Rokas Group. This agreement is further demonstration of the Company's commitment to this market. The agreement consists of the following points:

- The Rokas family transfers to IBERDROLA all of the non-voting preferential shares in its possession, directly or indirectly, in the Rokas Group (around 45% of the total shares in circulation) for approximately EUR 32 million.
- A new agreement, subject to approval by the competent authorities in Greece, to come into effect thereby cancelling the one dated December 2004. Through the acquisition in the market of an additional 2.8% of the capital for approximately EUR 12.5 million, IBERDROLA increased its interest in Rokas to 52.7%.

In addition, the Rokas family has reached an agreement with various financial entities for the sale of a large number of its ordinary shares in the Group of the same name (9.82% of the capital).

IBERDROLA has approved of this transaction, waiving its preferential right of acquisition.

### Portugal

IBERDROLA has 50 MW in operation, 18 MW corresponding to the Catefica wind farm and 32 MW corresponding to the Alto Monção wind farm. In addition, IBERDROLA has 122 MW of advanced projects, which will come on line in the next two years.

### France

At the close of the first nine months of 2007, IBERDROLA's installed wind capacity totalled 86 MW. To strengthen its portfolio of projects in the country, IBERDROLA reached an agreement on the acquisition of French company Perfect Wind, considered to be one of the companies with the greatest potential for development in the wind sector in France. It has a portfolio of projects of 600 MW, of which 17 MW have already been brought on line and 78 MW correspond to projects in an advanced stage of development. In this country and as a result of the above-mentioned transactions, five wind farms are already under construction, for a total of 75 MW.

### Poland

The Kisielice wind farm, 41 MW, is already in operation adding IBERDROLA a total of 89MW of installed capacity in this country. This wind farm (27 1.5 MW General Electric turbines) is the first project to be constructed and brought on line in the portfolio acquired from Eternegy Polska in September 2005. The Malbork wind farm (18

MW), which will become operational soon, will make IBERDROLA one of the leading wind power generators in Poland. There are also an additional 141 MW in an advanced stage of development, 3MW are now under construction.

### Germany

60 MW have been brought on line, in accordance with the agreement reached with Gamesa at the end of 2005. Having brought them into operation, Iberdrola Renewable Energies has now entered the German wind market, the most developed in the world, with 20,000 MW of installed capacity. In addition, the portfolio of projects totals 47 MW. During the second half, three operational farms totalling 26 MW were bought from SKB.

### Italy

During the 2007 - 2009 period, Iberdrola will acquire from Gamesa a total of 100 MW in fulfilment of an agreement signed in October 2005. During the first quarter of 2007, IBERDROLA signed a strategic alliance with the Italian energy group API Holding for the construction and operation of approximately 350 MW of wind power in Italy, for a total investment of EUR 500 million. Once that alliance is effective, the Company will hold 50% of the capital of the joint company Societa Energie Rinnovabili that will be created, with API Nova Energia, subsidiary of API Holding. The objective will be to develop seven wind projects to be located in the regions of Sicily and Puglia. These projects are currently in a very advanced stage of

development. It is projected that they will be brought into service during 2008 and 2009.

### Brazil

The operating capacity in Brazil totals 49 MW. Neoenergía has 18 MW with the mini-hydroelectric plant at Afluente (8 MW attributable to IBERDROLA). Neoenergía (in which IBERDROLA has a 39% interest) has the concessions to construct, maintain and operate the Baguari hydroelectric plant and the mini-hydroelectric plants at Nova Aurora and Goiandira, which total 188 MW of installed capacity.

### Mexico

IBERDROLA is developing wind energy projects in the State of Oaxaca that add up to 150 MW of capacity. In the 2007 fiscal year, the La Ventosa wind farm (30 MW) will be constructed.

## Total portfolio of projects

Altogether, IBERDROLA has a **portfolio of projects** of about 41,266 MW in different stages of development, both in Spain and abroad.

Portfolio of projects: 41,266 MW in development				
MW	Pipeline total	Potential	Probable	Certain
Wind	40,338	25,570	11,938	2,830
<i>Spain</i>	5,791	3,681	1,454	656
<i>US</i>	21,222	12,368	7,862	992
<i>UK</i>	6,080	4,694	823	562
<i>Rest of world</i>	7,245	4,827	1,799	620
Other renewables	928	516	360	52
<i>Spain</i>	829	423	354	52
<i>Rest of world</i>	99	93	6	0
<b>TOTAL</b>	<b>41,266</b>	<b>26,086</b>	<b>12,298</b>	<b>2,882</b>

#### NOTES:

**Potential** (<20%): With identification of site, request for first license, estimate of resource or first configuration of capacity development agreement.

**Probable** (40-50%): With installation of measurement systems, basic engineering, resolution of competition or auction procedure, with the principal licenses and necessary interconnections.

**Certain** (>95%): With key authorisations already obtained, available connection, approved investment portfolio and turbines available.

### 1.1.6 Other renewable (non-wind) energy sources

#### Solar energy

There are currently twelve thermo-electric solar energy projects in development using parabolic cylinder collector technology, with unit capacity of 50 MW. Meteorological stations to measure solar resources have been installed in the projects in Seville, Ciudad Real, Badajoz, Albacete and Teruel. The portfolio of 13 projects totals 603 MW power. The developments are located in

Extremadura, Castilla y León, Andalucía, Castilla-La Mancha, Murcia, Madrid and Aragón. In addition, we are involved in a 3 MW Direct Vapor Generation (DVG) R+D project at the Almería Solar Platform. During the first quarter of fiscal year 2007, work commenced on the first 50 MW plant in Puertollano and the start of testing is planned at the end of 2008. IBERDROLA has a 90% interest in the plant, and IDAE has 10%.

### **Photovoltaic energy**

Currently, IBERDROLA has an advanced portfolio of 4 MW of projects in Spain at company generating plants. Internationally, during the first half of fiscal year 2007, a 0.17 MW facility was added in Greece (Rokas). In this country, it has an 8 MW portfolio of development projects.

### **Biomass**

The development of these projects will be done on a very selective basis, and only with the guarantee of long-term raw material supplies. IBERDROLA is planning to install three forestry biomass plants in Spain totalling 25 MW. These plants will be located in the towns of Somozas (La Coruña), Archidona (Málaga) and Corduente Guadalajara).

In February 2007, IBERDROLA began construction of the Corduente (Guadalajara) plant, the first by the Company in Spain to use forestry waste to generate energy. Testing is expected to begin at this plant in 2008. With installed capacity of 2 MW, the plant is expected to use around 20,000 tonnes of forest waste each year.

In the United Kingdom progress continues on the Waste Incineration Directive compliant plant with 20-25 MW of capacity at the Longannet power station, Scotland. This plant is now a Generation asset and no longer an Ibedrola Renewables one. The development of the projects will be done in a very selective manner, always with long-term raw materials supply guarantees.

### **Marine Energy**

IBERDROLA intends to install the first wave energy pilot plant in Europe in the town of Santoña (Cantabria). The project will be implemented in two phases. In the first phase, the installation of a 40 kW buoy will be completed, and in the second phase an analysis will be made of increasing the plant's capacity to total capacity of 1.35 MW .

In the United Kingdom, development continues on the wave power project with a major part of the necessary planning permission now obtained. Four floating generators designed to convert wave movement into electricity will be developed at the European Marine Test Centre in Orkney. The project is expected to be operational in 2008, and will have 3 MW of capacity. Once operational it is expected to be the largest commercial wave farm in the world.

IBERDROLA also continues to work with Hammerfest Strom to optimise Hammerfest Strom's tidal stream power technology with the objective of moving towards the manufacture and demonstration of a full-scale prototype in Scottish waters.

### Special-regime Mini-hydroelectric Energy

IBERDROLA has a domestic portfolio of 222 MW and an international portfolio of 88 MW in Greece. During the first quarter of 2007, the installation of the plant at La Fuensanta was completed. The plant is 8.84 MW and is located in Albacete.

## 2. DISTRIBUTION

### 2.1 Electricity

#### Spain

At closing of the first nine months of 2007, IBERDROLA had 10 million customers in Spain, and the total energy distributed in the network was 76,094 GWh, an increase of 2% compared with the corresponding previous period. 79% of the energy (60,253 GWh) is distributed to the regulated market.

#### United Kingdom

As at 30 September 2007, IBERDROLA had 3.4 million customers in the United Kingdom. The volume of energy distributed in the April-September quarter totalled 17,101 GWh, a decrease of 2% year-on-year. This arose due to the combined effects of energy savings and mild weather.

#### Latin America

At closing of the first nine months of 2007, IBERDROLA had more than 8.7 million customers under management in the region, and the total energy distributed was 21,713 GWh, an increase of 5.4% compared with the corresponding previous period.

### 2.2. Gas

#### Spain

IBERDROLA continues to go forward with its plan to distribute gas to more than 100,000 households in the autonomous communities of Madrid, Valencia and Murcia in the next few years, as part of its strategy for the regulated business in Spain, where it expects to invest EUR 1.8 billion through 2009.

This quarter, after commencing activity last June at Cubas de la Sagra (Madrid), it also began activity in the Comunidad Valenciana in the Municipality of Segorbe (Castellón).

## 3. SUPPLY

### 3.1 Electricity

#### Spanish Business: Deregulated market

The recent increases in the regulated rates for some groups of customers to levels comparable to the cost of supplying electricity under market conditions has allowed profitability to return to the supply of energy in some sectors.

IBERDROLA has launched various electricity sales companies oriented towards segments that add value. In the first nine months of 2007, contracts with a volume greater than 8.5 TWh were entered into for the provision of electrical energy, as compared to the 2.4 TWh contracted in the first nine months of the previous year (an increase of 350%). Of the 8.5 TWh sold, more than 4.5 TWh were supplies in the third a quarter of 2007, compared to 0.6 TWh in the same quarter of 2006 (an increase of 750%).

In addition, the selective sales made during the period prior to these tariff hikes have allowed for supplying a total of 4.3 TWh during these past nine months, with a contribution of EUR 50.6 million to gross profit.

### United Kingdom

The electricity sold during these six months (April to September) totalled 10,668 GWh, a reduction of 6.9% compared with the same period in the previous year. This is a result of reduced average consumption in the domestic sector impacted by milder weather and reduced large business sales. At the end of the third quarter, the company had 3.3 million customers, and the number of customers on preferred, more secure payment methods has further increased due to the acceleration of the installation of a new metering system (180,000 meters have been installed under this programme). The activities undertaken to improve the quality of service have contributed to reducing the complaints figure at "Energywatch" by 60% compared with the previous year, keeping ScottishPower number

one in the ranking of on-line services, according to the "U-switch" customer satisfaction survey.

## 3.2 Gas

### Procurement

In the first nine months of 2007, IBERDROLA provided 15% of the total amount of gas consumed on the deregulated market. The winter season was very mild, and since production in the combined cycle plants was reduced because of hydroelectric power and increased wind production, there was a reduction of 1.5% in domestic demand for gas compared with the same period in 2006. In this environment, IBERDROLA has optimised its participation in the gas market with supply to the combined-cycle plants, sales to customers, and domestic and international trading activities, all thanks to the flexibility of its portfolio of procurement contracts.

IBERDROLA ended the period with a long-term supply portfolio of 20 bcm per annum, which cover its requirements in Spain, the United Kingdom, Mexico and Brazil.

The most significant gas procurement transactions during the period were the following:

- IBERDROLA signed a contract with National Grid under which it will have available long-term annual regasification capacity of a maximum of 2.75 bcm in the United Kingdom beginning in October 2010. This agreement is the result of an auction organised by the British grid operator, in which it placed part of the new capacity of the Isle Of Grain (in Kent, England) regasification plant, the only onshore terminal in operation today in the United Kingdom, after the expansion planned for 2010 (6.7 bcma). IBERDROLA, which had already presented a preliminary offer in March of last year, reiterated its interest in this process through a binding proposal at the end of 2006. With the securing of the regasification capacity in the United Kingdom, IBERDROLA has begun to take advantage of the business opportunities resulting from the transaction with ScottishPower. Through this contract, the Company will not only help fulfil the UK gas supply needs of ScottishPower, but will also increase its options for optimising the liquid natural gas (LNG) supply portfolio and gain access to other international markets.
- Shipments of LNG are regularly received on the contracts signed with ENI, GNA, SONATRACH, NIGERIA LNG and SNOHVIT at the Bilbao, Huelva and Sagunto regasification plants, three logistic centres around the Iberian Peninsula that guarantee supply. The gas received originates from Algeria, Nigeria, Libya, Egypt, Trinidad-Tobago, and Qatar, well diversified sources to ensure supply.
- Injection and extraction of gas reserves from the subterranean storage capacity at Gaviota (Vizcaya) and Serrablo (Huesca) to adjust supply to demand at all times, while always fulfilling the winter operation plan put into place by the Ministry for Industry and with the obligation of maintaining minimum security reserves, certified by the Corporación de Reservas Estratégicas de Productos Petrolíferos (CORES).
- Export to France through the Euskadour international gas pipeline. IBERDROLA was the first company to export gas through Euskadour after it came into service in June 2006.
- During the period, for the purpose of optimising the flexibility of its gas resources, the Company undertook various international LNG trading transactions.
- The Company doubled its reserve capacity at the Bahía de Bizkaia Gas (BBG) regasification plant at the port of Bilbao, which is the principal operator at that terminal.
- Additional underground storage capacity was contracted in France to provide supply-demand coverage for supply activities in that country and for carrying out seasonal price arbitrage.

- In May, the Company was awarded a lot of 1,000,000 MWh of natural gas in an auction organised by EON-RUHRGAS as a remedy to palliate the effects of its merger on the energy market in Germany. The gas will be delivered starting in October 2007 for three years in Waidhaus on the Czech border.
- IBERDROLA was awarded the natural gas supply contract for the Elcogas electricity plant for one year, after winning the tender called.
- The Snohvit liquefaction placed in Hammerfest (Norway), where IBERDROLA has a long-term supply contract of 1.6 bcm a year, is conducting its start-up tests, and after receiving gas from offshore deposits in the Arctic, is already producing liquefied natural gas (LNG) and expects to deliver its first shipment to IBERDROLA in November.
- With regard to the Isle of Grain regasification terminal, IBERDROLA participated in the latest capacity auction for entry into the gas transportation system in the United Kingdom (NTS or National Transmission System) through ScottishPower, ensuring itself the entrance capacity necessary to use its Isle of Grain regasification capacity adequately.

### Infrastructure

The Bilbao Regasification Plant, Bahia de Bizkaia Gas (with a 25% interest for Iberdrola), has been operating strongly since it went into service in December 2003, becoming a benchmark for new plants that are being built in Spain and other countries. In the first nine months of the year, it

continued to have the greatest utilisation after the Sagunto regasification plant. Iberdrola continues to move forward with the construction of a third 150,000 m<sup>3</sup> LNG tank and two vaporizers or 200,000 m<sup>3</sup>/h each, which would increase capacity by 50%. The last permits required for the expansion are in progress, and it is expected to be in service in 2011.

At the same time, IBERDROLA, along with the other partners, is carrying out the first expansion of the Sagunto regasification plant (Saggas, 30%-owned by IBERDROLA) which will increase its capacity by 50%. The work is slightly ahead of schedule. Construction of the exterior wall of the third tank has already been completed. In addition, the licensing process has begun for a second expansion (4th tank). The Spanish Ministry of the Environment (Ministerio de Medio Ambiente) has exempted it from an Environmental Impact Statement, which will facilitate the next steps. Operationally, Saggas has been the plant with the greatest utilisation in 2007 within the Spanish gas system.

With regard to Medgaz, the company that will construct the direct undersea gas pipeline between Algeria and Spain with an initial capacity of 8 bcma, IBERDROLA received the authorisation from the CNE to increase its interest from 12% to 20%. The project has completed its first phase, the manufacturing of the pipes for the gas pipeline, which have begun to be received in the port of Almeria. The rest of the primary contracts are progressing satisfactorily, and it is expected to be operational in June 2009.

## Supply

### Spain

As a continuation of the major supply of gas carried out in 2006, in the first nine months of 2007 IBERDROLA increased sales of gas to high-pressure industrial customers, whose prices were completely deregulated on 1 July 2007. This will significantly increase the volumes to be supplied both this year and in 2008.

In addition, in the first nine months of the year, IBERDROLA Gas Plan was launched. This is a gas sales campaign in the residential sector focussed on maximising profitability for the company and added value for the customer by including a series of services, such as maintaining gas installations in homes. At the end of the first nine months, IBERDROLA had a total of 156,000 gas sales contracts with end customers.

In addition, IBERDROLA has been designated a Last Resort Supplier for gas, so that as of 1 January 2008, IBERDROLA will not only sell on the deregulated market, but it will be an alternative supplier at Administration-regulated prices for low-pressure customers.

### France

IBERDROLA continues to supply customers in the south of France. Continuity of supply is ensured through the lots awarded in the auction organised by Gaz du Sudouest (now Total Infrastructures Gaz France) as required by the French Energy Regulation Commission.

### United Kingdom

The gas sold during the six months to September totalled 9,213 GWh, a reduction of 9.5% compared with the same period in the previous year. This is a result of reduced average consumption in the domestic sector owing to milder temperatures. The company has 1.9 million gas customers as at the end of the third quarter of the year.

### Gas storage

ENSTOR, the subsidiary of PPM Energy, currently owns the storage facilities at Katy (Texas) and Grama Ridge (New Mexico). ENSTOR also manages the company's 53% share of the Alberta (Canada) storage facility. Each storage facility is connected to substantial interstate and intrastate gas pipeline networks, serving a diversified base of clients under firm contract arrangements, both short-term and long-term.

In addition to the 1.4 bcm of owned storage, PPM Energy also has 1.3 bcm of capacity contracted with third parties at storage facilities in Canada and the United States.

Development and construction continues on the 0.3 bcm of storage facility at Waha and on the 0.02 bcm of Grama Ridge expansion. Finally, the 0.4 bcm Houston Hub project continues to progress through the permitting phase.

## Gas trading

### Europe

During the first nine months of 2007, IBERDROLA optimised the management results of its gas portfolio in Spain through placement with industrial and domestic clients, combined-cycle plants and domestic and international wholesale transactions, taking advantage of supply contracts. Gas was also exported through the international Spain-France gas pipeline through the Basque Country, Euskadour.

IBERDROLA plans to use the natural gas awarded by E.On-Ruhr gas to engage in trading operations in Germany, the largest gas market in Europe, and the countries that border it.

### United Kingdom

In the United Kingdom IBERDROLA has continued to operate a gas hedging programme to ensure a competitive and stable cost base for UK retail customers by purchasing in the wholesale market and optimising long term contracts. It also schedules combined cycle gas plant economically based on prevailing gas and electricity prices, and maximises the value of its UK gas storage assets and contracts.

### United States

PPM Energy has continued to operate a gas hedging programme in support of its gas storage activities. The hedging programme is established during the spring and summer period when gas is stored and secures profit which is released over the winter period when gas is withdrawn under forward gas sales.

## 4. NON-ENERGY BUSINESSES

### Iberdrola Inmobiliaria

IBERDROLA (through its parent company and its subsidiary Iberdrola Inmobiliaria) closed out the third quarter of 2007 with 13 **residential developments** under construction, representing a total of 893 homes and a further nine residential developments under management, representing another 1,084 homes. In the first nine months, 689 homes were completed. The forecast at the close of the fiscal year is to deliver 258 more homes, which will make a total of 947 homes during fiscal year 2007.

The total **investment** made in purchasing public deed land was EUR 330.05 million during the first nine months of the year. 1,222,1124 sqm of buildable land was acquired.

The following transactions were the highlights of the first nine months:

- Iberdrola Inmobiliaria has closed on the purchase of the Colombo office project, north of Lisbon, which will require an investment of approximately EUR 22.4 million and includes the construction of two office towers over the

Colombo shopping centre, which is already completed and in operation.

- Iberdrola Inmobiliaria has begun the construction of the Porta Firal project in Barcelona, where it expects to invest over EUR 250 million. It has become a landmark for the Company and for the capital of Catalonia in the commercial sector, being located at the entrance of the new Fira area in Barcelona. It has four office buildings with a total surface area of 91,110 sqm and its completion is expected for late 2011. Three of the buildings, which will have 22 stories, will have a leasable surface area of 23,588 sqm each. The fourth one, 14 stories high, will have a leasable surface area of 20,344 sqm, with over 1,000 underground parking spaces.

## 5. IBERDROLA INGENIERÍA Y CONSTRUCCIÓN

Iberdrola Ingeniería is working on projects in 25 countries, and already has subsidiaries in Mexico, Brazil, Venezuela, the US, the United Kingdom, Germany, Latvia, Poland, Russia, Slovakia, Bulgaria, Greece, Qatar, Kenya, Tunisia and India.

During the third quarter of 2007, Iberdrola Ingeniería has closed on two deals to building electricity plants in Russia and Egypt. The first is the Sugres combined-cycle plant, which will have 403 MW and will be located in Sredneuralk, a city close to Ekaterimburg. The second is a solar plant in Egypt with capacity of 150 MW, located in the town of Kuraymat, 95 kilometres from Cairo.

These two contracts reinforce the current project of obtaining projects abroad.

Besides these projects, other noteworthy awards include: a contract for the construction of a 400 kV substation in Galabovo, as well as the associated construction of a 400 kV high transmission line between Plvodiv and Karlovo in Bulgaria; and a contract for the construction of the adjustment system for the distribution grids in Western Venezuela, operated by CADAPE. This contract involves an estimated total of 229 km of the main branch segments of its 13.8 KV and 34.5 KV grids.

## 6. REGULATION

The most significant events of the period in terms of regulation have been the following:

### 6.1 Electricity

During the third quarter of this year, a high number of regulations were announced that significantly affect the electricity sector.

The most important of these is Law 17/2007, amending Law 54/1997 on the Electricity Sector, to bring it into compliance with Directive 2003/54/EC on common rules for the domestic electricity market, published in the Boletín Oficial del Estado on 5 July 2007. This new Law introduces very significant changes in the sector's regulation by stipulating the Integral Tariff's elimination on 1 January 2009. As of this date, the Last Resort Supply system is created, which is defined as the obligation to supply certain electric energy consumers at a maximum price.

The Spanish Ministry of Industry, Tourism and Trade (Ministerio de Industria, Turismo y Comercio) will establish the method of calculation for Last Resort Tariffs. They must be additive, observe the income sufficiency principle, and not distort competition. In addition, it will decide which suppliers will assume the obligation of last-resort supply. They must maintain separate accounting records from the rest of their business. Distributors will not be able to engage in supply activities once the Last Resort Supplier mechanism is implemented.

The number of consumers who will be able to take advantage of the Last Resort Supplier mechanism will be progressively reduced. Thus, on 1 January 2010, low-tension supplies may do so and then on 1 January 2011 those whose capacity contracts are under 50 kW can, which represents close to half the sector's demand. The Government can move these dates ahead and/or modify the requirements.

The Law also empowers the Ministry of Industry, Tourism and Commerce to approve the tariff prices and the access tolls. The Government will also be able to establish a method of calculation for tariffs and access tolls, adding the itemisation of the costs that must be included, so that each service covers the costs it incurs.

In terms of transportation activity, the new Law implements a sole transporter model, REE, with the option of stipulating specific exemptions. It allows a period of three years to proceed with transfer of non-exempt facilities. In turn, REE will have to provide a solution, within a period of four years, to contracts signed prior to the Law's effective date.

The Law stipulates the obligation of functional separation of the regulated from the deregulated businesses, outlining the measures necessary to ensure such separation. In addition, REE provides a year for the creation of a unit to engage in electricity sector operator and transportation grid manager functions, with appropriate accounting and functional separation from other activities.

Furthermore, the law stipulates the creation within a period of 2 months of a Supplier Change Office, which will be responsible for supervising changes of supplier, in keeping with principles of transparency, objectivity and independence. Management functions may be assigned to it by the Government. It is to become active in January 2008 and will be financed by its members' membership fees.

It will be a single commercial company for the electricity and gas sector, with an exclusive corporate object, and it will be supervised by the CNE. Interests may be held in its capital by electricity distributors (15%), gas distributors (15%), electricity suppliers (35%), and natural gas suppliers (the remaining 35%).

In terms of production activity, offers may be submitted by production units or by energy portfolio, and the option of a capacity payment is introduced, which the Ministry of Industry, Tourism and Trade can set in keeping with the system's capacity needs.

In addition, on 30 June the quarterly electricity tariff review commenced, which until now had been yearly. **Royal Decree 871/2007**, effective in the third quarter, has maintained the grid access tariffs and modified the supply tariffs for capacity contracts of over 10 kW, increasing them by 1.75% on average. This same law eliminated the 4.0 tariff, which is incorporated into the 3.0.2 general tariff for capacities over 15 kW. It also stipulates the elimination as of 1 July 2008 of the general tariffs for high tension, the hourly tariff for capacity, and the 2.0N tariff. It also acknowledges in principle a quarterly income deficit from regulated activities of EUR 750 million.

Within this same quarterly tariff review mechanism, Ministerial Order ITC/2794/2007 has maintained all the supply and access tariffs for the fourth quarter. The time slots in which to apply those tariffs has been changed effective 1 January 2008, as have several tariffs and premiums for special-regime facilities. Another new mechanism introduced by this Ministerial Order is the settlement of payments by capacity, which provides for two deferred payments, one to guarantee plant availability over the medium term and another to encourage investment.

On 7 July, Order PRE/2017/2007 was published, governing collection rights for financing in advance the tariff insufficiency out of the settlement of regulated activities and their auction procedure. This rule stipulates a time period of 4 months as of its approval for the first ex ante deficit auction, and a time period of two months as of the approval of the electric tariffs for subsequent deficits. Consequently the EUR 1,500 million approved to date for 2007 must take place before the first week of November. The auction manager will be the Spanish National Energy Commission (Comisión Nacional de la Energía). After the first auction, the first assignees may, in turn, sell the rights, which include, among other possibilities, securitisation. This rule does not apply to other deficits pending settlement (neither those outside the Iberian peninsula, nor 2006 deficits).

Additionally, on 1 August Order ITC/2334/2007 was published, governing the right of collection of income deficit financing from the settlements of regulated activities for the 2005 fiscal year and its sale regime. This Order acknowledges a base value for this right of EUR 3,830 million at 31 December 2005, together with adjustments for inflation, will be recovered within a maximum time period of 14 and a half years as of 1 July 2006. The amount corresponding to the annual amount resulting for straight-line recovery of the base value in the aforementioned time period will be included as a tariff cost through a percentage that will be applied as a specific surcharge to billing for integral and access tariffs. The apportioning of this base amount is itemised by company, with 35.01% of the total falling to IBERDROLA. Holders will be entitled to receive

the corresponding percentage of the invoicing monthly.

On 1 August also, **Royal Decree 1028/2007**, establishing the administrative procedure for the processing of permit applications for electricity generation facilities in territorial waters. For offshore wind farms, this rule requires a minimum installed capacity of over 50 MW and establishes a system of competing bids. For the remaining technologies, no minimum capacity is required, and simplified processing procedure is outlined.

On 3 August, **Order ITC/2370/2007** was published, governing the service of managing continuity demand for consumers who purchase their energy on the production market. This service complements the similar service currently existing only for regulated supplies, and thus will facilitate the development of the deregulated market.

On 18 September, the Unified Regulation on electricity system metering points was published, which revises and unifies the entire electricity metering regulations extant to date. This regulation classifies the metering points by capacity, instead of by tension level as was done previously, and it requires hourly metering and remote management capability for household meters (type 5). For the installation of such equipment, the Ministry will approve a plan that will last several years. Additionally, the requirement to register quality parameters is made general.

## 6.2 Gas

In a manner like the electricity sector, Directive 2003/55/CE on common rules for the domestic natural gas market is transposed through LAW 12/2007, which amends Law 34/1998 on the Hydrocarbons Sector. This Law also introduces important changes, including the elimination of supply tariffs as of 1 January 2008 (one year before the electricity tariff and affecting a smaller part of the sector). As of this date, a Last Resort Supply is created for supplies connected to gas pipelines with design pressure no greater than 4 bars. In subsequent years, the Last Resort Supply will be reduced to increasingly smaller consumption, until it reaches 1 GWh starting 1 July 2010. The suppliers who must assume this Last Resort Supply, which include IBERDROLA, have been designated in Royal Decree 1068/20074 regulating the implementation of last resort supply in the natural gas sector.

In addition, the Law stipulates functional separation of regulated activities from deregulated ones and that of the System Technical manager, and it changes the permits system for distribution facilities, which until now were granted "preferentially to the local distribution company."

Furthermore, this Law creates a new legal category, non-basic gas storage facilities, which are not included in planning, does not have regulated compensation, and are subject to negotiated third-party access.

### 6.3 Environment

Two environmental measures were approved, which affect the energy sector. First, **Royal Decree 1030/2007**, which amends the National Plan for Assignment of allowances for the emission of green house gases for 2008-2012, for the purpose of including the requirements dictated by the European Commission. The total allowances are reduced by 0.28%, the percentage of credits from clean development mechanisms that companies can use is also reduced, and information is required on the manner in which new entrants access the market when reserves are exhausted.

The second rule published is **Royal Decree 1031/2007**, which develops the framework for participation in the flexibility mechanisms of the Protocol of Kyoto, which governs Spain's participation in such mechanisms and extends this participation to companies with a community scope.

### 7. IBERDROLA SUCCESSFULLY COMPLETES SCOTTISHPOWER TRANSACTION

On 23 April of this year, IBERDROLA and ScottishPower completed the merger agreement that they had signed on 27 November of last year. This was definitively approved as provided for

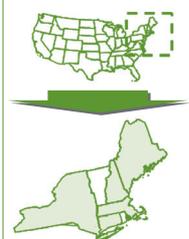
under law at the hearing of the Edinburgh Court of Session (Scotland).

After this last step, and as agreed, IBERDROLA proceeded to acquire all the shares of ScottishPower, approximately 52.3% through the delivery of cash or debentures (or a combination of both); and the approximately 47.7% remaining through the delivery of shares in the Company. In this context, and through the pertinent Board of Directors resolution, IBERDROLA undertook an increase of its share capital by approximately EUR 8,031 million on 23 April. This is equivalent to 245,225,982 new shares, which were listed on the continuous market in Spain (ticker: IBE.SM) on 25th of April. The new shares issued by IBERDROLA had a nominal value of EUR 3 and an issue premium of EUR 29.75. This represents 21.4% of the new share capital of the Company resulting from the aforementioned expansion, which then totalled 1,146,775,163 shares.

### 8. IBERDROLA AGREE TO FRIENDLY ACQUISITION OF 100% OF U.S.-BASED ENERGY EAST

The boards of directors of IBERDROLA and the US company Energy East, which met on 25 June in Madrid and New York, respectively, have reached an agreement to merge Energy East into the IBERDROLA Group. Under the terms of the agreement reached, IBERDROLA will acquire 100% of the share capital of Energy East. The directors of IBERDROLA unanimously backed the proposal of the CEO of the Company, Ignacio Sánchez Galán, to make an offer for the US company, which was then immediately accepted by the board of directors of Energy East.

### Energy East will strengthen the position of Iberdrola in electricity and gas



	Energy East
Electricity supply points (M)	1.8
Gas supply points (M)	0.9
Installed capacity (MW)	555
EBITDA 2006 (EUR M)	729
Net profits 2006 (EUR M)	192

**With a presence in the states of: New York, Maine, Connecticut, Massachusetts and New Hampshire**

The merger of Energy East into the IBERDROLA Group will be carried out through a subsidiary in the United States, Green Acquisition Capital Inc., which will be provided with the necessary financial resources. The friendly transaction will be executed through a merger by absorption procedure of Green Acquisition Capital Inc. by Energy East. Each share of Energy East is valued at USD 28.50 (EUR 21.08) and the ordinary share capital is valued at USD 4,500 million.

Due to Energy East and its group companies being engaged in activities in a regulated sector, it will be necessary to obtain the required regulatory approvals. Following the timetable set, on 8 September the federal Hart-Scott-Rodino approval was obtained, and the Federal Communications Commission (FCC) approval was obtained on 4 October. The rest of the approvals are expected to be obtained during 2008.

### Calendar of regulatory approvals and level of fulfillment

Federal		State	
Hart-Scott-Rodino	✓	Connecticut Department of Public Utilities Control	Dec. 07
Federal Communications Commission (FCC)	✓	New Hampshire Public Utilities Commission	Jan. 08
Exon-Florio	Dec. 07	Maine Public Utilities Commission	Feb. 08
Federal Energy Regulatory Commission (FERC)	Feb. 08	New York Public Service Commission	Jun. 08

Close of transaction expected by end of first half 2008

IBERDROLA completed the capital expansion in record time through a private placement – Accelerated Bookbuild Offer (ABO) – with which it will finance the friendly purchase of Energy East, agreed by the board of directors of both companies.

In this transaction, which was unanimously approved by the highest executive body of IBERDROLA, a total of 85 million new shares were issued, for an amount of approximately EUR 3.4 billion (EUR 39.70 per share). This is an increase in the share capital of the Company of about 7%.

The new shares, which did not receive the dividend relating to the 2006 fiscal year of EUR 0.593 per share, were paid in on 2 July and were listed on the stock exchange on 29 June with a separate code. Both types of shares became equal on 2 July. From that date, the new shares have the same economic rights as the old ones.

## 9. SHAREHOLDER COMPENSATION

### **Company share split in a ratio of 1:4**

The meeting of the Board of Directors of IBERDROLA, held in Bilbao on 25 September, approved executing the resolution adopted by the general shareholders meeting of IBERDROLA, held on 29 March to split the Company shares in a ratio of 1:4, reducing the par value of each share by EUR 3 to EUR 0.75.

With this split, which IBERDROLA previously announced would be executed once the ScottishPower transaction was completed and which is consistent with the increase in the Company's market capitalisation in recent years, became effective on October 8th, the number of Company shares outstanding would increase four fold, from 1,248,435,510 to 4,993,742,040, but the share capital figure (EUR 3,745,305,530) would not change.

The fundamental objectives of this IBERDROLA share split, not unusual among the top IBEX-35 stocks for some years now, are to offer greater liquidity and trading to the stock and to further the execution of the investor loyalty-building programmes (for example, the Dividend Reinvestment Plan implemented by the Company in 2006).

## Analysis of the nine months of the financial year 2007

### Energy Balance Sheet

	GWh		vs. 9M 2006	% Weight
Gas Combined Cycle	35,251	8,024	29.5%	40.6%
Wind and Mini-Hydroelectric	9,406	3,798	67.7%	10.8%
Hydroelectric	12,311	4,789	63.7%	14.2%
Nuclear	15,829	-2,903	-15.5%	18.2%
Fuel Oil	176	-1,599	-90.1%	0.2%
Coal	11,246	6,907	159.2%	13.0%
Cogeneration	2,581	1,154	80.9%	3.0%
<b>TOTAL NET PRODUCTION</b>	<b>86,800</b>	<b>20,170</b>	<b>30.3%</b>	<b>100.0%</b>
<b>ENERGY DISTRIBUTED</b>	<b>115,508</b>		<b>21.3%</b>	

### Energy Balance Sheet Spain

	GWh		vs. 9M 06	% Weight
Gas Combined Cycle	9,048		-23.1%	18.6%
Wind and Mini-hydroelectric (1)	6,586		17.4%	13.5%
Wind	6,136		18.4%	-
Hydroelectric	11,002		66.4%	22.6%
Nuclear	15,829		-15.5%	32.6%
Fuel Oil	176		-90.1%	0.4%
Coal	4,695		8.2%	9.7%
Cogeneration	1,287		22.0%	2.6%
<b>NET TOTAL PRODUCTION</b>	<b>48,623</b>		<b>-2.5%</b>	<b>100.0%</b>
<b>ENERGY DISTRIBUTED</b>	<b>76,094</b>		<b>2.0%</b>	
<b>HYDROELECTRIC RESERVES LEVEL at 30/09/07</b>			<b>47% (5,302 GWh)</b>	

(1) Includes for 2007 507 MW international with a production of 502 GWh. For 2006, 308 MW with a production of 281 GWh

### Energy Balance Sheet United Kingdom

	GWh	% Weight
Hydroelectric	516	4.4%
Coal	6,551	55.6%
Gas Combined Cycle	4,055	34.4%
Cogeneration	352	3.0%
Renewables	311	2.6%
<b>TOTAL NET PRODUCTION</b>	<b>11,785</b>	<b>100.0%</b>
<b>ENERGY DISTRIBUTED</b>	<b>17,701</b>	

## Energy Balance Sheet United States

	GWh	% Weight
Cogeneration	582	19%
Renewables	2,509	81%
<b>TOTAL NET PRODUCTION</b>	<b>3091</b>	<b>100%</b>

## Energy Balance Sheet Latin America

	GWh	vs. 9M 06	% Weight
Gas Combined Cycles	22,148	43.3%	95.1%
Hydroelectric	793	-12.9%	3.4%
Cogeneration	360	-3.2%	1.5%
<b>TOTAL NET PRODUCTION</b>	<b>23,301</b>	<b>39.2%</b>	<b>100.0%</b>
<b>ENERGY DISTRIBUTED (managed)</b>	<b>21,713</b>	<b>5.4%</b>	

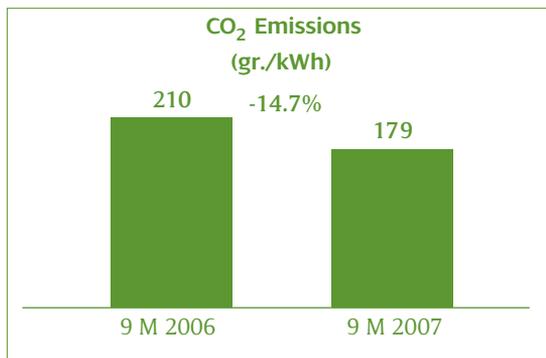
## 1. SPAIN PRODUCTION

Net production in Spain showed a slight decrease of 2.5% during the first nine months of 2007, amounting to 48,623 GWh. The primary factors that have influenced this change are the following:

- Nuclear production fell by 15.5% owing to stoppages for revision and refuelling of the Cofrentes, Vandellós II, Trillo, Garoña, and Ascó II plants. Nevertheless, despite these factors, this technology remains the greatest contributor to the generation mix, with weighting of almost 33%.
- Hydroelectric production rose by 66.4%, in an increasingly attractive environment for hydroelectric production compared with the same period of 2006. It is worthy of note that the increase in production in the Spanish system overall reached 36.7%, lower than the growth achieved by IBERDROLA. The Company's reservoir levels totalled 47.0% (5,302 GWh).
- Wind and mini-hydroelectric production increased by 17.4% to 6,586 GWh and accounts for 13.5% of total production. Wind in turn increased by 18.4%. The wind GWh include production of 5,807 GWh in Spain and 779 GWh in other countries (not including SPW and PPM).
- Combined-cycle production dropped 23.1% to 9,048 GWh.

- The significant reduction in fuel oil plant production consolidated itself during the fiscal year with a 90% drop, while coal production increased by 8% to 4,695 GWh.

Emissions have been reduced by 14.7% in year-on-year terms, reaching 179 gr/kWh, way below average emissions for the sector. The percentage of emission-free production rose to 68.7%, jumping from the 62% achieved during the same period of 2006.



IBERDROLA has obtained a **market share** of 24.6% in the wholesale production market in the first nine months of 2007.

On a year on year basis, the Energy Production break down is as follows:

	Q3 2007	Q3 2006
Gas Combined Cycle	18.6%	23.6%
Renewables	13.5%	11.2%
Hydraulic	22.6%	13.3%
Nuclear	32.6%	37.5%
Fuel Oil	0.4%	3.6%
Coal	9.7%	8.7%
Cogeneration	2.6%	2.1%
<b>Total</b>	<b>100%</b>	<b>100%</b>

## 2. UNITED KINGDOM PRODUCTION

During the period April to September, ScottishPower's production in the United Kingdom amounted to 11,785 GWh. The market share of the UK business was 7.9%, compared with 6.9% in 2006. By technology, the highlights are as follows:

- Gas plant production increased by 44.6%, from 2,805 GWh to 4,055 GWh. This substantial increase in operations is a result of more favourable gas market conditions in 2007 and recent investments to increase the flexibility of the gas plant.
- Hydroelectric production was stable during the period, with a slight increase of 4% to 516 GWh. Its flexibility allows it to continue to make a positive contribution through its activities in the Balancing Mechanism and Ancillary Services.
- Coal production increased 2.4% to 6,551 GWh during the period, with good availability at Cockenzie helping counter the impact of carrying out FGD work, which meant standing

down half of Longannet over most of the summer.

- Cogeneration production (CHPs) rose 9% to 352 GWh during the period. The flexibility and availability of the CHP plant have allowed the United Kingdom business to benefit from favourable trading conditions.
- Renewables production grew by 6.5% to 311 GWh in the period due to additional installed capacity operating during the current year.
- The contribution from the Balancing Mechanism business across the generation portfolio was GBP 20.5 million. This figure is a substantial improvement on the GBP 14.5 million for the same period of the prior year as a result of investments to further improve the flexibility and availability of the portfolio.

## 3. UNITED STATES PRODUCTION

The production of PPM in the United States increased by 53% to 3,091 GWh compared with the same period of the prior year. This is due to the increased renewables capacity and improved wind conditions, as well as more favourable market conditions for gas plant production. By technology, the highlights are as follows:

- Renewables production grew by 50% to 2,509 GWh in the period. This growth is due to the increase in wind farm capacity and improved wind conditions.
- The increase in cogeneration production was a result of favourable market conditions for

plant production in comparison with the same period of the prior year.

- Gas plant production in the United States was stable in comparison with the same period in the prior year.

#### 4. LATIN AMERICA PRODUCTION

In Latin America, total production is up 39.2% to 23,301 GWh. This significant growth has been achieved thanks to new investments in combined-cycle plants entailing 95.1% of the total produced.

	Production	Evolution
Mexico (Cycles)	20,985	46.8%
Latin America (Iberdrola's share)	2,316	-5.3%
Combined Cycles	1,163	0.0%
Hydraulic	793	-12.9%
Cogeneration	360	-3.2%
<b>Total</b>	<b>23,301</b>	<b>39.2%</b>

The increase is mainly due to the 46.81% growth in combined-cycle production in Mexico, with the full functioning and better availability of the Mexican plants of Monterrey (1,037 MW), Altamira (1,036 MW), Enertek (120 MW), La Laguna (500 MW), Golfo (1,121 MW) and Tamazunchale (1,135 MW).

#### 5. SPAIN MARKET

In the Spanish market, IBERDROLA total grid-measured demand increased 2%, reaching 76,094 GWh. The number of customers totalled 10 million.

#### 6. UNITED KINGDOM MARKET

As at 30 September 2007, IBERDROLA had 3.4 million distribution customers in the United Kingdom, the volume of energy distributed during the period from April to September amounted to 17,101 GWh, decreasing 2% compared with the same period of the previous fiscal year, due to the combined effect of energy savings and milder temperatures in the current year.

#### 7. LATIN AMERICA MARKET

IBERDROLA manages 8.6 million customers in the region. The trend for demand at the three distributors in which IBERDROLA has an interest in Brazil is reflected in the following table:

Energy Distributed (GWh) (under management)	Q3 2007	vs. Q3 2006
Coelba	9,416	5.5%
Cosern	2,945	7.8%
Celpe	6,670	6.3%
<b>Total</b>	<b>19,031</b>	<b>6.1%</b>

Additionally the other latinamerican´s distributors have distributed 2,682 GWh (+0.8% vs. same period 2006).

## Analysis of results for the period

Below is the interpretation adopted by IBERDROLA with respect to the following items:

### Spain Energy Business: Tariff Insufficiency

With regard to the tariff insufficiency estimated for 2007, sector-wide, and once the value of the emission rights consumed is discounted, the estimated tariff deviation could reach a figure in the region of EUR 690 million. In accordance with Royal Decree 5/2005 of 11 March, the provisional percentage that would correspond to IBERDROLA for financing that tariff deviation would reach 35.01%, which entails a deviation of EUR 242 million.

### Spain Energy Business: RDL 3/2006

#### Emissions rights

According to the interpretation made of Royal Legislative Decree 3/2006 at IBERDROLA, and after the publication of the aforementioned Ministerial Order ITC/400/2007, the initial sector-wide deviation figure includes EUR 61.0 million corresponding to the value to be reimbursed for the emission rights assigned pursuant to the National Allowance Plan and consumed during the period. No other emission rights subsidies are considered, except those under the Special Regime, specifically those corresponding to co-generation activity. The impact for IBERDROLA's Electric Energy Business in Spain pertaining to emission rights according to the above interpretation, amounts to EUR -7.2 million, posted in the Deregulated Business. This impact is calculated from the difference between the emission rights granted to co-generators for

EUR 6.7 million, and the cost of emission rights for the period, which amounts to EUR -13.9 million.

In addition, the changes occurring with respect to CO<sub>2</sub> emissions have been the following:

	Tn Millions	Average Price
Rights consumed	9.7	1.43 EUR/Tn

### No effect from assimilation to bilateral contracts

With regard to bilateralisation, as of the publication of the Royal Decree on 2007 Tariffs, the provisional price for bilateral contracts ceases to be EUR 42.35/MWh, being assimilated to the market price, as stipulated in the aforementioned Royal Decree. In addition, with the passing of OM ITC/400/2007, which governs this type of bilateral contract, the assimilation method under Royal Decree-Law 3/2006 has become void and only Article 2 thereof, on deduction of the value of the emission rights allocated free to generating facilities, remains in effect. In this regard, OMEL announced on 27 February that as of the second intraday session on that date, assimilation of Royal Decree-Law 3/2006 would no longer be carried out.

### ScottishPower

#### Consolidation

The results of ScottishPower have been consolidated since this past 23 April 2007 (162 days).

### Emission rights

With regard to emission rights, the net impact for ScottishPower is practically flat (EUR 0.1 million). This is a result of the difference between the subsidy of the emission rights granted to the company (EUR 4.2 million), and the cost of emission rights in the period (EUR 4.3 million).

In addition, the changes occurring with respect to CO<sub>2</sub> emissions have been the following:

	Tn Millions	Average price
Rights consumed	7.7	0.56

The Results highlights for the first nine months of the 2007 fiscal year are the following:

EUR Millions	M9 2007	vs. M9 2006
NET REVENUES	11,376.5	+39.5%
GROSS MARGIN	5,726.7	+33.7%
EBITDA	3,811.6	+29.9%
EBIT	2,522.4	+26.3%
NET PROFIT	1,613.0	+30.5%

## 1. NET REVENUES

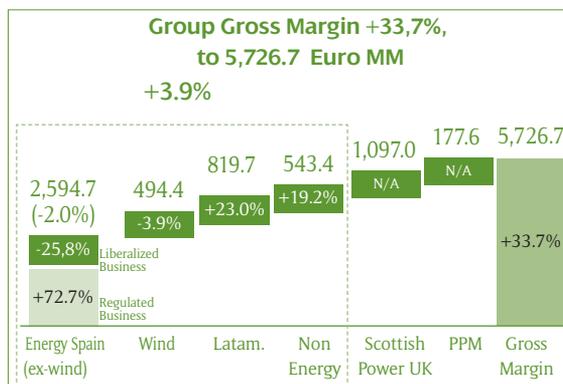
The Group's net revenues totalled EUR 11,376.5 million at the end of the third quarter of 2007, up 39.5% compared with the same period in 2006. Since 23 April, ScottishPower has been included in the scope of consolidation. It contributed EUR 2,993.1 million to Group Net Revenues, of which EUR 2,678.6 million originated in the United Kingdom business and EUR 314.5 million from the United States business (PPM). Growth in Latin America (+28.8%) and Non-Energy (+51.2%) more than offset the drop in the Spain Electric Energy

Business (-14.4%), as a result of low energy prices during the period.

As mentioned, income from the Spain Energy Business fell by 14.4%, primarily due to the effect of lower average prices obtained in the Deregulated Business (-36%), with a different effect in turn on the Renewables Business, and due to lower production in the Deregulated Business. Nevertheless, the Regulated Distribution Business recorded growth of 89.7% in sales. This is derived from two factors: the increase in compensation from the regulated business and the lack of a negative impact from the bilateralisation associated with RD 3/2006.

## 2. GROSS MARGIN

In terms of consolidation, the gross margin totalled EUR 5,726.7 million, up 33.7% on the same period in 2006. This has been driven by the increases in Latin America (+23.0%), Engineering and Non-Energy (+19.2%) and the Regulated Distribution Business (+73%), while the Deregulated Business (-25.8%) and Renewables (-3.9%) were affected by the aforementioned



energy price situation. ScottishPower contributed EUR 1,274.6 million, 86% originating from its business in the United Kingdom (EUR 1,097.0 million) and the remaining 14% from PPM (EUR 177.6 million).

The Group's total procurement cost rose 54.5% to EUR 5,631.6 million, as a result of the increase in procurement in Latin America, Non-Energy and the effect of the consolidation of ScottishPower.

The Gross Margin includes EUR -23 million due to the negative effect deriving from the devaluation of the reference currencies in Brazil and Mexico.

Breaking down the movement in gross margin by business, the following aspects are noteworthy:

### 2.1 Spain Energy Business

Gross margin totalled EUR 3,089.1 million, decreasing slightly (-2.3%) with respect to the first nine months of 2006. The growth recorded in the Regulated Distribution Business (+73%) was not enough to counteract the drops in the Deregulated Business (-25.8%) and Renewables (-3.9%).

Going into greater detail, the main factors influencing the change in gross margin are the following:

- The Deregulated Generation Business experienced a drop of 30.1% due to a 36% decrease in the pool price. The change in production under the Ordinary Regime (-5.7%) has translated into lowering

procurement costs by 28%. The impact due to emission allowances consumed during the period was only EUR -13.9 million, compared to the EUR 141 million posted during the same period of 2006. The Commercial and Gas areas made a growing contribution due to both the policy followed in the market aimed at optimising the margins of this business and also the flexibility of the portfolio of gas contracts (EUR +76.7 million).

- The Regulated Distribution Business improved by EUR 468.9 million (+73.0%). This has been driven by an increase of EUR 140 million associated with the increase in compensation for regulated activities and there is also no longer a negative impact from RD 3/2006 insofar as bilateralisation, since it is now carried out at market prices. In the first nine months of 2006, the negative impact from bilateralisation due to the effects of RD 3/2006 amounted to EUR 153 million.
- Renewables recorded a drop of 3.9% in gross margin, much lower than the drop of 20% in the unit wind price, due to the greater installed capacity (+18.8%), which has translated into greater renewable production (+17.4%).

### 2.2 ScottishPower

ScottishPower contributed EUR 1,274.6 million to gross margin, 86% originating from its business in the United Kingdom (EUR 1,097.6 million) and the remaining 14% from PPM (EUR 177 million). This contribution corresponds to the period from 23 April to 30 September. In the management operations of ScottishPower it is customary to use

derivatives to cover positions and ensure future commodities prices, which under international accounting standards must be valued at market price (mark-to-market). The effect of mark-to-market on gross margin for the period was EUR 85 million, the effect of activities in the UK business (EUR 46 million) and the remainder from PPM (EUR 39 million). This makes the contribution of ScottishPower to gross margin EUR 1,189.6 million, excluding the effect of these mark-to-market revaluations.

### 2.3 Latin America

The Gross Margin was EUR 819.7 million, an increase of 23%, resulting from the strong performance of the Group's businesses in Latin America. Energy generated increased by 39.2% thanks to the new cycle of Altamira V (1,121 MW), in operation since the fourth quarter of 2006 and the contribution of Tamazunchale (1,135 MW) from June 2007 when it came into service, together with greater availability rates and efficiency improvements at the rest of the plants.

Also to be mentioned are the tariff increases and adjustments made at the Brazilian distributors. Energy distributed in the area grew by 5.4%.

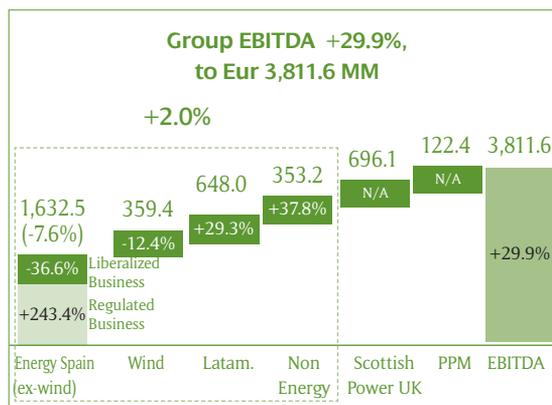
Procurement was up 31.4%. Another factor to consider is the change of the exchange rate for the region's local currencies: the real has revalued slightly (+0.7%), while the dollar, the functional currency in Mexican transactions, devaluated 7.8% during the period. Its effect on this item amounts to EUR -23.3 million).

### 2.4 Non-Energy and Engineering and Services

Non-Energy and Engineering and Services contributed EUR 543.4 million to the total, which corresponds to growth of 19.2% during a period when the Real Estate Business improved its contribution by EUR 73 million following various transactions that closed during the period. This has been partially offset by the lower contribution made by Corporación IBV to Gross Margin as a result of the Azertia and Landata sales in the 2006 fiscal year. Iberdrola Ingeniería has also increased its Gross Margin level compared to 2006, contributing EUR 74 million more than in 2006.

### 3. EBITDA / GROSS MARGIN

Consolidated EBITDA grew 29.9% to EUR 3,811.6 million. The inclusion of ScottishPower contributed 818.4, of which 696.1 corresponded to the UK business and EUR 122.3 million to the U.S. business.



In addition to the changes already explained under gross margin, net operating expenses increased 40.4% following the inclusion of ScottishPower (EUR 412.2 million), and of some non-recurring items. Excluding these effects, non-recurring operating expenses increased 10% year-on-year.

Highlights include:

- Net personnel expenses rose 29.7%, although excluding ScottishPower, they fell 2.2% thanks to efficiency measures applied in 2006 and effective in 2007.
- Net external services were up 51.8%, although on a recurring basis they increased by 23.9% (excluding ScottishPower and other non-recurring items).

Reported net operating expenses can be broken down as follows:

EUR millions	M9 2007	vs. M9 2006
Net Personnel Expenses	819.3	+29.7%
Personnel	1,008.7	+33.3%
In-house work on fixed assets	-189.4	+51.5%
Net External Services	898.2	+51.8%
External Services	1,120.1	+54.9%
Other operating income	-221.9	+69.3%
<b>Total</b>	<b>1,717.5</b>	<b>+40.4%</b>

In addition, the tax charge increased by 40% to EUR 208.6 million, including the EUR 48.1 million tax expense of ScottishPower. Excluding ScottishPower, the tax item shows an increase of 8.4%, due to the increases in real estate tax (IBI) associated with the new facilities that have commenced operation and due to the Public Distribution Price.

#### 4. EBIT / NET PROFIT

The EBIT was EUR 2,522.4 million, an increase of 26.3% in comparison with the same period in 2006. ScottishPower contributed EUR 469.9 million, of which EUR 385.1 million originated from its business in the United Kingdom and the remainder from PPM (EUR 84.8 million).

Amortisation and provisions increased by 37.5% to EUR 1,289.2 million after the inclusion of ScottishPower, which contributed EUR 348.6 million. The increase in amortisation and provisions is mainly due to:

- Amortisation recorded an increase of 53.0%, to EUR 1,164.0 million. Amortisation originating from the consolidation of ScottishPower totalled EUR 324.1 million. In accordance with estimates by the auditor, EUR 162 million is included for amortisation arising from the asset revaluations due to the purchase price allocation. Excluding the effect of ScottishPower, the increase in amortisation due to new facilities that have gone into operation falls to 14.7%.

- Provisions decreased by 29.2% to EUR 125.3 million, as a result of a change in the provisions for the Spanish Energy Business. ScottishPower had EUR 24.5 million in provisions.

EUR Millions	M9 2007	vs. M9 2006	% Chang
Amortisations	1,164.0	760.9	+53.0%
Provisions	125.2	177.0	-29.2%
<b>Total</b>	<b>1,289.2</b>	<b>937.9</b>	<b>+37.5%</b>

## 5. FINANCIAL RESULT

The **financial result** was **EUR –620.5 million**, an increase of 67.0% in comparison with the same period in 2006.

- Financial expenses increased 82.3% to EUR 1,174.1 million, driven principally by the increase in the balance and average cost derived from GBP denominated debt. ScottishPower's contribution was EUR 313.38 million. Additionally, the impact of the tariff insufficiency in the period (EUR 795 million) has also caused the average debt balance to increase. In an environment of rising interest rates, the average financing cost of debt was 5.16% in the first nine months of 2007, compared with 4.39% in the same period of the prior year.

In an environment of rising interest rates, the average financing cost of debt was 5.16% in the first nine months of 2007, compared with 4.39% in the same period of the prior year.

- Financial income amounted to EUR 553.6 million as a result of active management of the items that make up this entry. This partially offsets the increase recorded in financial expense. ScottishPower contributed EUR 235.6 million to this figure.

Financial results can be broken down as follows:

EUR Millions	M92007	vs. M9 2006	% Chang
Financial Income	553.6	272.5	+103.2%
Financial Expenses	-1,174.1	-644.0	+83.3%
<b>Total</b>	<b>-620.5</b>	<b>-371.5</b>	<b>+67.0%</b>

## 6. RESULTS OF COMPANIES CONSOLIDATED BY THE EQUITY METHOD

The entry for Results of Companies Consolidated by the Equity Method increased by EUR 1.5 Million (+3.2%) to EUR 48.1 Million. Most of the result was contributed by equity interests.

The breakdown is as follows:

EUR Millions	M9 2007	vs. M9 2006	% Chang
Equity interests (non-energy)	35.9	40.0	-10.2%
Rest	12.2	6.6	+86.2%
<b>Total</b>	<b>48.1</b>	<b>46.6</b>	<b>+3.2%</b>

The decrease in these results for financial stakes is due basically to the smaller contribution by Gamesa due to the sale of its services division in 2006.

## 7. RESULTS ON NON-CURRENT ASSETS

Non-current asset results reached EUR 213.9 million, resulting from the sale of the stake in Red Eléctrica de España (EUR 130 million) and the sale of real estate assets, a usual practice engaged in by the Group

## 8. NET PROFIT

**Ordinary profit** increased 17.0% to EUR 2,163.8 million. This is less than the growth seen in EBIT (+26.3%) and is due fundamentally to the increase in financial costs which have been unable to be offset by the greater contributions of results on non-current assets and results of companies consolidated by the equity method, as explained above.

The effective tax rate for the period was 24.3%, below the 31.9% registered in the same period in 2006. The primary causes of the reduction in the effective tax rate are the reduction in the state and autonomous region tax rate and the reduced rate on net financial assets.

Finally, **Net Profit** rose to EUR 1,613.0 million, an increase of 30.5% compared to the figure for the same period of 2006.

EPS for the first nine months, calculated on the average number of shares outstanding, rose to EUR 1.5, an increase of 8.6% over the previous year.

## Results by business

### 1. SPAIN ENERGY BUSINESS

#### 1.1 Deregulated business

##### a) Gross Margin

The following factors must be taken into account when analysing this item for the first nine months of 2007:

- A decrease in production under the Ordinary Regime (-5.7%; -10.7% in the third quarter), which is essentially the result of the decrease in nuclear production (-15.5%; -20.8% in the third quarter) on account of the scheduled outages for revision and refuelling of the Cofrentes, Vandellós II, Trillo, Garoña and Asco II plants.
- Increased production in Spain of hydroelectric power (+66.4%) and renewables (+18.4%), together with the moderate increase in demand (+2.0% in the third quarter) resulted in a reduction of the so-called "thermal hole".
- Low CO<sub>2</sub> prices, which in one year went from 20.4 Eur/Tn to 1.4 Eur/Tn. This is the result of a market with surplus rights in 2007 that cannot be used in 2008.
- All of the foregoing resulted in a 36.7% drop in the pool price.

The Gross Margin of the Deregulated business (Generation + Commercial) decreased 25.8%,

reaching EUR 1,493.2 million. The following are worth noting:

- Income from the business fell by 28.9% as a result of:
  - The aforementioned drop in the pool price (-36.7%).
  - The decrease in volumes sold (-5.7%) on the wholesale market.
  - Conversely, the improvement in the commercialisation margin is more than EUR 189 million, the result of improved prices even considering the reduction in volume sold, following a sales policy focusing on optimising margins on the sale of energy.
- Supply costs fell by 26.2%, the result of:
  - The reduction by 13.9% in the average cost of fossil fuels as compared with the same period in 2006.
  - Also accounted for was the impact of EUR -11,5 million for emission rights consumed, far less than the EUR -223.9 million in the same period in 2006.
  - Finally, the supply of the Commercialisation business fell by more than 30% because of the situation of the business (margins and volumes) in 2007 compared to the first half of 2006.

### b) Operating Profit / EBIT

EBIT is down 55.1% on the same period last year, falling to EUR 575.6 million.

EBITDA fell 36.6% to EUR 1,005.4 million.

In addition to what was already mentioned under gross margin, there was 10.5% increase in net operating expenses (+ EUR 42.0 million), which includes EUR 4 million of non-recurring items. Recurring net operating expenses show moderate growth of 4.1% and can be broken down as follows:

- Net external services increased 24.0%. Added to the EUR 4 million of a non-recurring nature mentioned above are the effects of the newly installed capacity.
- Net personnel expenses posted a decrease of 5.7%, with the lower cost deriving from the Early Retirement Plan made in 2006.

Amortisation and provisions increased 42.0% as a result of the new facilities brought into service.

- The key figures for this business are as follows:

Deregulated Business		
(EUR Millions)	M9 2007	vs. M9 2006
Net Revenues	3,799.3	-28.9%
Gross Margin	1,493.2	-25.8%
EBITDA	1,005.4	-36.6%
EBIT	575.5	-55.1%

### 1.2 Renewables (excl. ScottishPower and PPM)

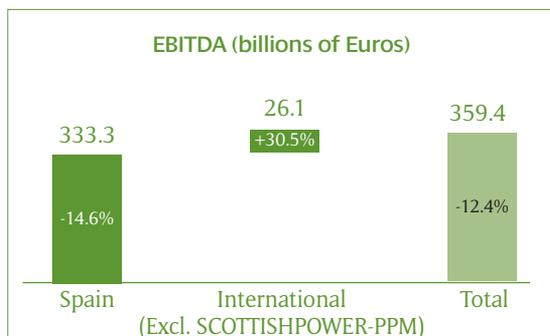
#### a) Gross Margin

The following are the highlights in the changes in the Renewables Business during the first nine months of 2007:

- Wind prices fell 20% due to the impact on the pool price of the above- mentioned changes. At the close of the first nine months of 2007, 98% of the wind farms are operating under the market participation regime.
- Total installed power increased 18.8% to 4,977 MW. This increase in capacity has translated into growth of 18.4% in domestic and international wind production, up to 6,136 GWh. Total renewable energies production (wind and mini-hydroelectric) grew 17.4%.
- The growth achieved in renewable production helped reduce the effects of the 20% drop in prices mentioned above. The decrease in gross margin was thus 3.9%, falling to EUR 494.9 million. The gross margin of Renewables represents 28% of the total generation gross margin of Iberdrola in Spain.

#### Operating Profit / EBIT

EBIT dropped 25.8% to 203.5 million due to the following factors:



- EBITDA fell by 12.4%, a greater decrease than that recorded for gross margin. This is a result of the increase (+29.9%) in net operating expenses. This increase in expenses is primarily a result of international activity (excl. ScottishPower-PPM), where they increased by 140.2%, compared to capacity increases of +73%. Domestically, the increase in net operating expenses (+12.3%) was less than the increase in capacity (+17.4%).
- Amortisation and provisions are 14.8% higher, due to the addition of newly installed capacity during the financial year.
- The key operating figures for this business are as follows:

RENEWABLES (EUR Millions)	M9 2007	vs. M9 2006
Net Revenues	494.4	-3.9%
Gross Margin	494.4	-3.9%
EBITDA	359.4	-12.4%
EBIT	203.5	-25.8%

### 1.3 Regulated business

#### a) Gross Margin

The Gross Margin of the Regulated Distribution Business increased by 72.7% reaching EUR 1,111.4 million, primarily as a result of the following factors:

- A positive effect of EUR 140 million derived from the increase in compensation for regulated activities in accordance with the Royal Decree on 2007 Tariffs.
- Lack of a negative impact from the application of RD 3/2006. At the close of the first nine months of 2006, the amount recorded under this item totalled EUR 153 million, which corresponds to Distributor losses. Since the publication of the Royal Decree on 2007 Tariffs, the realisation price for bilateral contracts ceases to be the provisional amount (EUR 42.35/MWh), being assimilated to the market price, as stipulated in the aforementioned Royal Decree on Tariffs. In addition, since the publication of OM ITC/400/2007, which regulates this type of bilateral contract, the assimilation mechanism under Royal Decree 3/2006 is no longer in effect.

#### b) Operating Profit / EBIT

EBITDA for Distribution rose 245% to EUR 667.3 million, given that the growth posted in terms of gross margin is combined with a 3.3% decrease in net operating expenses, following the implementation of various efficiency measures made. Net personnel expenses were down 12.8% and net external services rose 3.7%.

EBIT for Distribution grew by EUR 506 million to EUR 537.3 million, due to EBITDA growth is combining with a 19.98% decrease in amortisation and provisions, due mainly to the change in provisions because of the inclusion of some non-recurring items in 2006 and the reversal of provisions posted in 2006.

- The key figures for the Business are:

REGULATED (EUR Millions)	M9 2007	vs. M9 2006
Net Revenues	1,111.4	+72.7%
Gross Margin	1,111.4	+72.7%
EBITDA	667.3	+245.0%
EBIT	537.3	N/A

## 1.4 Corporation

This basically includes the elimination of inter-company expenses between the corporation and the businesses.

## 2. SCOTTISHPOWER

These figures correspond to the results generated from 23 April to 30 September (162 days).

### a) Gross Margin

ScottishPower contributed EUR 1,274.6 million to the gross margin of the Group, 86% originating from its business in the United Kingdom (EUR 1,097.0 million) and the remaining 14% from its US business, PPM (EUR 177.6 million).

In the management operations of ScottishPower, it is customary to use derivatives to cover positions and ensure future commodities prices, which under international accounting standards must be valued at market price (mark-to-market; MTM). As a result, positive or negative results may appear at different points in the cycle.

The effect of the mark-to-market revaluation on the Gross Margin for the period is EUR 85 million, EUR 46 million arising in the United Kingdom business and the remainder (EUR 39 million) from PPM. Excluding the mark-to-market impact, the contribution of ScottishPower to gross margin is EUR 1,189.6.

### b) Operating Profit / EBIT

The EBITDA of ScottishPower totalled EUR 818.5 million. Operations in the United Kingdom contributed EUR 649.8 million, and those in the U.S. EUR 83.7 million. Both figures include MTM effect mentioned above.

Net operating expenses totalled EUR 186.8 million. Personnel expense items totalled EUR 412.2 million, and external services totalled EUR 201.6 million.

Finally, amortisation originating from the consolidation of ScottishPower totalled EUR 348.6 million. In accordance with estimates by the auditor, EUR 162 million is for the asset revaluations due to the purchase price allocation (PPA).

- The key operating figures for this business are as follows:

SCOTTISHPOWER (EUR Millions euros)	M9 2007	ScottishPower UK	PPM
Net Revenues	2,993.0	2,678.6	314.4
Gross Margin	1,274.6	1,097.0	177.6
EBITDA	818.5	696.1	122.4
EBIT	469.9	385.1	84.8

### 3. LATIN AMERICA

#### a) Gross Margin

Net revenues in **Latin America** increased 28% to EUR 2,136.8 million. Mexico, with a 61.5% contribution, is the area making the greatest relative contribution, thanks to increases in production, with the new Altamira V (1,121 MW) plant on line since the fourth quarter of 2006, the Tamazunchale (1,135 MW) plant on line since June, along with greater plant availability. Also of note is the increase in income in Brazil (16.4%), essentially as a result of the increase in demand and the readjustment in rates.

In the Latin America Business, the gross margin is up 23.0% to EUR 819.7 million. The change in the overall Gross Margin for the Latin America region can be broken down as follows:

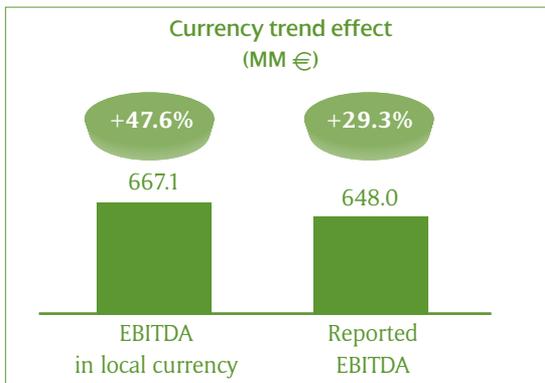
- Increase in the Gross Margin (functional currency): EUR +109.8 million.
- Exchange rate effect: EUR -23.3 million in total, due to the depreciation of the U.S. dollar (-7.8%) and of the Brazilian real in relation to the euro (+0.7%).

In **Mexico-Guatemala**, the gross margin amounted to EUR 331.7 million (+44.1%). This increase is due to the full contribution to results by the new combined cycles and the significant improvements in plant efficiency and availability, which together have led to a 46.8% increase in production in the area. The exchange rate impact is slightly negative, with the dollar posting a devaluation of -7.8%, the effect of which is EUR -26.4 million.

In **Brazil**, the gross margin increased by 11.9% to EUR 487.9 million, benefiting from a greater contribution from the distribution businesses arising from growth in demand (+5.4%), tariff adjustments and reviews that added another EUR 39 million, and the larger contribution of the generation business. The exchange rate impact is also slightly positive following the stability of the real to the euro during the period (+0.7%), the effect of which is + EUR 3 million.

#### b) Operating Profit / EBIT

In the Latin America business, EBIT increased 29.5% to EUR 508.5 million, reflecting the increase in EBITDA (29.3%) partially offset by the higher levels of amortisation and provisions recorded (28.6%), derived principally from the commencement of operations at the plants mentioned above.



By region, EBITDA posted growth of +49.4% in Mexico, mainly as a result of greater activity in Generation. In South America there was a rise of +17.9% from the already described change in the gross margin and due to the increase in efficiency and tariffs.

The EBITDA per region and business is broken down as follows:

• *México-Guatemala*

EUR Millions	M9 2007	vs. M9 2006
Generation	135.8	+44.8%
Distribution	133.6	54.5%
<b>Total</b>	<b>269.4</b>	<b>+49.4%</b>

• *South America*

EUR Millions	M9 2007	vs. M9 2006
Generation	171.2	+6.9%
Distribution	207.4	+29.0%
<b>Total</b>	<b>378.6</b>	<b>+17.9%</b>

The 4.3% increase in the net operating expense was reduced by the impact of the change in the exchange rate (EUR +5.1 million).

By geographical area, it can be broken down by item as follows:

EUR Millions	M9 2007	vs. M9 2006
Mexico-Guatemala	61.8	+24.3%
South America	104.3	-4.7%
<b>Total</b>	<b>166.1</b>	<b>+4.3%</b>

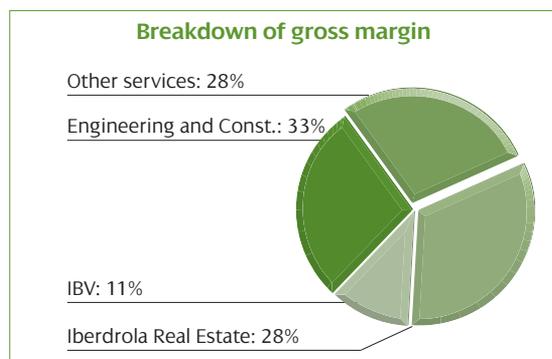
The key operating figures for the business are:

INTERNACIONAL (EUR Millions)	M9 2007	vs. M9 2006
Net Revenues	2,136.8	+28.0%
Gross Margin	819.7	+23.0%
EBITDA	648.0	+29.3%
EBIT	508.5	+29.5%

#### 4. NON-ENERGY AND ENGINEERING BUSINESS

##### a) Gross Margin

Income in the Engineering and **Non-Energy** Businesses grew 51% to EUR 1,603.5 million in a half-year with a strong contribution by Iberdrola Inmobiliaria (+135% to +353.5 million), following the closing of various transactions during the period, and a continued high level of contribution by the activity of the Engineering and Construction businesses, which contributed EUR 755.6 million to income, growing 119%. These increases were partially offset by the decrease in the contribution of Corporación IBV (-19%), which decreased its contribution as a result of the sale of Azertia and Landata in 2006.



Gross margin was EUR 543.4 million, an increase of 19% compared to the same period of 2006, thanks to the greater contribution of Iberdrola Inmobiliaria and of Ingeniería y Construcción, which more than offset the effects of the change in scope of accounting at Corporación IBV. Its breakdown is as follows:

EUR Millions	M9 2007	vs M9 2006
Ingeniería y Construcción	178.8	+40%
IBERDROLA Inmobiliaria	150.9	+94%
Corporación IBV	58.1	-45%
Other services	155.5	+7%
<b>Total</b>	<b>543.4</b>	<b>+34%</b>

##### b) Operating Profit / EBIT

EBITDA grew 37.8%, driven by strong growth in the real estate business. The principal aspects by business can be broken down as follows:

- The contribution of Iberdrola Inmobiliaria is EUR 131.2 million, in line with the trend shown in terms of gross margin. The first nine months of 2007 were affected by the seasonality of operations.
- In terms of the contribution of Iberdrola Engineering & Construction, the EBITDA of Engineering was EUR 84.7 million, an increase of 22%. The growth experienced in volumes also had an effect (+62%).
- Corporación IBV, which is consolidated by proportionate consolidation according to the IFRS, has contributed EUR 19.8 million through its various industrial businesses.
- The contribution of other services was EUR 117.5 million.

The key operating figures for this business are as follows:

EUR Millions	M9 2007	vs. M9 2006
NET REVENUES	1,603.5	+51%
GROSS MARGIN	543.4	+19%
EBITDA	353.2	+38%
EBIT	289.3	+39%

The main items for **Iberdrola Inmobiliaria** at the end of first nine months of 2007 are the following:

- **IBERDROLA Inmobiliaria** business data:

#### PORTFOLIO OF BUILDABLE AREA - RESIDENTIAL USE (sqm)

Total	2,083,891
Under construction	89,500
In planning	639,567
Under management	1,354,824

#### PORTFOLIO OF BUILDABLE AREA - COMMERCIAL USE (sqm)

Total	1,074,560
Under construction	109,357
In planning	175,630
Under management	789,573

- **IBERDROLA Inmobiliaria** Balance Sheet data:

	EUR Millions
TOTAL ASSETS	1,922
INTANGIBLE FIXED AND INVESTMENT ASSETS	506
CURRENT ASSETS	1,369
SHAREHOLDERS EQUITY	770
FINANCIAL DEBT	69

- **IBERDROLA Inmobiliaria** Income Statement data:

	EUR Millions	Vs M9 2006
NET REVENUES	353.5	+135%
GROSS MARGIN	150.9	+94%
EBITDA	131.2	+129%
EBIT	126.9	+140%

## Balance sheet

### January- September 2007 Period

	EUR Millions	vs. Dic. 2006
<b>TOTAL ASSETS</b>	<b>68,126</b>	<b>106.1%</b>
<b>TANGIBLE AND INTANGIBLE ASSETS</b>	<b>35,133</b>	<b>62.9%</b>
<b>INTANGIBLE AND PROPERTY EQUIPMENT</b>	<b>16,329</b>	<b>N/A</b>
<b>FINANCIAL INVESTMENTS</b>	<b>4,267</b>	<b>56.6%</b>
<b>SHAREHOLDERS' EQUITY</b>	<b>24,958</b>	<b>136.2%</b>
<b>NET ADJUSTED DEBT</b>	<b>23,482</b>	<b>61.1%</b>

The balance sheet of IBERDROLA at 30 September 2007 presents total assets of EUR 68,126 million euros, noting the maintenance of its high asset strength even taking into account the transactions made in the period.

The leverage ratio in June 2007 stood at 48.5%, compared to 58.2% in September 2006. If financing of the tariff insufficiency is taken into account, the adjusted leverage at June of this year would be 47.6% (in September 2006, it would have been 54.9%).

Thus, the adjusted financing of the tariff insufficiency corresponding to IBERDROLA reached EUR 795 million in June 2007, after the securitisation of the tariff insufficiency rights attributable to IBERDROLA in 2006.

## Analysis of the Balance Sheet

### 1. FIXED ASSETS

The total investments in period from January to September 2007 amounted to EUR 2,777 million. They are itemized as follows:

	Jan-Sept. 2007	%
<b>Spain</b>	<b>1,274</b>	<b>45.9%</b>
Generation	280	
Renewables	419	
Distribution	413	
Other	162	
<b>ScottishPower-PPM</b>	<b>902</b>	<b>32.5%</b>
Generation&Commercial	295	
Grids	267	
PPM	332	
Other	8	
<b>Mexico</b>	<b>57</b>	<b>2.0%</b>
Generation	47	
Distribution	10	
<b>South America</b>	<b>109</b>	<b>3.9%</b>
Generation	45	
Distribution	64	
<b>Other International (Wind)</b>	<b>435</b>	<b>15.7%</b>
<b>Total</b>	<b>2,777</b>	<b>100%</b>

With respect to the investments in Spain, of note are those made in the Company's basic activity, in both production and distribution, totalling EUR 1,112 million, broken down as follows:



- EUR 280 million destined for the Generation business.

- EUR 419 million dedicated to the Renewables business.
- EUR 413 million dedicated to the Distribution business.

Under the heading "Other" included in the Spain section, it is worth highlighting the transaction, completed in January, increasing the stake in Medgaz from 12% to 20%, in addition to which there are various transactions by the Non-Energy businesses.

As for ScottishPower, since 23 April 2007, EUR 902 million has been invested in the United Kingdom businesses, of which EUR 295 million went to Generation and Commercial and EUR 267 million went to the Grid business. In addition, investments in the United States through PPM totalled EUR 332 million in the same period, basically dedicated to the wind and gas storage businesses.

Investments in Mexico have mainly focused on the combined cycle of Tamazunchale, with EUR 25 million. In Brazil, investments have been made in both the distribution and the generation business, financed in large part by funds raised in Brazil.

Under the heading "Other international", the investments pertaining to the international area for Renewables are included, with notable investments in Greece, Portugal, the United States, Germany and Poland.

## 2. SHARE CAPITAL

At 31 December 2006, the share capital comprised 901,549,181 bearer shares with a par value of 3 euros each after the corresponding expansions.

The average number of shares in the period January-September 2007 was 1,082,626,043, given the successive capital expansions carried out:

- 23 April 2007 (1st ScottishPower expansion): 245,225,982 new shares.
- 9 May 2007 (2nd ScottishPower expansion): 12,945,379 new shares.
- 26 June 2007 (3rd ScottishPower expansion): 3,714,968 new shares.
- 28 June 2007 (ABO Energy East): 85,000,000 new shares.

The first expansion, on 23 April, covered the exchange of ordinary shares in ScottishPower, while the second and third served to carry out the exchange of holders of convertible bonds in that company. In this way, as at 30 September 2007, the total number of shares in the company was 1,248,435,510.

On 2 January 2007 a dividend in the amount of EUR 0.45 per share was paid and charged to 2006 earnings. On 2 July 2007 a supplementary dividend in the amount of EUR 0.593 per share was paid and charged to 2006 earnings.

At the same time, they communicated the reinvestment share price (Eur 40.74) within the Reimbursement Dividend Program framework offered by IBERDROLA.

After giving effect to the 4:1 share split executed by Iberdrola's Board of Directors on October 8, 2007 within the authority conferred on it by the the resolution adopted at the Shareholders Meeting on March 29, 2006, Iberdrola's share capital amounted to Eur 3,745,306,530, represented by 4,993,7442,040 shares, with a face value of Eur 0.75 each.

### 3. EQUITY WITH CHARACTERISTICS OF LONG TERM FINANCIAL LIABILITY

In the United States, tax subsidies for the wind industry are based on two mechanisms, called Production Tax Credits (PTCs) and Accelerated Depreciation (MACRs). Most of the development companies in the wind sector do not have sufficient taxable income to utilize these tax credits, being the solution to transfer these tax credits to third parties who can use these tax credits via partnership structure. Such structures consists of:

- Sponsor: Project owner who is unable to monetize the tax credits
- Tax equity Investor(s) (TEI): Institution with enough taxable income in the US to utilize the tax credits (Banks, Corporations, Insurance Companies,...)

IBERDROLA optimizes wind remuneration in the US through these structures and so, by September 2007, the amount assigned to them is Eur 641 millions, included in the chapter of the

Balance Sheet "Equity with characteristics of long term financial liability".

### 4. FINANCIAL DEBT

The adjusted net financial debt at the end of June totalled EUR 23,482 million, and the financial leverage stood at 48.5%. If financing of the tariff insufficiency is taken into account, which at September 2007 amounted, in the case of IBERDROLA, to EUR 795 million, the adjusted net financial debt would be EUR 22,687 million and the adjusted leverage would be 47.6%.

Of particular relevance is the change in the Company's financial cost, which at September 2007 stood at 5.16%, which is 7.7 basis points higher than in September 2006, which is a result of significant financial cost containment considering the upward trend in interest rates and the incorporation of new GBP-denominated debt.

The debt structure can be broken down by currency and interest rate as follows:

	Sept. 2007	Sept. 2006
Euro	55.9%	87.0%
Dollar	7.2%	8.2%
Real	2.8%	4.4%
Pound	33.7%	0.0%
Other currencies	0.4%	0.4%
Fixed Rate	62%	51%
Capped Rate	4%	9%
Floating Rate*	34%	40%

(\*) Without the tariff insufficiency (EUR 795 million) and without the sector's CO<sub>2</sub> financing (EUR 301 million), the floating rate % would be reduced to 31.69% in September 2007.

In line with the policy to minimise financial risks on debt, foreign currency risks have continued to be mitigated through the financing of the international businesses in local currencies (pounds sterling, reals, dollars) or in their functional currencies (the dollar, in the case of Mexico).

The debt structure per company is shown in the following table:

	Sept. 2007	Sept. 2006
IBERDROLA S.A.	68.7%	86.0%
SCOTTISHPOWER	20.1%	0.0%
GENERATION	0.3%	0.5%
GRIDS	0.5%	0.8%
MEXICO	4.3%	3.8%
SOUTH AMERICA	2.6%	4.2%
RENEWABLES	2.8%	3.5%
IBERDROLA INMOBILIARIA AND OTHERS	0.7%	1.2%
<b>Total</b>	<b>100%</b>	<b>100%</b>

The breakdown of the debt by type of product is as follows:

	Sept. 2007	Sept. 2006
Euro Bonds	25.7%	37.1%
US PP	6.4%	4.2%
Rest of Bonds	12.4%	2.8%
Domestic Com. Paper	3.9%	8.3%
Euro Com. Paper (ECP)	1.2%	4.2%
Euro Loans	27.2%	36.4%
Loans in other currencies	23.2%	7.0%
<b>Total</b>	<b>100%</b>	<b>100%</b>

## Contribution by business to profit and loss account

	Sales	Operating Profit	Net Profit
Spain Business	54.9%	61.2%	59.6%
ScottishPower (SCOTTISHPOWER-PPM)	26.3%	18.6%	19.8%
Latin America	18.8%	20.2%	20.6%

Lastly, the change in **financial leverage** has been the following:

MM€	Sept. 2007	Diciembre 2006
Shareholders' Equity	24.958	10.567
Gross Debt	26.016	14.353
Cash	1.852	705
Capitalised derivatives	381	98
IFTs		132
CO2 Financing	301	299
Adjusted Net Debt	23.482	13.119
<b>Leverage (1)</b>	<b>48,5%</b>	<b>55,4%</b>

(1) Without the effect of tariff insufficiency, the adjusted leverage stands at 47,6% as at June 2007, compared to 54,3% in December 2006

## 5. WORKING CAPITAL

Net working capital was up to EUR 60 million compared to September 2006. This result derives fundamentally from the increase of inventories corresponding to Iberdrola Inmobiliaria.

## 6. FUNDS GENERATED IN OPERATIONS

The funds generated in operations at September 2007 reached EUR 2,854.1 million, an increase of 34.1% compared to September 2006.

## Profit and loss account

### First nine months, fiscal year 2007

(Unaudited)

EUR Millions

	Jan.-Sept. 2007	Jan.-Sept. 2006	%
NET REVENUES	11,376.5	8,152.7	39.5
PROCUREMENT	(5,631.6)	(3,644.2)	54.5
EMISSION ALLOWANCES	(18.2)	(223.9)	(91.9)
GROSS MARGIN	5,726.7	4,284.6	33.7
EMISSIONS ALLOWANCES	11.0	22.1	(50.2)
NET OPERATING EXPENSES	(1,717.5)	(1,223.5)	40.4
Net Personnel Expense	(819.3)	(631.7)	29.7
Personnel	(1,008.7)	(756.7)	33.3
In-house work on fixed assets	189.4	125.0	51.5
Net Exterior Services	(898.2)	(591.8)	51.8
Exterior service	(1,120.1)	(722.9)	54.9
Other operating revenues	221.9	131.1	69.3
Tax	(208.6)	(148.3)	40.7
EBITDA	3,811.6	2,934.9	29.9
AMORTISATION AND PROVISIONS	(1,289.2)	(937.9)	37.5
EBIT	2,522.4	1,997.0	26.3
TOTAL FINANCIAL REVENUES	553.5	272.4	103.2
Financial revenues	385.2	193.4	99.2
Positive exchange differences	104.9	14.6	618.5
Capitalised financial expenses	63.4	64.4	(1.6)
TOTAL FINANCIAL EXPENSES	(1,174.1)	(644.0)	82.3
Interest expenses	(852.2)	(479.4)	77.8
Negative exchange differences	(14.5)	(8.4)	72.6
Pension Funds	(111.8)	(23.8)	369.7
Short-term financial investments	(1.1)	(1.9)	N/A
Other financial expenses	(194.5)	(130.5)	49.0
RESULTS OF COMPANIES CARRIED BY EQUITY METHOD	48.1	46.6	3.2
RESULTS OF NON-CURRENT ASSETS	213.9	178.1	20.1
PRE-TAX PROFIT	2,163.8	1,850.1	17.0
Corporate income tax	(526.2)	(590.6)	(10.9)
Minorities	(24.6)	(23.1)	6.5
NET PROFIT	1,613.0	1,236.4	30.5

## Balance sheet

### First nine months. Fiscal year 2007

(Unaudited)

EUR Millions

	Sept. 2007	December 2006	Change
<b>FIXED ASSETS</b>	<b>55,729</b>	<b>25,188</b>	<b>30,541</b>
Tangible fixed assets	35,133	21,564	13,569
Intangible fixed assets	16,329	900	15,429
Long-term financial assets	4,267	2,724	1,543
<b>DEFERRED TAX</b>	<b>1,158</b>	<b>1,222</b>	<b>(64)</b>
<b>NON-CURRENT RECEIVABLES</b>	<b>1,287</b>	<b>833</b>	<b>454</b>
<b>CURRENT ASSETS</b>	<b>9,952</b>	<b>5,818</b>	<b>4,134</b>
Nuclear Fuel	248	238	10
Inventories	1,818	1,193	625
Accounts receivable	4,320	2,791	1,529
Taxes receivable	809	602	207
Short-term financial investments	905	289	616
Cash and equivalents	1,852	705	1,147
<b>TOTAL ASSETS</b>	<b>68,126</b>	<b>33,061</b>	<b>35,065</b>

EUR Millions

	Sept. 2007	December 2006	Change
<b>SHAREHOLDERS' EQUITY</b>	<b>24,958</b>	<b>10,567</b>	<b>14,391</b>
Capital Stock	3,745	2,705	1,040
Reserves and other	19,358	6,100	13,258
Profit and loss	1,613	1,660	(47)
Treasury shares	(1)	(3)	2
Conversion differences	57	(44)	101
Minority shareholders	186	149	37
<b>LONG-TERM PROVISIONS</b>	<b>1,706</b>	<b>1,718</b>	<b>(12)</b>
<b>EQUITY WITH CHARACTERISTICS OF LONG TERM LIABILITY</b>	<b>641</b>		<b>641</b>
<b>DEFERRED INCOME</b>	<b>1,022</b>	<b>818</b>	<b>204</b>
<b>FINANCIAL DEBT</b>	<b>26,752</b>	<b>14,352</b>	<b>12,400</b>
<b>OTHER LONG-TERM DEBT</b>	<b>5,446</b>	<b>884</b>	<b>4,562</b>
<b>OTHER SHORT-TERM DEBT</b>	<b>6,951</b>	<b>4,256</b>	<b>2,695</b>
<b>GROUP COMPANY AND AFFILIATE DEBT</b>	<b>650</b>	<b>466</b>	<b>184</b>
<b>TOTAL LIABILITIES</b>	<b>68,126</b>	<b>33,061</b>	<b>35,065</b>

## Results by business

First nine months. Fiscal year 2007 (Unaudited)

EUR Millions

	Domestic Energy	Scottish Power	Latin America	Non- energy
Net Revenues	4,643.1	2,993.0	2,136.8	1,603.5
Procurement	(1,540.2)	(1,714.1)	(1,317.1)	(1,060.1)
EMISSION ALLOWANCES	(13.9)	(4.3)		
<b>Gross Margin</b>	<b>3,089.0</b>	<b>1,274.6</b>	<b>819.7</b>	<b>543.4</b>
EMISSION ALLOWANCES	6.8	4.2		
NET OPERATING EXPENSES	(955.2)	(412.2)	(166.1)	(184.0)
Net Personnel Expenses	(460.1)	(201.6)	(63.9)	(93.7)
Personnel	(541.9)	(273.0)	(74.9)	(118.8)
In-house work on fixed assets	81.8	71.4	11.0	25.1
Net External Services	(495.1)	(210.6)	(102.2)	(90.3)
External Service	(584.1)	(300.1)	(129.4)	(106.4)
Other operating revenues	89.0	89.5	27.2	16.1
TAX	(148.7)	(48.1)	(5.6)	(6.2)
<b>EBITDA</b>	<b>1,991.9</b>	<b>818.5</b>	<b>648.0</b>	<b>353.2</b>
Amortisation & Provisions	(737.2)	(348.6)	(139.5)	(63.9)
<b>EBIT</b>	<b>1,254.7</b>	<b>469.9</b>	<b>508.5</b>	<b>289.3</b>
Financial Result	(457.1)	(77.7)	(75.0)	(10.7)
Companies carried by equity method	1.7	2.7	6.7	36.9
Revenues from non-current assets	196.2	(0.3)	(1.2)	19.2
<b>PROFIT BEFORE TAXES</b>	<b>995.5</b>	<b>394.6</b>	<b>439.0</b>	<b>334.7</b>
Corporate income tax & minority shareholders	(282.3)	(75.0)	(107.2)	(86.2)
<b>Net Profit</b>	<b>713.2</b>	<b>319.6</b>	<b>331.8</b>	<b>248.5</b>

First nine months. Fiscal year 2006

EUR Millions

	Domestic Energy	Scottish Power	Latin America	Non- energy
Net Revenues	5,423.5		1,668.9	1,060.2
Procurement	(2,037.4)		(1,002.4)	(604.3)
EMISSION ALLOWANCES	(223.9)			
<b>Gross Margin</b>	<b>3,162.2</b>		<b>666.5</b>	<b>455.9</b>
EMISSION ALLOWANCES	22.1			
NET OPERATING EXPENSES	(870.8)		(159.2)	(193.6)
Net Personnel Expenses	(472.7)		(59.0)	(100.1)
Personnel	(549.4)		(70.8)	(136.5)
In-house work on fixed assets	76.7		11.8	36.4
Net External Services	(398.1)		(100.2)	(93.5)
External Service	(488.3)		(126.4)	(108.2)
Other operating revenues	90.2		26.2	14.7
TAX	(136.2)		(6.0)	(6.0)
<b>EBITDA</b>	<b>2,177.3</b>		<b>501.3</b>	<b>256.3</b>
Amortiz. y Provisiones	(781.2)		(108.5)	(48.2)
<b>EBIT</b>	<b>1,396.1</b>		<b>392.8</b>	<b>208.1</b>
Financial Result	(292.6)		(65.7)	(13.3)
Companies carried by equity method	(.1)		5.1	41.5
Revenues from non-current assets	113.2		(1.1)	66.1
<b>PROFIT BEFORE TAXES</b>	<b>1,216.6</b>		<b>331.1</b>	<b>302.4</b>
Corporate income tax & minority shareholders	(451.9)		(93.1)	(68.7)
<b>Net Profit</b>	<b>764.7</b>		<b>238.0</b>	<b>233.7</b>

## Domestic energy business

First nine months. Fiscal year 2007 (Unaudited)

EUR Millions

	DEREGULATED BUS.	RENEW.	REG. BUS.	STRUCT.
Net Revenues	3,799.3	494.4	1,111.4	(762.0)
Procurement	(2,292.2)			752.1
EMISSION ALLOWANCES	(13.9)			
<b>Gross Margin</b>	<b>1,493.2</b>	<b>494.4</b>	<b>1,111.4</b>	<b>(9.9)</b>
EMISSION ALLOWANCES	6.8			
NET OPERATING EXPENSES	(441.1)	(128.1)	(357.8)	(28.2)
Net Personnel Expenses	(170.6)	(33.9)	(137.9)	(117.7)
Personnel	(186.7)	(39.7)	(194.4)	(121.1)
In-house work on fixed assets	16.1	5.8	56.5	3.4
Net External Services	(270.5)	(94.2)	(219.9)	89.5
External Service	(295.2)	(106.9)	(279.9)	98.0
Other operating revenues	24.7	12.7	60.0	(8.5)
TAX	(53.5)	(6.9)	(86.3)	(2.0)
<b>EBITDA</b>	<b>1,005.4</b>	<b>359.4</b>	<b>667.3</b>	<b>(40.1)</b>
Amortisation & Provisions	(429.8)	(155.9)	(130.0)	(21.5)
<b>EBIT</b>	<b>575.6</b>	<b>203.5</b>	<b>537.3</b>	<b>(61.6)</b>
Financial Result	(104.2)	(108.9)	(66.0)	(178.1)
Companies carried by equity method	0.1	(0.6)	2.2	
Revenues from non-current assets	(0.7)		9.2	187.6
<b>PROFIT BEFORE TAXES</b>	<b>470.8</b>	<b>94.0</b>	<b>482.7</b>	<b>(52.1)</b>
Corporate income tax & minority shareholders	(181.1)	(36.3)	(122.3)	57.4
<b>Net Profit</b>	<b>289.7</b>	<b>57.7</b>	<b>360.4</b>	<b>5.3</b>

## First nine months. Fiscal year 2006

EUR Millions

	DEREGULATED BUS.	RENEW.	REG. BUS.	STRUCT.
Net Revenues	5,340.4	514.2	643.4	(1,074.5)
Procurement	(3,105.0)		(0.9)	1,068.5
EMISSION ALLOWANCES	(223.9)			
<b>Gross Margin</b>	<b>2,011.5</b>	<b>514.2</b>	<b>642.5</b>	<b>(6.0)</b>
EMISSION ALLOWANCES	22.1			
NET OPERATING EXPENSES	(399.1)	(98.6)	(370.2)	(2.9)
Net Personnel Expenses	(180.9)	(18.2)	(158.1)	(115.3)
Personnel	(195.1)	(21.6)	(212.9)	(119.7)
In-house work on fixed assets	14.2	3.4	54.8	4.4
Net External Services	(218.2)	(80.4)	(212.1)	112.4
External Service	(265.8)	(85.9)	(264.9)	128.2
Other operating revenues	47.6	5.5	52.8	(15.8)
TAX	(49.7)	(5.5)	(78.9)	(2.1)
<b>EBITDA</b>	<b>1,584.8</b>	<b>410.1</b>	<b>193.4</b>	<b>(11.0)</b>
Amortisation & Provisions	(302.7)	(135.8)	(162.3)	(180.4)
<b>EBIT</b>	<b>1,282.1</b>	<b>274.3</b>	<b>31.1</b>	<b>(191.4)</b>
Financial Result	(64.4)	(40.0)	(68.3)	(119.6)
Companies carried by equity method	(1.9)		1.8	
Revenues from non-current assets	1.1	(.3)	100.2	12.1
<b>PROFIT BEFORE TAXES</b>	<b>1,216.9</b>	<b>234.0</b>	<b>64.8</b>	<b>(298.9)</b>
Corporate income tax & minority shareholders	(415.0)	(91.6)	14.2	40.4
<b>NET PROFIT</b>	<b>801.9</b>	<b>142.4</b>	<b>79.0</b>	<b>(258.5)</b>

## 2007 Quarterly Results (Unaudited)

EUR Millions

	Jan. - Mar. 2007	April - Jun. 2007	Jan. - Sept. 2007
NET REVENUES	2,716.6	4,001.5	4,658.4
PROCUREMENTS	(1,136.1)	(1,978.1)	(2,517.4)
EMISSION ALLOWANCES	(8.0)	(5.2)	(5.0)
<b>GROSS MARGIN</b>	<b>1,572.5</b>	<b>2,018.2</b>	<b>2,136.0</b>
EMISSION ALLOWANCES	2.3	4.6	4.1
NET OPER. EXPENSES	(439.4)	(627.4)	(650.7)
TAXES	(48.3)	(79.2)	(81.1)
<b>EBITDA</b>	<b>1,087.1</b>	<b>1,316.2</b>	<b>1,408.3</b>
AMORTISATIONS & PROV.	(292.3)	(413.4)	(583.5)
<b>EBIT</b>	<b>794.8</b>	<b>902.8</b>	<b>824.8</b>
TOTAL REVENUES	65.8	288.8	198.9
TOTAL FINANCIAL EXPENSES	(229.2)	(447.2)	(497.7)
COMPANIES BY EQUITY METHOD	19.9	11.2	17.0
NON-CURRENT ASSETS	9.3	54.3	150.3
<b>PROFIT BEFORE TAX</b>	<b>660.6</b>	<b>809.9</b>	<b>693.3</b>
Corporate income tax	(193.8)	(159.5)	(172.9)
Minorities	(8.6)	(7.2)	(8.8)
<b>NET PROFIT</b>	<b>458.2</b>	<b>643.2</b>	<b>511.6</b>

## 2006 Quarterly Results

EUR Millions

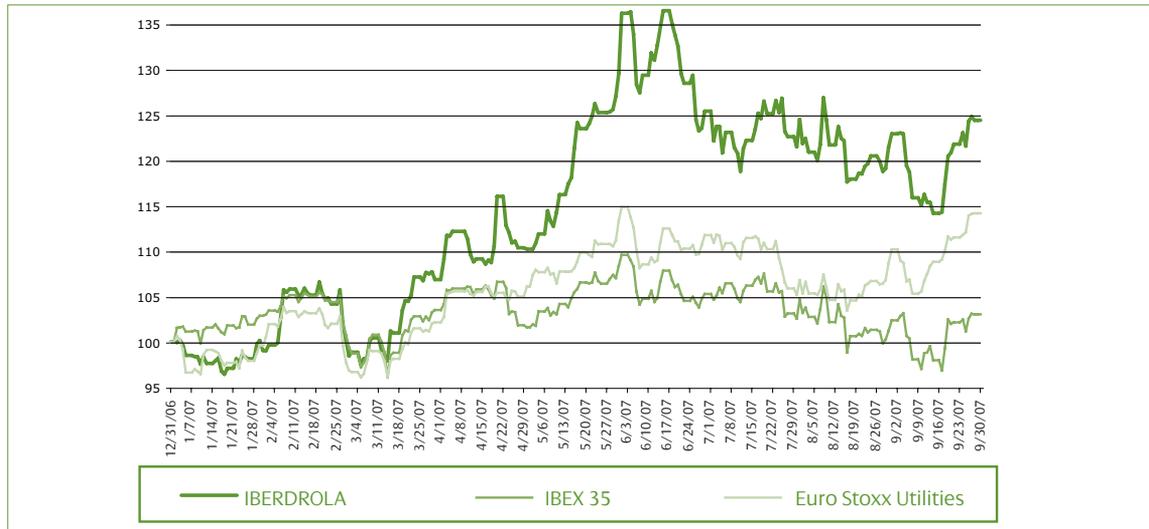
	Jan. - Mar. 2006	April - Jun. 2006	Jan. - Sept. 2006
NET REVENUES	2,978.4	2,518.2	2,656.1
APROVISIONAMIENTOS	(1,377.1)	(1,119.4)	(1,147.7)
EMISSION ALLOW.	(107.4)	(46.9)	(69.6)
<b>GROSS MARGIN</b>	<b>1,493.9</b>	<b>1,351.9</b>	<b>1,438.8</b>
EMISSION ALLOW.	6.2	7.0	8.9
NET OPER. EXPENSES	(391.2)	(446.0)	(386.3)
TAXES	(52.3)	(53.1)	(42.9)
<b>EBITDA</b>	<b>1,056.6</b>	<b>859.8</b>	<b>1,018.5</b>
AMORTISATIONS & PROV.	(268.2)	(259.7)	(410.0)
<b>EBIT</b>	<b>788.4</b>	<b>600.1</b>	<b>608.5</b>
TOTAL REVENUESNCIEROS	40.7	129.5	102.2
TOTAL FIN. EXPENSES	(204.1)	(239.7)	(200.2)
COMPANIES BY EQUITY METHOD	4.1	8.4	34.1
NON-CURRENT ASSETS	1.6	151.0	25.5
<b>PROFIT BEFORE TAX</b>	<b>630.7</b>	<b>649.3</b>	<b>570.1</b>
Corporate income tax	(221.6)	(226.7)	(142.3)
Minorities	(5.9)	(8.1)	(9.1)
<b>NET PROFIT</b>	<b>403.2</b>	<b>414.5</b>	<b>418.7</b>

## Statement of origin and use of funds

### First nine months. Fiscal year 2007 (Unaudited)

	9M 2007	9M 2006	Difference
EBIT	2,522	1,997	525
Amortisation	1,164	761	403
Provisions	125	177	(52)
Pension funds allocation	14	20	(6)
MTM derivatives	(85)		(85)
<b>Operating Cash Flow</b>	<b>3,740</b>	<b>2,955</b>	<b>785</b>
Interest paid	(1,062)	(620)	(442)
Interest received	452	272	180
Dividends received from affiliates	15	3	12
Minority interests	(25)	(23)	(2)
Taxes	(492)	(564)	72
<b>Gross Cash Flow</b>	<b>2,628</b>	<b>2,023</b>	<b>605</b>
Dividends paid	(1,096)	(798)	(298)
<b>Retained Cash Flow</b>	<b>1,532</b>	<b>1,225</b>	<b>307</b>
Investments	(2,778)	(1,929)	(849)
Fixed asset disposals	271	130	141
Financial asset disposals	0	23	(23)
Taxes on investment	(34)	(27)	(7)
Pension payments and other	(186)	(124)	(62)
<b>Total Cash Flow Allocation</b>	<b>(2,707)</b>	<b>(1,927)</b>	<b>(800)</b>
Capital subsidies received	165	80	85
Change in working capital	643	(1,599)	2,242
Change in debt	408	2,221	(1,813)
Fix differences	(44)	(120)	76
Energy East ABO	(3,340)		(3,340)
Change in debt consolidation perimeter	5,223		5,223
Change in consolidation perimeter due to Equity with LT liability characteristics	601		601
ScottishPower financing	9,457		9,457
<b>Change in gross debt</b>	<b>12,305</b>	<b>2,101</b>	<b>10,204</b>

## Evolución Bursátil



IBERDROLA shares	M9 2007	M9 2006
Number of shares outstanding	1,248,435,510	901,549,181
Price at end of period	41.20	35.3
Average price over period	38.12	27.58
Average daily volume	11,379,486	7,356,948
Maximum volume ( 16-02-07 / 21-02-06)	54,401,371	107,438,017
Minimum volume ( 16-02-07 / 21-02-06)	1,759,389	1,365,238
Dividends paid (EUR)	1.06	0.89
Interim (2 January 2007/2 January 2006)	0.45	0.37
Supplementary (2 July 2007/3 July 2006)	0.59	0.52
Attendance bonus	0.02	
Yield per share (Dividend year/closing price prev. year)=	3.21%	3.80%

### Credit rating of IBERDROLA Senior Debt

Agency	Rating	Outlook
Standard & Poors	A	Negative
Moody's	A2	Negative
Fitch IBCA	A+	Negative

NOTE: Since the asset acquisition agreement signed with Gas Natural, S&P, Moody's and Fitch put the ratings of IBERDROLA's Senior Debt on "credit watch with negative implications", "review for a possible downgrade" and "credit watch negative (RWN)", respectively. In April 2007, Fitch downgraded IBERDROLA's rating from AA- to A+, after the closing of the transaction with ScottishPower.

## Appendix .- IBERDROLA and sustainability

IBERDROLA's contribution to sustainable development is reflected in several corporate responsibility practices that attend to the needs and expectations of its interest groups, with whom the Company maintains a combination of open communication channels and dialogue,

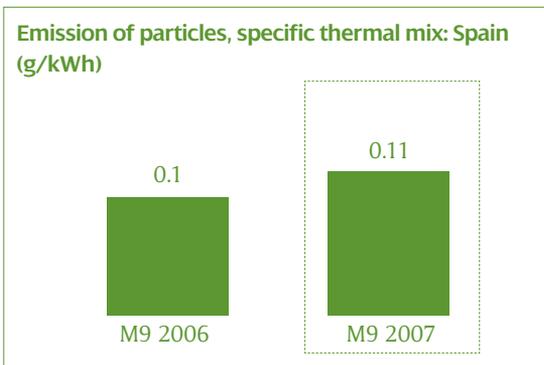
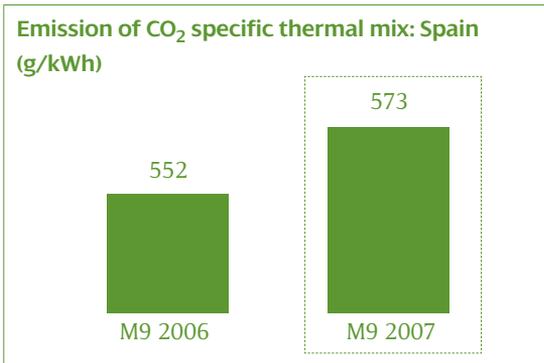
which are designed for: communication on goals, activities and successes achieved in the three areas of sustainable development (economic, environmental and social), as well as receiving evaluations and requests from the parties involved.

### 1. SUSTAINABILITY INDICATORS

Sustainability Indicators	M9 2006	M9 2007
Contribution to GDP (Gross Margin) (*)	0.56%	0.52%
Contribution to GDP (Net Revenues) (*)	1.03 %	0.84%
Investments in equipment (million euros)	1,345.3	2,777.2
Investment in clean generation (million euros)	442.5	1,341.3
Net profit (million euros)	1,236.4	1,613,00
Dividend yield (%)	3.8%	3.21%
CO <sub>2</sub> emissions in the period (gr. Co2/kWh). Total	247	280
CO <sub>2</sub> emissions in the period (gr. Co2/kWh). Spain	210	179
Total emission-free production (Gwh)	31,862	37,546
Spain emission-free production (Gwh)	30,952	33,417
Emission-free production out of total production (%)	47.8%	43.3%
Spain emission-free production out of total production (%)	62.0%	68.7%
Total emission-free installed capacity (MW)	16,546	20,398
Spain emission-free installed capacity (MW)	16,239	17,163
Total emission-free installed capacity	59.0%	49.8%
Spain emission-free installed capacity (%)	65.6%	64.7%

(\*) Data from 2007 and 2006. Source: Spain National Quarterly Accounting -INE (latest data published 2nd Quarter of 2007 – 29 August 2007)

## Development of specific thermal mix emissions: CO<sub>2</sub>, SO<sub>2</sub>, particles and NO<sub>x</sub>



## 2. INDEXES, RANKINGS AND RECOGNITIONS

### Presence of Iberdrola in Indexes and Sustainability Rankings, Reputation and Corporate Government

Sustainability Indexes	Rating / Position
 <p>Member of Dow Jones Sustainability Indexes</p> <p><b>Dow Jones Sustainability World Index 06</b>  <b>Dow Jones Sustainability World Index 06</b></p>	<p>76 points/Group of sustainability leaders            76 points/Group of sustainability leaders</p>
 <p>Carbon Disclosure Project Report 2006            Electric Utilities 265</p> <p><b>Climate Leadership Index</b></p>	<p>Only Spanish utility included in the index</p>
<p>BEST IN CLASS environmental and social performance</p>  <p>STOREBRAND SRI</p> <p><b>Storebrand Investments SRI</b></p>	<p>No. 2 utility worldwide</p>
 <p>OEKOM</p> <p><b>OEKOM</b></p>	<p>B-/Group of leaders: no. 1 Spanish company and among the top 3 in the category <i>Global Utilities</i></p>
 <p>Global 100            Most Sustainable Corporations in the World</p> <p><b>Global 100</b></p>	<p>IBERDROLA one of the 100 most sustainable companies in the world. Second year running</p>
 <p>GLOBAL ROUNDTABLE ON CLIMATE CHANGE</p> <p><b>Global Roundtable on Climate Change</b></p>	<p>IBERDROLA among the sponsors</p>
 <p><b>Pacific Sustainability Index (PSI)</b></p>	<p>Group of leaders: among the top 3 in the category <i>Energy &amp; Utilities Sectors</i></p>
 <p><b>BusinessWeek, Climate Group</b></p>	<p>Group of leaders: Top 3 ranking of outstanding companies in the management of greenhouse gases and Top 10 companies that have contributed the most to reduction of greenhouse gases and that have led environmental management for 10 years</p>
 <p>INNOVEST</p>	<p>Included in group 5 "Best in class" for the utilities sector</p>
 <p>VIGEO</p>	<p>Neutral to positive rating in the principal categories</p>
 <p>CR- Risk Premium Survey. University of Hamburg &amp; SRI Deutsche Bank</p>	<p>30.5 points. IBERDROLA in Leadership group in the utilities sector</p>

Sustainability Indexes (Cont.)	Rating / Position
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Business  <b>ENVIRONMENT</b> Community  <b>INDEX 2006</b>	<b>ScottishPower achieves Platinum Status (May 2007)</b>
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Corporate Reputation Indexes	Rating / Position
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 <b>MERCO 2007</b> <small>Monitor Español de Reputación Corporativa</small>	<b>IBERDROLA is in eighth position among the 100 companies comprising the general classification, and again leads the Energy, Gas and Water sector</b>
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Business  <b>CORPORATE RESPONSIBILITY</b> Community  <b>INDEX 2006</b>	<b>ScottishPower achieves Platinum Status (May 2007)</b>
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Corporate Reputation Indexes	Rating / Position
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 <b>ISS</b> <small>INSTITUTIONAL SHAREHOLDER SERVICES</small>	<b>Index Ranking 76.4. Industry Ranking 71.4</b>
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## Recognitions

### **Ignacio Galán, chosen as the Best Executive in the European Utilities Sector for the fifth year running**

Ignacio Galán, IBERDROLA's CEO, has been chosen as the Best Executive in the European Utilities Sector for the fifth year running, based on the results of a survey taken by the prestigious Institutional Investor Research Group (IIRG) for Institutional Investor Magazine. Galán was chosen over executives of such stature as Harry Roels (RWE), Ian Marchant (Scottish and Southern Energy), Wulf Bernotat (E.ON) and Philip Cox (International Power), who follow him in the rankings in the classification of European Utilities Sector. This award is one of several the CEO of IBERDROLA has won recently, which include the award for Best Executive of the Year from the

Platts Global Energy Awards, which was received December of last year, and three awards as best CEO in Investor Relations from IR Magazine.

### **IBERDROLA is one of the best-recognised companies for its media relations and social responsibility**

Our Company has one of the best corporate reputations in Spain, according to the Key Audience Research Study, prepared by the investigative company Ipsos. The study highlights, among other things, our media relationship and transparency when it comes to providing information. A total of 98 journalists from various media in Spain highlighted our Company for the care it takes in its relationship to the press. They consider personal interviews and direct contact to the highest level personnel in the companies as the most useful way of

obtaining information. The journalists believe that transparency, agility, fluid communications, availability and accessibility are "the principal means of making relations between the press and companies solid." In addition, we were ranked in the top ten in surveys of companies most recognised for their environmental sensitivity and social responsibility.

**José Sáinz Armada, Chief Financial Officer, and Ignacio Cuenca, Director of Investor Relations, recognised by the Institutional Investor Research Group**

José Sáinz Armada, Chief Financial Officer of our Company, and Ignacio Cuenca, our Director of Investor Relations, were recognised by the prestigious Institutional Investor Research Group as the best CFO and the best Director Investor Relations with the category of European Utilities. The investors and analysts consulted for this study, the 2007 European Investor Relations Results, recognised the work of both directors and their effectiveness in providing the entire financial community with the information needed to make investment decisions. 885 analysts and 460 investors collaborated on the 2007 European Investor Relations Results.

**IBERDROLA recognized as the best company in investor relations in the country, according to IRMagazine survey**

IBERDROLA has received the prize as the best Spanish company in its relationship with investors after beating out companies such as Grupo Santander and Telefónica. The 5,000 investors surveyed for this study by IRMagazine acknowledge the company's effort when it comes

to providing the financial community with all the information it needs to make investment decisions, demonstrating its consistency and solidity.

**Scottish Business in the Community awards**

ScottishPower has received 10 awards for its proven leadership in the implementation of its positive, measurable programmes of corporate social responsibility. These include the Large Company of the Year and the Jubilee Award in recognition of its employment programme.

**UK Business in the Community awards**

ScotAsh, a joint venture of ScottishPower, won the TCS Marketplace Innovation Award.

**ScottishPower receives first prize from the "Royal Society for the Prevention of Accidents (RoSPA)**

Two of the ScottishPower generating plants, Cockenzie and Shoreham, and the ScotAsh joint venture have received the gold medal from the Royal Society for the Prevention of Accidents for its efforts in preventing occupational hazards. At the same time, the vehicle fleet business received the prestigious "Engineering Sector Award for Occupational Health and Safety Performance."

**ScottishPower receives award for its contribution to promoting public safety**

The ScottishPower child safety programme and Web site has received two prestigious prizes, the "DuPont" safety prize in the approach to innovation category, and the "Supreme" prize in health care and safety.

### 3. ENVIRONMENTAL COMMITMENT AND SOCIALLY RESPONSIBLE INVESTMENT

#### Analyst and Investor Assessment of Socially Responsible Investment



**IBERDROLA is among the sustainability leaders group for another year, according to the Dow Jones Sustainability Index**

IBERDROLA has been chosen for another year as a member of the 07/08 Dow Jones Sustainability Index, receiving the best overall score in the sector with 81 points compared to the 74 it received in 2006. Nevertheless, in including ScottishPower, the final score was reduced to 76 points.

IBERDROLA has improved in all other ratings – economic, environmental and social – over the previous year, getting the best independent rating (without ScottishPower) for the sector in its economic size.

IBERDROLA has been included in this index since its creation in the year 2000. Of the 23 companies in the sector that have ever been included in the index, only two have been on it without interruption.



Carbon Disclosure Project Report 2006  
Electric Utilities 265

**IBERDROLA, the best electric utility worldwide in the 'Climate Leadership Index' due its climate change strategy**

IBERDROLA has been chosen the best electric utility in the world for its strategy for fighting

climate change, according to the Climate Leadership Index, after having been declared Best in Class in its sector worldwide with the highest score possible (100 AAA).

Its inclusion for the third year in a row in this selective index, in which only the 50 best companies in the world appear, follows IBERDROLA's participation for the fifth time in the Carbon Disclosure Project (CDP) evaluation process. This study, which has been fostered by 315 international investors who manage assets valued at USD 41 billion, evaluates 10 key aspects of the initiatives adopted by companies to stop climate change.

IBERDROLA has been evaluated as best in class internationally not only for its current strategy, one of the pillars of which is environmental protection and sustainable development, but also due to the adequate evaluation of the risks and opportunities deriving from climate change in its business, as well as because of the quality and effectiveness of the plans geared toward reducing the emission of greenhouse gases.

#### Analyst and Investor Assessment of Corporate Reputation



Monitor Español de Reputación Corporativa

**MERCO 2007. IBERDROLA is in eighth position among the 100 companies comprising the general classification, and again leads the Energy, Gas and Water sector**

According to the results of the 2007 Spanish Corporate Reputation Monitor (MERCO), the leading reputation indicator published in Spain,

IBERDROLA is in eighth position among the 100 companies comprising the overall ranking and again leads the Energy, Gas and Water sector.

As far as business leaders with the best reputation are concerned, IBERDROLA's CEO, Ignacio Galán, is in one of the lead positions among Spanish business leaders, ranking tenth out of the 100 leaders rated.

The method whereby the MERCO index is prepared includes a survey of 12,000 business leaders and an evaluation by various groups of experts. Financial analysts evaluate the economic and financial results; members of NGOs do the same for ethics and corporate social responsibility; union representatives weigh employment quality; and consumer associations evaluate the quality of the sales offerings. In addition, a group of opinion leaders evaluates the business managers. Finally, analysts from the Institute in charge check the reputation of companies against a "merits questionnaire" and compare the information received.

#### 4. CONTRIBUTION TO SOCIAL DEVELOPMENT

For IBERDROLA, the key events in the area of social development during the Jan.-Sept. 2007 period were as follows:

##### a) **CSR Prizes Received**

IBERDROLA received the following prizes connected with its CSR practices:

- Best Electric Utility in the world on the 'Climate Leadership Index', due to its climate change strategy.
- Doñana Prize for Sustainable Business.
- Best website in the energy sector (particularly emphasised here was its high degree of accessibility)

ScottishPower received ten "Business in the Community" prizes which are given to Scottish business with the best CSR practices.

##### b) **"Education and Training" Programme**

- **Promotion of Electrical Safety**  
IBERDROLA has continued its electrical hazard prevention awareness campaigns, offering courses to various professional groups: electricity installers (in Valencia and Valladolid), construction companies (in Murcia) and fire departments (in Álava, Madrid and Murcia).
- **Promotion of Energy Savings and Efficiency**  
Under the agreement with the community of Madrid for the promotion of energy savings and efficiency, two new energy savings guidebooks have been developed, one for food businesses and another for restaurant companies.

- **University Support**

IBERDROLA continues its support of Spanish universities, having signed various cooperation agreements during this period with the universities of Deusto (Basque Country) Castilla-La Mancha, Cantabria, Jaime I de Castellón and Extremadura.

IBERDROLA has also participated in summer courses organised by the International University Menéndez Pelayo and the universities of León, San Pablo CEU, Complutense and Politécnica de Madrid, Extremadura and Castilla- La Mancha.

- **Prince's Trust and ScottishPower Learning**

ScottishPower Learning has delivered its 100th Prince's Trust Team programme, helping disadvantaged young people in the community, whilst helping its own employees develop their leadership and people skills.

**c) "Surrounding Economic Development" Programme'**

- **Regional Advisory Boards**

Working meetings have been held of the Consultative Committees of Andalucía, Castilla y León and the Valencia Community, respectively, which were formed by major industrial and financial groups of these communities.

- **Dissemination of Corporate Social Responsibility**

IBERDROLA has participated in nine conferences promoting corporate social responsibility practices, presenting the "IBERDROLA model" to business and academic circles.

**d) "Art and Culture" Programme**

- **Reconstruction and Lighting of Monuments**

The inauguration has been held of the complete restoration and lighting work performed at the Cartuja de Miraflores (Burgos) and the interior lighting of the sanctuary of the Church of Santiago El Mayor in Toledo. In addition, exterior lighting projects have been undertaken at

- Yuso Monastery (San Millán de la Cogolla-La Rioja).
- Hospital de la Santa Cruz (Barcelona)

- **Support for Cultural Organisations**

As part of IBERDROLA's policy of support for foundations and cultural institutions, it has renewed cooperation agreements with the Talavera de la Reina Ethnography Museum (Toledo), the City of Valencia International Music Bands Contest, the Galician Contemporary Art Centre (CGAC), Bilbao Choral Society and the Ondarreta de Getxo Choral Society (Vizcaya); in addition to which it has sponsored a CD book with the Euskadi Symphony Orchestra as part of a project to bring classical music to younger audiences. IBERDROLA also sponsored the book commemorating the tenth anniversary of the Blasco de Alagón foundation in Castellón.

**e) "Solidarity" Programme**

- **"Implica2" Project for the disabled**

Project "Implica2," the objective of which is to promote competitive access to the job market by disabled persons, is preparing to

expand to the communities of Murcia and Madrid, and Castilla-La Mancha.

The agreement in Murcia would involve the federation of organisations working for people with mental disabilities and cerebral palsy (FEAPS) and the Murcia Work and Social Policy Council.

- **“Castilla-La Mancha Olympic and Para-Olympic” Programme**

IBERDROLA has signed an agreement with the Castilla-La Mancha Culture and Sports Foundation to support the "Castilla-La Mancha Olympic Promises and Para-Olympics" programme and another thirteen initiatives.

- **Volunteer Day of the Community of Valencia**

More than 50 IBERDROLA employees participated in the first Volunteer Day of the Community of Valencia in cooperation with various organisations for the disabled in the community.

- **Support for other solidarity projects**

The company has cooperated with various entities involved in solidarity tasks in Albacete, Cádiz, Cuenca and Vizcaya.

In addition, the company has taken part in numerous activities in support of the disabled in Cuenca, Guadalajara, Toledo and Ciudad Real.

**f) “Environmental Sponsorships” Programme**

- **Actions against Climate Change**

IBERDROLA is one of the companies sponsoring the Network for Action against Climate Change, under the aegis of the Global Roundtable on Climate Change (GROCC) unveiled in New York in February 2007; nearly a hundred multinational companies from every economic sector are participating in this initiative.

The company has also had exhibitions on the subject of climate change in Logroño and Murcia.

- **Training and information initiatives**

IBERDROLA promotes and participates in numerous environmental protection awareness activities. Highlights of the period include:

- Participation in the important BBC documentary entitled "Earth. The movie of our planet."
- Training on Renewable Energies at the Universidad Nacional de Educación a Distancia (UNED) and to teachers at 15 institutes in the Community of Madrid.
- Participation by over 40,000 people in the Energy Lectures sponsored by IBERDROLA in 3 localities in Castilla-La Mancha.
- Dissemination of the Company's commitment to the environment through the IBERDROLA Bus that will traverse Spain.

### g) Fuel Poverty

- The ScottishPower Energy People Trust, the independent charity established to help end fuel poverty in Britain, has to date awarded over GBP 3 million to 76 projects helping over 137,000 individuals in over 55,000 households.

## 5. CORPORATE GOVERNANCE

The highlights for Corporate Governance over the first nine months of 2007 were as follows:

### General Shareholders' Meeting

The General Shareholders' Meeting was held on 29 March 2007 at the Palacio Euskalduna in Bilbao, with due notice for this purpose, and was chaired for the first time by its president and managing director, Ignacio Sánchez Galán.

The Meeting, which went into session with a quorum of 77.33% of the share capital (14.55% present and 62.78% represented), discussed and resolved matters regarding (i) the Annual Accounts and corporate management, (ii) the composition of the Board of Directors and the express authorisations and delegations that are being requested for that body, (iii) bringing internal regulations into line with the Unified Code of Good Governance, approved by the National Securities Market Commission (Comisión Nacional del Mercado de Valores - CNMV) on 22 May, 2006, and other bylaws and regulatory amendments, and (iv) the integration of Scottish Power Plc.

All of the resolutions were approved by a majority of shareholders, with a favourable vote greater than 99% of the capital present and represented at the meeting.

**i) Resolutions regarding the annual accounts and the corporate management:** The General Meeting approved the Annual Accounts for the 2006 fiscal year and the Management Reports for the Company and its Consolidated Group, as well as the corporate management and performance by the Board of Directors during the 2006 fiscal year. In addition, the proposed allocation of the results was approved, which includes the payment of a gross dividend of EUR 1.043 per share. The full text of the Annual Accounts for the 2006 fiscal year and of the Management Reports on the Company and on its Consolidated Group, as well as the respective auditors' reports, are available at [www.iberdrola.com](http://www.iberdrola.com).

**ii) Resolutions regarding the composition of the Board of Directors and the express authorisations and delegations in favour of that body:** The General Shareholders Meeting resolved to confirm the Director appointments made by cooptation since the last Meeting was held, namely, Iñigo Víctor de Oriol Ibarra, Inés Macho Stadler, Braulio Medel Cámara and José Carlos Pla Royo, as well as to re-elect the first three as Directors and José Orbegozo Arroyo, Lucas María de Oriol López-Montenegro, Mariano de Ybarra y Zubiría and Xabier de Irala Estévez. Lastly, it was also resolved to appoint Nicolás Osuna García as a Director, all of them for the five-year term stipulated in the bylaws.

Accordingly the Board of Directors of IBERDROLA is currently made up of a total of fifteen Directors, of which only the President and Managing Director are classified as executive. The remaining 14 directors include 12 independents, one representing substantial shareholders and one classified within the category of "other external shareholders". Details on the Directors' identity, type and profile, as well as on the composition of the Executive Board, the Auditing and Compliance Board, and the Appointments and Salaries Committee, are available in continuously updated form at the Company Web site ([www.iberdrola.com](http://www.iberdrola.com)).

Furthermore, the General Meeting resolved to authorise the Board of Directors so that, subsequent to the completion of the merger transaction with ScottishPower Plc, it may carry out an IBERDROLA share split at the rate of 1 to 4. As a result of this split, the number of shares outstanding will be increased fourfold, reducing the nominal value of each share from 3 euros to 0.75 euros, without modifying the share capital figure. In addition, as a result, Article 5 of the Corporate Bylaws on share capital will be amended.

The objectives of the split, which has not yet been carried out, are fundamentally to offer the stock greater liquidity and negotiability and to further the performance of the loyalty-building programmes directed at investors (such as, for example, the Dividend Reinvestment Plan, implemented by the company in 2006). In addition, the General Meeting approved the granting of the following express authorisations

and delegations in favour of the Board of Directors:

- Authorisation for the derivative acquisition of treasury stock by the Company and/or by its subsidiaries, up to a limit of 5% of the share capital and for a maximum term of 18 months.
- Delegation, for a period of five years, of the authority to issue:
  - a) bonds or simple debentures and other fixed-income securities of a similar nature, as well as preferred shares, with a maximum limit of EUR 20,0 million and
  - b) notes with a maximum amount, separately from the foregoing, of EUR 4,0 million, and authorisation for the Board to be able to guarantee, on behalf of the Company within the limits specified above, the new securities issues that may be made by subsidiaries.
- Authorisation to request the admission and exclusion of the securities issued or that may be issued by the Company from trading on secondary markets.
- Authorisation to the Board of Directors for the creation and endowment of Associations and Foundations up to the amount of EUR 10 million yearly.

**iii) Resolutions relative to compliance with the Unified Code of Good Governance and other bylaws and regulatory amendments:** The General Meeting also approved the proposed amendments of the Corporate Bylaws and Shareholder Meeting Rules and the new amalgamated drafts of these documents, and took note of the amendment and approval, dated 20 February, of a new amalgamated draft of the Board of Directors' Rules.

In this regard, on the same date the Board of Directors resolved to amend the Internal Rules of Conduct on Securities Markets and the Appointments and Salaries Committee's Rules, as well as to ratify the amendment of the Auditing and Compliance Committee's Rules as approved by that Committee at a session on 14 February 2007, amendments which went into effect on 29 March 2007, as a result of the aforesaid proposed amendments of the Corporate Bylaws and the General Shareholders Meeting Rules, with the exception of the Internal Rules of Conduct on Securities Markets, which will become effective on 28 April 2007.

The purpose of these amendments is to bring the Company's internal rules into line with the recommendations of the Unified Code of Good Governance, as well as to amend them for the purpose of clarifying the rules on certain matters. The full text of the Corporate Bylaws, the General Shareholders Meeting Rules, and the remaining internal rules for the corporate bodies currently in force may be consulted at [www.iberdrola.com](http://www.iberdrola.com).

**iv) Resolutions related to the operation of Scottish Power Plc:** In connection with the combination agreement reached with Scottish Power Plc in November 2006, the General Shareholders Meeting resolved to increase the capital stock of IBERDROLA by a maximum of 263,377,413 shares, representing over 20% of the share capital resulting from the increase. The equivalent value of that capital increase, for a maximum of approximately EUR 8,625 million between the par value and the issue premium, will be paid out by means of non-monetary contributions consisting of ordinary shares of Scottish Power Plc. The capital increase was carried out by the Board of Directors and the Executive Board in three phases (23 April, 10 May and 26 June 2007), increasing the total number of shares issued to 261,884,329, with a subscription price of EUR 32.75 per share.

In addition, the General Meeting approved an issue of simple debentures for a nominal amount ranging from 20 to 750 million pounds sterling for the purpose of meeting the claims of ordinary shareholders of Scottish Power Plc, who choose to receive debentures in full or partial cash consideration for their shares, delegating to the Board the authority to set the terms and conditions of that issue.

Furthermore, the General Meeting authorised (i) the continuation, once the Scottish Power Plc transaction is completed, of the plans established for the employees of the Scottish Power Plc group, in which residual rights exist to acquire shares of that company after the transaction, for the sole purpose of administering those residual rights in accordance with the plan rules and (ii) the delivery

of IBERDROLA shares, under the terms provided for in the Scottish Power Plc transaction, in relation to the Scottish Power Plc shares that are issued once the Scottish Power Plc transaction is completed, to the holders of such residual rights for the liquidation thereof.

Similarly, for the purpose of meeting IBERDROLA's commitments in the context of the Scottish Power Plc transaction on the future maintenance of this company's policy of compensating its personnel in shares, the General Meeting has authorised the Board of Directors so that it will be able to implement, develop and execute plans intended for the employees of Scottish Power Plc and extend them to all employees of the new IBERDROLA Group and, for this purpose, it has agreed to increase the share capital, through monetary contributions, by issuing 11,649,266 new shares (or 46,597,064 new shares if the increase is carried out after the completion of the stock split described above) with exclusion of a pre-emptive right of subscription.

The integration of Scottish Power Plc, also approved by the General Shareholders' Meeting of the Scottish Company on 30 March 2007, was finalised on 23 April, following the completion of the remaining relevant steps to be taken in accordance with the rules on the matter.

All information relative to the operation of ScottishPower is available at [www.iberdrola.com](http://www.iberdrola.com).

## Other Significant Events

In its meeting of 24 April 2007, the Board of Directors adopted the following resolutions, among others:

- Renewal of Xavier de Irala Estévez's appointment as a member of the Executive Board.
- Acceptance of the resignation of Federico San Sebastián Flechoso as Secretary of the Board; he will continue in his roles of legal counsel to the Board and Secretary of the Committee on Appointments and Remuneration.
- Naming of Julián Martínez-Simancas Sánchez as Secretary of the Board of Directors and of its Executive Board; he will continue in his role of Secretary General.
- Approval of a new amalgamated draft of the procedures for conflicts of interest and operations connected to advisors, major shareholders and upper management.
- Approval of the composition of a new Standard Compliance Unit under the presidency of the Secretary General of the Board of Directors, Julián Martínez-Simancas Sánchez.
- Approval of the issue of simple debentures for a nominal amount of 97,071,179 sterling pounds in connection with the integration of Scottish Power Plc.

On April 25, 2007 an announcement was made that the Board of Directors of Scottish Power would be chaired by José Ignacio Sánchez Galán, with Jose Luis Valle serving as Chief Executive Officer. The management of Scottish Power Plc was maintained.

At its meeting on 22 May 2007, the Board approved the start of preliminary work on a possible public offering of up to 20% of the share capital of Iberdrola Renewable Energies, S.A.U.

On 30 May, the acquisition of holdings in excess of 5% of the capital of IBERDROLA was announced by GROUPE BRUXELLES LAMBERT (GBL) y COMPAGNIE NATIONALE á PORTEFEUILLE/NACIONALE PORTEFEUILLEMAATSCHAPPIJ (NPM/CNP), companies of the FRERE BOURGEOIS group, which makes them a major shareholder.

On June 22, 2007, IBERDROLA announced the acquisition of an additional 1% in Gamesa Corporación Tecnológica, S.A. Consequently, Iberdrola's stake in such company reached 18%. At the same time, Corporación IBV Servicios y Tecnologías, S.A. reduced its stake in Gamesa Corporación Tecnológica, S.A by 2%, leaving it with a stake in such company of 12.8%.

In its meeting of 26 June 2007, the Board of Directors adopted the following resolutions, among others:

- The passing of four years since the appointment of Ricardo Alvarez Isasi as president of the Auditing and Compliance Board, the naming of Sebastián Battaner Arias as new president, the moving of Ricardo Alvarez Isasi to the position of secretary of the same board, in place of Julio de Miguel Aynat, who continues to serve as a member of this board.
- The elimination of Section 5 of Article 20 of the Board of Directors' Rules, making the retirement age for all members of the Board 70 years.
- Approval of the amendment of the Code of Professional Conduct of the IBERDROLA group, with the goal of modernising and perfecting it, as well as harmonising its contents with other norms of corporate governance.

Later, exercising the powers delegated to it by the General Shareholders Meeting held on 30 March 2006, at their meeting of 26 June the Board of Directors agreed to increase shareholders' equity by a nominal amount of EUR 255,000,000 through the issue and circulation of 85,000,000 shares. The purpose of this expansion was to gather resources for financing the integration of Energy East Corporation, communicated to the CNMV on 25 June 2007. The capital expansion was realised through a private directed placement, exclusively to qualified institutional investors (accelerated bookbuilding) with the exclusion of preferred subscription rights. The placement process was finalised on 27 June 2007.

The subscription price of the shares issued was EUR 39.70.

Finally, the shareholders' equity was fixed at EUR 3,745,306,530, comprised of 1,248,435,510 shares with nominal value of 3 euros each.

On 29 June, IBERDROLA requested the suspension of the obligation to present information to the stock exchange authorities in the United States of America. Once confirmed, IBERDROLA's registration in the United States under the Exchange Act will be cancelled.

Finally, from the end of the first nine months of the year through the presentation of this brochure, it should be highlighted that on 2 July 2007, the Caja de Ahorros de Valencia, Castellón y Alicante, BANCAJA, communicated to the CNMV the acquisition of an additional interest in IBERDROLA increasing holdings to 6.03% of the shareholders' equity, which makes them a major shareholder.

### Information Transparency

One of our Company's core corporate governance principles is to promote maximum transparency in the information – financial and other – provided to shareholders, investors and markets. In this regard, during the first nine months of 2007, there has been a high level of activity involving face-to-face information sessions with institutional investors and financial analysts.

On 20 February 2007, the Board approved the Annual Report on Corporate Governance for 2006, in accordance with the form required by Circular 1/2004 of 17 March of the Spanish securities regulator (CNMV).

On the same date, the Board also approved the Audit and Compliance Committee's activity report for 2006, which is intended to contribute to the development of corporate governance best practices by publishing information on the annual activities of this committee.

Furthermore, the most significant events concerning the Company and all the relevant information it discloses (with a possible impact on the share price) have been reported first to the CNMV as a relevant event. In addition, regarding the operation of Scottish Power Plc, and following the principle of symmetry, all information distributed in the Spanish securities market was sent at the same time to the Take-Over Panel of the United Kingdom and to the Securities Exchange Commission (SEC) in the US.

Once the information has been sent to the CNMV, and to the Takeover Panel and the SEC, through the appropriate channel, it was transmitted to analysts, as well as to the primary news media and international, local and regional news agencies, and then posted on the corporate Web site, in both Spanish and English.

**CNMV: Relevant facts from July to September 2007**

<b>Date</b>	<b>Relevant Fact</b>	<b>Registration No.</b>
July 2, 2007	Caja de Ahorros de Valencia, Castellón y Alicante, BANCAJA, informed to the CNMV the acquisition of an additional stake in Iberdrola. Consequently, BANCAJA's participation in IBERDROLA reached 6.03% of the capital stock. Bancaja has become a relevant shareholder.	81761
July 20, 2007	IBERDROLA announces the sale of its stake of 3% in Red Eléctrica de España, S.A.	82400
July 24, 2007	IBERDROLA announces the following resolution of the Board of Directors: the appointment of Mr. José María Olivas Martínez, chairman of BANCAJA, as proprietary director of IBERDROLA to replace Mr. Mariano de Ybarra y Zubiría. Such replacement was made by the Board to fill the vacancy resulting from the resignation of Mr. Mariano de Ybarra as member of the board (nombramiento por cooptación).	82457
July 25, 2007	IBERDROLA released the financial information related to the first semester of 2007.	82473
September 25, 2007	IBERDROLA announces the execution of the resolution of the Shareholders Meeting of March 29, 2007 with regard to the split of its shares	84170
October 4, 2007	IBERDROLA announces the increase of capital of Iberdrola Renovables. Such increase of capital has been fully subscribed and paid up by Iberdrola through a contribution in kind of the shares of ScottishPower Renewable Energy Holdings Limited. IBERDROLA also informed of the reorganization of the renewable division.	84502

IBERDROLA informs you that the data used to send you this information are included in a file property of IBERDROLA, S.A., with the only purpose of sending you financial information about the Company. Such data were included in our file either at your request or due to previous relations held between you and IBERDROLA.

As stated by the Organic Law 15/1999 of 13 December on the Protection of Personal Data (Ley Orgánica de Protección de Datos de Carácter Personal, LO 15/1999), you can at any time exercise your rights of access, rectification, objection and cancellation on your personal data. Should this be the case, you must send a letter, with a photocopy of your identity card or passport attached, to the following address:

IBERDROLA, S.A.  
Investor relations  
C/ Tomás Redondo, 1  
28033 – Madrid (Spain)

Notwithstanding this, if you are not interested in receiving any more information related to Iberdrola, please let us know by calling the toll free line +34 900 10 00 19.



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