

PRESS release

24 October 2007



The Company presents strategy for the next three years that responds to evolving patterns of energy demand

IBERDROLA PROJECTS INVESTMENT PROGRAMME OF €24 BLN, NET PROFIT OF MORE THAN €3.5 BILLION IN 2010

THE NEW STRATEGIC PLAN 2008-10 ENVISAGES INVESTMENTS OF €17.8 BILLION ON ORGANIC ACTIVITIES AND €6.4 BILLION TO CLOSE THE ACQUISITION OF U.S. COMPANY ENERGY EAST

- With the friendly acquisition of ScottishPower completed and that of Energy East initiated, the Company enters a consolidation phase in its international expansion with the Atlantic Area as its main point of reference
- IBERDROLA ratifies its priority focus on growth in renewable energy (capacity projected to exceed 13,600 MW in 2010) and on quality of supply in Spain and abroad (investments of €5.8 billion planned)
- As a result of this new investment plan, and additional efficiency improvements, the Company expects to more than double net profit by the end of the period of the Plan compared to 2006

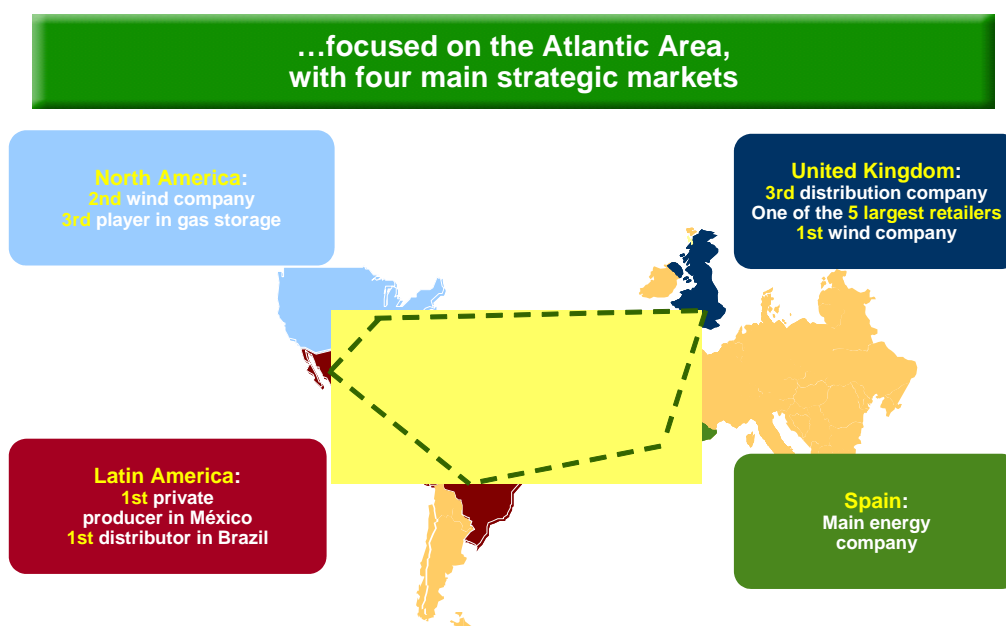
The Board of IBERDROLA yesterday approved a new Strategic Plan for the three-year period 2008-2010. The Plan, to be presented today by Chairman and CEO Ignacio Galán, ratifies the Company's commitment to its investors, customers, employees and society in general in proposing a growth model based on renewable energy – above all wind power – and on maximizing quality of supply.

Strategy for the coming years, confirming the path successfully followed for the past six years, envisages a new investment cycle totalling €24.2 billion with a continued focus on basic energy business both in Spain and abroad. Of this total, €17.8 billion (2.4



times that invested between 2004 and 2006) is for organic growth and €6.4 billion to close the acquisition of Energy East.

With the friendly acquisition of ScottishPower completed in record time and that of U.S. company Energy East initiated, IBERDROLA is embarking on a period of consolidation of the international expansion undertaken a year ago with the Atlantic Area (Europe-North America-Latin America) as its main focus. In this context, 70% of envisaged investments are expected to be outside Spain (compared to only 25% in the period 2001-2006).



The company plans to invest more than €8.6 billion, 48% of the total assigned to organic growth, on continued expansion in renewables across the globe, to consolidate its current world leadership in the sector. More than €4.6 billion (54%) of this is slated to be in the United States, in excess of €1.2 billion in Spain, another €1.2 billion in the UK, and €1.5 billion more in other countries.

Almost a third of the investment in organic growth (32%) over the next three years is projected to be in regulated businesses, in order to improve quality of service. Of the €5.8 billion, 36% is set to be in the UK (electricity transmission and distribution), 35% in Spain (electricity distribution), 24% in the U.S. (electricity and gas distribution) and 5% in Latin America.

Traditional generation activities are programmed to receive €2.5 billion (15% of the total invested on organic growth) with the following distribution: 52% in Spain, 35% in the UK and 13% in Latin America.

Marketing strategy for the next few years will aim at profitability, as well as customer satisfaction, with a proactive stance in Spain which is in a transition towards tariff-free market and efforts to improve efficiency in the UK where the existing model will be maintained.

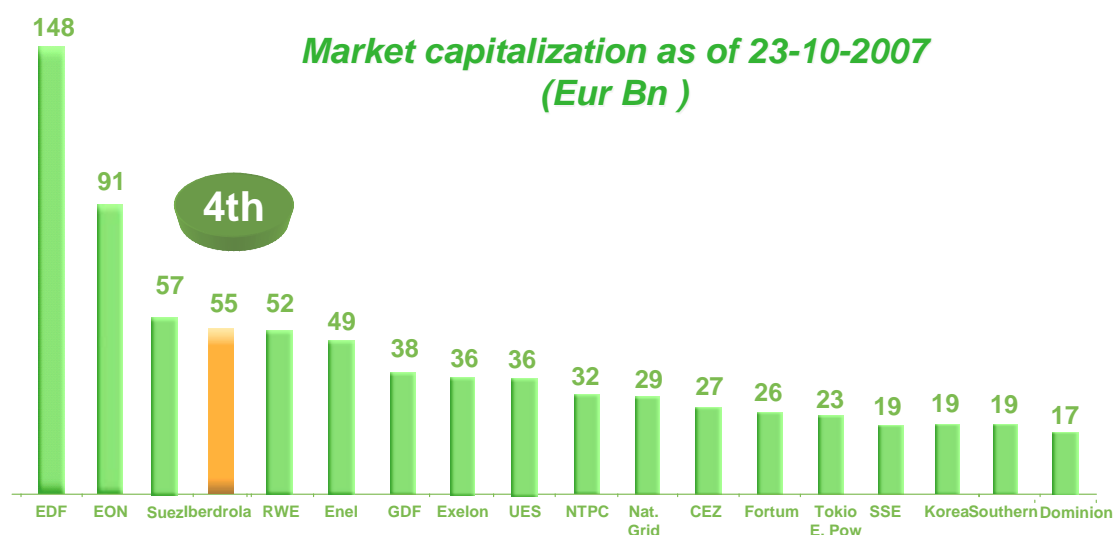


IBERDROLA will meet part of the investment effort by divesting non-strategic assets both in Spain and abroad. The Company expects to receive more than €3 billion from the sale of various holdings in non-core businesses.

Successful completion of the previous Strategic Plan 2001-2006 and this year's acquisition of ScottishPower, and as well as that of Energy East which is expected to close towards the end of the first half of 2008, have enabled the Company to progress from being a major energy company in Spain to a leader at international level.

Among the world's five largest electricity groups by market cap

IBERDROLA has multiplied in size by 4.5 times in the last seven years, having increased its market capitalization of €12 billion to almost €55 billion, placing it among the world's five largest electricity companies, rising to 4th from 19th position at the start of this period.



The rapid growth of IBERDROLA, the best-positioned Spanish company in its sector at international level, is reflected in the goals of the new Strategic Plan. The Group today has 27 million customers with nearly 41,000 MW in installed capacity, around 30,000 employees and a presence in 30 countries. It has also become world leader in wind power with installed capacity of more than 7,300 MW and a pipeline of more than 41,000 MW.

Among the principal objectives set by IBERDROLA for 2008-2010, a period when energy is expected to become more costly as a result of the growing scarcity of resources, increasing environmental demands and growing demand for quality of service, are:

- **RENEWABLE ENERGY:**

IBERDROLA will carry out an investment programme without precedent anywhere in the world between 2008 and 2010 in order to grow in



Renewables. This business is projected to account for 48% of all organic investments, around €8.6 billion, with the goal of achieving installed capacity of 13,600 MW at the end of the period, which would represent an increase of nearly 77% over the figure projected for the end of 2007 (7,700 MW).

In order to meet this objective, IBERDROLA has a project portfolio around the world of more than 41,200 MW today. The United States is projected to contribute 3,300 MW of new wind operating capacity, Spain 900 MW, the UK 800 MW and 800 MW from other countries. Other renewable energy sources would account for another 100 MW.

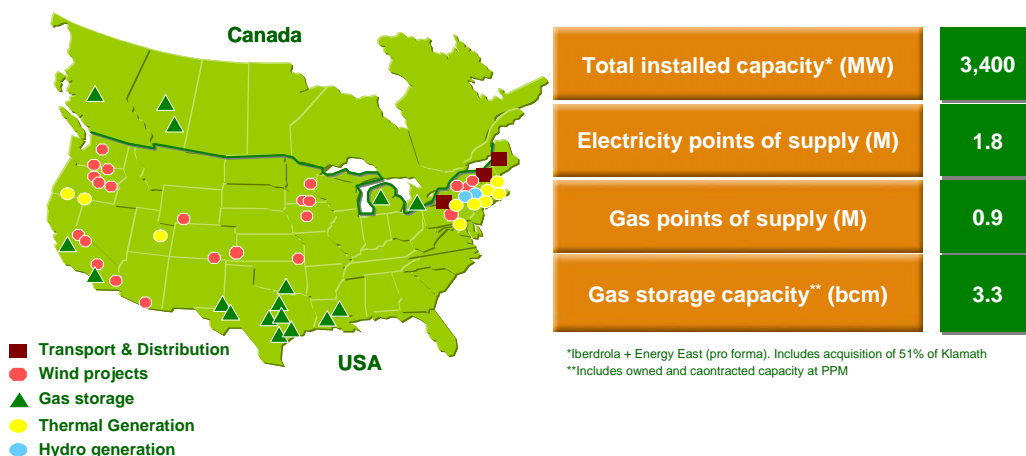
- **SCOTTISHPOWER**

IBERDROLA plans to invest more than €3 billion in the United Kingdom through ScottishPower, mostly to continue improving quality of service (€2.1 billion on distribution). Another €900 million will be invested in generation, with the dual purpose of introducing environmental improvements in operating plants and increasing their productive cycles and flexibility.

One of the principal goals of the Company for the next few years is to strengthen ScottishPower's operational capacity and maximize its contribution to the Group. Key to this will be new synergies (which increase by 52% by 2010 compared to initial estimates, rising from €175 million to €266 million), new operating and cost improvements and new options for the portfolio of generation projects.

- **UNITED STATES AND CANADA**

The integration of Energy East will strengthen IBERDROLA's significant presence in the U.S. market in record time. Once completed, towards the end of the first half of 2008, the Company expects to have 3,400 MW in new capacity in this geographical area, 1.8 million points of supply in electricity, 0.9 million points of gas supply and 3.3 bcm (billions of cubic metres) in gas storage capacity.



To date, IBERDROLA has received two authorizations for the purchase of Energy East, a transaction involving an investment of €6.4 billion (€3.3 billion in cash and €3.1 billion in debt). The first was from the Federal competition authority (Hart-Scott-Rodino Act) and the other from the telecommunications agency, the Federal Communications Commission.

- **GAS**

IBERDROLA, with gas operations since 2001, expects to strengthen and broaden its presence in this sector, with a view to realizing its value. The Company is today involved throughout the gas operating chain.

Upstream: The Company has a diversified and flexible portfolio of gas supply – 7.6 bcm a year for Spain and another 2 bcm a year for the UK.

Midstream: It has a gas storage capacity, both owned and contracted, of 3.4 bcm, regasification assets of 12.1 bcm and transport assets of 18 bcm.

Downstream: It has 0.9 million points of supply in the U.S., three million final customers (0.2 million in Spain, 1.9 million in the UK and 0.9 million in the U.S., and own consumption of 15 bcm/year (19.6 bcm/year including Latin America).

- **SPAIN**

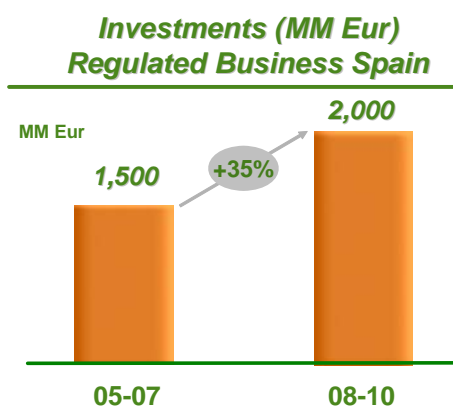
- i) Liberalized business

In a market environment marked by modest electricity demand and high energy costs, IBERDROLA will centre investments (expected to total €1.3 billion) in two facets: firstly in maintaining present generating installations, extending their useful life, and secondly in environmental improvements.

Regulatory conditions permitting, the Company also plans to assign funds to new power plants able to meet demand – hydro pump stations (La Muela- 850MW, and San Esteban – 176 MW) and combined gas cycles, which will not enter service during the period of this Strategic Plan.

- ii) Regulated business

One of the pillars of IBERDROLA's new strategy is to improve quality and security of supply. The Company's goals for the 2008-10 period are to reduce downtime by 20% from current levels and replace meters (distribution), develop 220 kV urban installations (transmission) and expand both the regasification



capacity of the BBG (Bilbao) and Saggas (Sagunto) plants, as well as the gas distribution network.

Regulatory conditions permitting, IBERDROLA plans to invest €2 billion over the next three years (+35% over the previous period) on the construction of 5,800 kilometres of low, medium and high tension lines and the startup or extension of more than 70 substations, among other activities.

- **LATIN AMERICA**

IBERDROLA, which operates in Latin American countries with defined, stable and predictable regulatory regimes, plans to consolidate its business in the region following the investment effort of the past few years, while not losing sight of opportunities that may arise, essentially in Mexico and Brazil. Thanks to investments of €600 million, it expects to start up 150 MW hydro projects in Brazil by 2010 and continue improving quality of supply in this country while promoting the "Electricity for All" plan.

- **NON-ENERGY AND ENGINEERING**

The bulk of development in Non-Energy Business will come from IBERDROLA Inmobiliaria and Gamesa. The first-mentioned, which will increase its presence in foreign markets and reinforce development of environmentally efficient products, will adopt a low profile, promoting only first homes and tertiary projects, optimizing a rotation of rental assets. The Company will maintain its strategic positioning in the second, whose growth potential remains high.

IBERDROLA Ingeniería y Construcción, which already operates in more than 20 countries with a project portfolio valued at more than €2.5 billion, will centre its strategy on securing contracts from non-IBERDROLA companies – revenues from this source will rise from 48% of the total in 2006 to more than 76% in 2010 - and on international expansion with 70% of revenues projected to be from abroad.

Efficiency improvements to continue

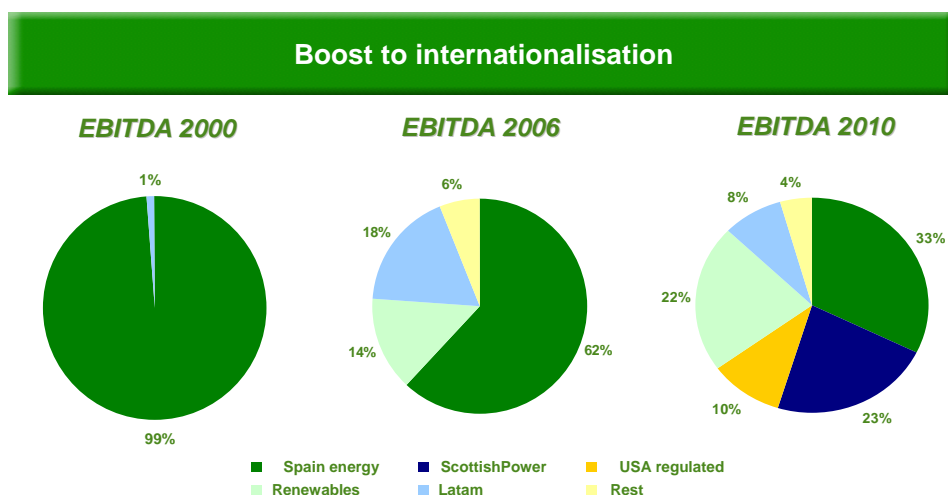
As a result, both of the planned €24.2 billion investments between 2008 and 2010 and also of the expected efficiency gains, the Company is projecting a doubling of the main lines of its profit and loss account and dividend per share. The momentum is expected to come from the Renewables area and the consolidation of ScottishPower and Energy East.

These efficiency gains are expected to mean that operating expenses will grow more slowly than gross margin between 2008-2010, with the ratio of expenses/gross margin declining around three percentage points from 33% in 2007 (based on proforma data) to below 30% at the end of the period. Key to



this improvement will be already-mentioned increases in synergies obtained from the integration with ScottishPower above those initially estimated, as well as sharing best practices among the two companies and the unification of systems.

IBERDROLA thereby expects Ebitda to reflect the recent process of international expansion by the Company. Net profit for 2010 is projected to be more than €3.5 billion, 2.1 times the €1.66 billion recorded in 2006. Earnings per share are seen rising an average 11% a year to €0.7.



The Company, which plans an attractive remuneration policy for shareholders, in line with present practice, expects to maintain a debt-equity ratio below 50% in 2010, compared to 54% in 2006, and to increase assets to €88 billion, a rise of 168% on last year's €33 billion.

Commitment to people

The IBERDROLA Group's changed reality in the space of just one year, with substantial growth in size and a multinational presence in countries with different cultures, will bring a new focus in human resources policy.

Among the indispensable requirements for success in this area are the identification and global management of talented individuals, rotation and international mobility, and a focus on training and career development. IBERDROLA has training centres in Spain, Scotland and England, remuneration linked to results, share incentive schemes for employees, equal opportunity policies and conciliation of work and home life.

IBERDROLA also intends to adapt its current organization to its new circumstances, differentiating between governance, control and management structures. In this respect, corporate functions and business units will follow decentralized management and centralized governance and control.



The IBERDROLA Group wants to develop a new culture by which it can consolidate an open and dynamic organization, one which encourages dialogue and participation, and in which there are no rigid structures, where information flows and where what is most important is the worth of individuals. In this regard, it will encourage initiative, creativity, innovation, anticipation and efficiency, without forgetting strong traditional values such as ethics and responsibility, positive results, respect for the environment, confidence and sense of belonging, and professional principles such as effort, talent, team spirit, honesty and loyalty.



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